

# Neo-Banking As A Tool Of Financial Inclusion

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## Abstract

Financial Inclusion 'FI' mainly indicates that both individuals and businesses have required access to several formal financial systems that are for accurately availing basic financial services at an affordable cost. The study has mentioned that Paytm Payments Bank has been considered the most identified neo-banking app in the year 2024 within India. The aim of the study is to analyse neo-banking as a significant tool of financial inclusion. This study employs a secondary thematic analysis approach, integrating both quantitative and qualitative data to assess the impact of neo-banking on financial inclusion. The study findings indicate that the dynamic of neo-banks contributes to the digital financial literacy through providing user-friendly platforms and integrating with the tools of financial inclusion. However, adoption barriers like regulatory complexities, cyber security concerns, and lack of trust among older populations persist. Factors including increasing penetration of smart phones, changing preferences of consumers and government support for digital payments are help in drive the growth of neo-banking.

**Keywords:** Neo-bank, financial, digital, inclusion, government, payment, platforms, tools.

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## INTRODUCTION

FI 'Financial inclusion' can be described in several ways that help to know how it is associated with banking. As mentioned by the World Bank, "Financial inclusion indicates that both individuals and several businesses have a required access to affordable and necessary financial products and essential services that further meet their requirements and are delivered sustainably and also responsibly." When it is seen at a broader level, all definitions directly allude that FI is about having required access to numerous formal financial systems that are for availing useful and basic financial services at an affordable cost (Jangili, 2025). The financial ecosystem of India has accurately witnessed significant shifts also with the digital technology advent. Neo-banking has been emerging as a significant and transformative force within this landscape.

The above image accurately demonstrated that most Indians are using multiple neo-banking apps. However, as seen in the above image, Paytm Payments Bank was considered as the most identified neo-banking app in the year 2024 within India. As per the consumer insights of Statista, nearly 91 percent of respondents have a clear idea about the mobile banking service provider, with approximately 51 per cent who are accurately holding almost a positive thought (Statista, 2024). Neo-banks are mainly operating online and even without any physical branches, leveraging multiple essential technologies in order to offer cost-effective, seamless and also for providing user-friendly financial services to customers. This innovation has been particularly aligned with the broader objectives of financial inclusion within India and also aligned with the digital India initiative. However, the following article aims to analyse neo-banking which is an essential tool for financial inclusion.

## AIMS & OBJECTIVES

**Aims ;** *The study aims to analyse neo-banking as a significant tool of financial inclusion.*

### Objectives

- To evaluate the role of neo-banking in enhancing digital financial literacy
- To recognise challenges and risks related to the neo-banking adoption for financial inclusion.
- To examine the factors impacting the growth of neo-banking within financial ecosystems

## LITERATURE REVIEW

### *The role of neo-banking in enhancing digital financial literacy*

Neo-banking has accurately emerged as one of the most significant and transformative forces within effectively enhancing digital financial literacy specifically within India. However, through effectively offering several user-friendly interfaces and also effectively leveraging advanced technologies, many neo-banks are simplifying numerous complex financial processes. Furthermore, all these areas are ultimately making them effective and also accessible to a huge audience. As per the study by Ravikumar *et al.* 2022, it has been identified that digital financial literacy is very crucial accurately for navigating the landscape of the modern financial aspect that is ultimately increasingly evaluated through multiple digital products and many services. Neo-banks are playing a pivotal role in this aspect that is through integrating many educational tools in several platforms such as expense trackers, several budgeting tools, and also many financial advice. All these features also empower many users to accurately make many informed financial decisions and through bridging the gap within financial literacy.

At the same time, it has been mentioned within the study that the digital India initiative has directly contributed to digital financial services proliferation. It is also with several neo-banks and these neo-banks are accurately acting as significant key enablers. In addition to that, it has been identified that the effective integration of AI "artificial intelligence" as well as data analytics has further enhanced the user experience (Mogaji and Nguyen, 2024). It also provides multiple tailored solutions that directly cater to the overall needs and requirements of individuals. However, many challenges like low levels of digital literacy particularly within rural areas and also the digital divide have been a few significant barriers that are for accurate adoption.

### *Challenges and risks related to the neo-banking adoption for financial inclusion*

While neo-banking offers multiple benefits, the adoption of this within required places for financial inclusion also poses both challenges as well as risks. There are many challenges and risks that are associated with this adoption but the primary concerns are data privacy and also the risk related to cybersecurity. As mentioned by, BS, 2023, the heavy reliance on numerous digital platforms are directly exposing users to multiple risks like data breaches and also identity theft. Apart from this area, the lack of required robust regulatory framework that is for neo-banks within India further complicates any compliance and these are also becoming the reasons that are directly increasing many operational risks.

There are many technological barriers that are causing several issues. These mainly include limited connectivity to the internet and it also includes low smartphone penetration within rural areas. All these are causing many issues in the adoption of neo-banking adoption that is for final inclusion. However, all these are further hindering the processes that are associated with the adoption of neo-banking. However, as per the Yoganandham *et al.* 2024, it has been evaluated that all these challenges are causing hurdles and are also ultimately affecting numerous marginalized groups. These factors also ultimately cause inequalities that can further hinder adoption processes. Apart from that trust issues are also posing a significant problem, as several users are almost hesitant to accurately transition from several methods of traditional banking to totally digital platforms.

### *The factors influencing the growth of neo-banking within financial ecosystems*

The increasing growth of neo-banking within India has been directly influenced by a significant combination of different aspects that include many technological, regulatory, as well as socio-economic factors. There are great technological advancements like the widespread and effective adoption of multiple smartphones. It also includes the adoption of the UPI that is "the Unified Payments Interface". All these advancements have directly created almost a conducive environment that is several for neo-banks to accurately thrive. According to Bhatnagar *et al.* 2024, most of the neo-banks are effectively leveraging all these technologies. The aim is to accurately offer many innovative financial services. These are also for systematically attracting many tech-savvy millennial and also for accurately attracting almost underserved populations.

## METHODOLOGY

The present paper based on the neo-banking as a financial inclusion tool is conducted as a secondary qualitative and quantitative research study to help to evaluate a more descriptive and

elaborate discussion that primary findings are not possibly as suitable to provide for in this study. The study uses a secondary data gathering approach for compile the findings from different current and published sources which include descriptive and qualitative data. The data analysis is done through the integration of a thematic analysis conducted about the research objectives and collected data. The research has followed a secondary data collection method as a suitable data collection methodology for the research study strategy being qualitative research study. In Table 1, thematic coding based on objectives had been selected and determined for the concept of theme that would be covered in each theme of the thematic analysis hence coded and developed.

**Table 1: Thematic Coding**

No.	Thematic (Objective based)	Code	Associated Keywords	Concept of Theme
1	The role of neo-banking in enhancing digital financial literacy		Digital, neo-banking, technology, financial literacy,	Neobanks recently gained traction in India, as they are in their early stages of development and still offer convenience and flexibility to digital banking systems (Bhatnagr <i>et al.</i> 2024).
2	The challenges and risks related to the neo- banking adoption for financial inclusion		Challenges, risks, neo-banking, financial inclusion	Neo Bank's main challenge is that they are still in the primary or discovery stage, and the majority of Indians are still unaware of Neo Bank and its most cutting-edge features (James and Ghosh, 2023).
3	Factors impacting the growth of neo-banking within financial ecosystems		Policy, neo-banking, financial, ecosystems, development	Financial inclusion has benefited greatly from neobanks, especially in areas where traditional banking services are either unaffordable or unavailable (Janamolla, 2024).

## RESULT

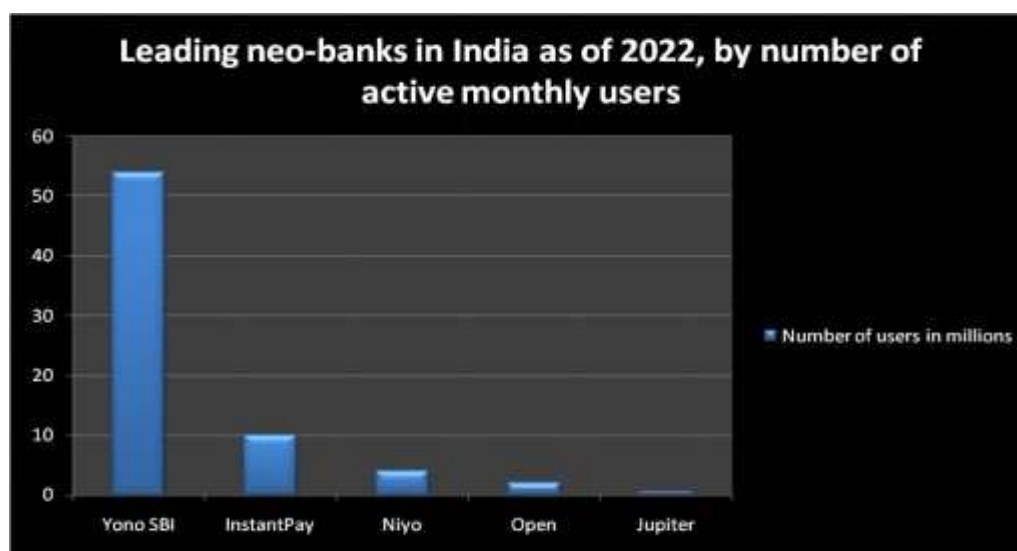
### *Theme 1: Neo-banking role in improving digital financial literacy*

Neo-banking plays a significant role in fostering digital financial literacy through the integration of different user-friendly platforms, AI-driven advisory services and financial education tools. Unlike the traditional banks, that often need a complex procedure in terms of documentation and physical presence, neo-banks help to simplify the process of banking through mobile-first interfaces. This accessibility also helps to make the financial services inclusive, mainly for the younger generation and underserved populations. As per THOMAS (2024), neo-banks are now a well-liked option for people looking for low-interest credit, high-interest savings, and easy, affordable services since millennials and Generation Z are more financially literate. Recently, the primary ways neo-banks contribute towards digital financial literacy is through in-app financial education features. Hence there are different platforms are there who are offering budgeting, AI- driven financial coaching and investment simulators that also help the user to analyse the right pattern of spending and make valuable and informed financial decisions.

Table 1: Leading Neobank in India as of 2022

Neo-Bank	Number of users in millions
Yono SBI	54
Instant Pay	10
Niyo	4
Open	2
Jupiter	0.5

Figure 1: Leading Neobank in India as of 2022



(Source: Self-developed in Excel based on the data of Keelery, 2024)

Neobanks are enabling their clients to take charge of their money and reach their financial objectives through providing a wide variety of financial literacy tools. It is beneficial for customers and also helps in foster trust and develops a strong relationship between the customer and neo-banks, which eventually results in a profitable and long-lasting business plan for both sides. With around 54 million active users as of 2022, State Bank of India's digital division Yono had the largest user base in the neo-banking industry and 10 million consumers followed with instant pay (Keelery, 2024). Despite the digital division, there are still some rural populations and the older generations are there who struggle to understand the world through digital platforms and they need target interventions like voice-assisted banking, simplified user interfaces and multilingual support. Neo-banks also address the concerns related to cyber security and data privacy, through ensuring that users to feel secure while engaging with digital financial services.

***Theme 2: Challenges faces in the adoption of neo-banking for financial inclusion***

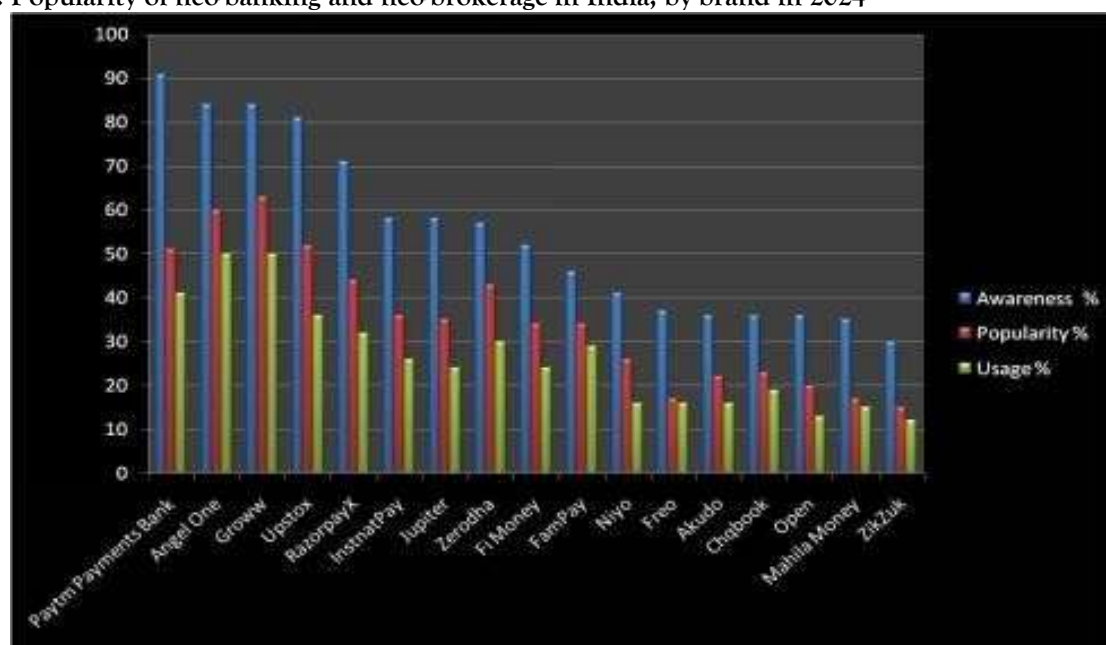
Notwithstanding its potential, several barriers stand in the way of the adoption of neo-banking, ranging from regulatory constraints to user scepticism and technological limitations. The most significant obstacle of neo-banking is regulatory uncertainty, as there are many neo-banks are there who are operating under the partnership model with traditional banking through limiting their innovation and autonomy in India. Unlike the fully licensed banks, it is important for neo-banks to comply with the stringent financial regulations which mainly vary across the countries, and also often slowing down adoption and growth. However, as per Parameswari *et al.* (2023), the Algerian financial organisation, implementing modern technology is not only feasible but also adapts well to the escalating rivalry. Effective mechanisms are derived from the extensive use of digital technology, participation in financial services, and regulatory elements. The central bank is also motivating commercial banks for give better technology-based services to provide and retain prompt services.

**Table 2: Popularity of neo-banking and neo-brokerage in India, by brand in 2024**

Neobanking	Awareness %	Popularity %	Usage %
Paytm Payments Bank	91	51	41
Angel One	84	60	50
Groww	84	63	50
Upstox	81	52	36
RazorpayX	71	44	32
InstnatPay	58	36	26
Jupiter	58	35	24
Zerodha	57	43	30
Fi Money	52	34	24

FamPay	46	34	29
Niyo	41	26	16
Freo	37	17	16
Akudo	36	22	16
Chqbook	36	23	19
Open	36	20	13
Mahila Money	35	17	15
ZikZuk	30	15	12

Figure 2: Popularity of neo-banking and neo-brokerage in India, by brand in 2024



(Source: Self-developed in Excel based on the data of Statista Research Department, 2024)

The concern related to trust and security also further hinders adoption, as there are different populations are there in India who are aware of this dynamic but the usage percentage is low. Many users, generally from the older demographics have a lack of confidence to use fully digital banking systems due to the fear of cyber fraud and data breaches. As unlike the traditional banks, neo-banks have lack of physical branches, which makes it harder to form personal trust among Indian consumers. Additionally, cyber security threats like data leaks and phishing attacks also raise concerns about digital transaction safety. According to Statista Research Department, (2024), Paytm Payments Bank was the most well-known neo-banking app in India in 2024. Of those surveyed, 91% knew about the mobile banking service provider however only 41% of respondents said they had used Paytm Payments Bank within the previous 12 months. For overcome these challenges the neo-banks have to focus on developing regulatory partnerships, through transparent policing improving customer trust and enhancing the infrastructure

of cyber security.

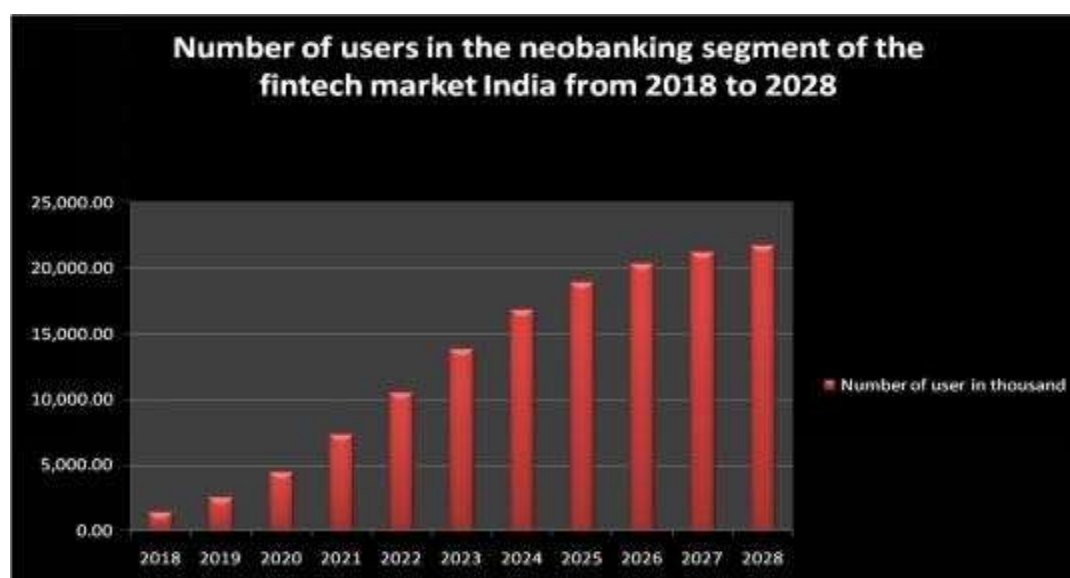
***Theme 3: Factors influencing the rise of neo-banking in financial ecosystems***

There are several factors which contribute to the growing dynamic of neo-banking in the financial ecosystems, drive through technological advancements, supportive policies by government policies and changing preferences of customers. The main driver is the widespread of smartphones and digital payment systems. With the rise in the penetration of the internet, nowadays mobile banking has become the most preferred mode of transaction and it has gradually made neo-banking a natural progression. As today users are generally seeking convenience and the neo-banks offer 24/7 accessibility, faster on boarding and minimal paperwork, which sets it apart from the institutions of traditional, banking. The neo-bank platform also provides accounting, payment processing, and payroll administration services and this platform also claims to provide retail customers with savings accounts and debit cards (Anitha and Hemanathan, 2023). Consumers can use it to set goals, monitor their spending, and accrue rewards on their debit cards.

**Table 3: Number of users in the segment neo-banking of India fintech market between 2018-2028**

Year	Number of users in thousand
2018	1,353.27
2019	2,497.55
2020	4,408.51
2021	7,333
2022	10,467.97
2023	13,792
2024	16,803.08
2025	18,944.40
2026	20,327.68
2027	21,192.89
2028	21,746.79

**Figure 3: Number of users in the segment neo-banking of India fintech market between 2018-2028**



(Source: Self-developed in Excel based on the data of Statista Research Department, 2025)

Different Government initiatives have promoted financial inclusion and digital payments have accelerated the growth of neo-banks. Policies like “Unified Payments Interface” (UPI) in India encouraged fintech innovation and made it easier for the neo-banks to expand their reach. These policies also help promote competition, enhance the choice of consumers, drive financial inclusion and create a fertile environment for neo-banking. It was predicted that between 2024 and 2028, the number of users in India's fintech market's “Neo-banking” segment will rise steadily by 4.9 million, or 29.42% (Statista Research Department, 2025). The change in the demographic of banking customers generally helps in fuel the rise of neo-banking. The younger generation, mainly Millennials and Gen Z prefer digital-first experiences and also value convenience over traditional banking relationships. These tech-savvy consumers embrace digital wallets, automated financial planning and BNPL (Buy Now, Pay Later), which makes them the ideal target audience for organisations like neo-banks.

## DISCUSSION

The findings of the study indicate that the dynamic of neo-banking has revolutionised the financial services, and their effectiveness in driving financial inclusion mainly depends on overcoming trust, regulatory and technological barriers. Through integrating different guidance tools and AI-driven insight, the neo-banks focus on empowering the users with financial knowledge and analysing an informed process of decision-making. However, the rates of adoption vary across the groups of demographics, which further needs customised literacy programs for different demographics. Risks related to digital accessibility, regulatory uncertainty and cyber security threats have to be addressed for widespread adoption. Financial and government can collaborate with neo-banking as it helps them to develop flexible innovation- friendly regulations while maintaining a robust security framework.

The findings indicate that the trust of consumers is important for mitigating the challenges as it helps to improve neo-banks through enhancing their systems of fraud detection, offering them a hybrid model for customer support and providing them transparent policies for data protection. The growth of neo-banking is mainly driven by technology regulatory support and a shift in the behaviour of the consumer. Now that embedded finances become prevalent the neo-banks have started to leverage cloud-based, AI and blockchain infrastructure to remain in competition. However, partnerships with the fintech players and traditional banks are helpful for the neo-banks to enhance risk management, increase credibility and expand their services. Further neo-banking has the potential for reshape the whole financial ecosystem and make banking more inclusive, customer-centric and efficient for every demographic.

## CONCLUSION

Neo-banking emerged as a transformative force in the financial inclusion, as it leveraged digital-first strategies for expanding banking access, enhancing user convenience and improving financial literacy. Unlike the model of traditional banking, the neo-banks offer seamless onboarding, AI-driven insights and personalised financial tools to make them attractive to tech-savvy and younger consumers. With the different opportunities, there are some changes also there like cyber security risks, digital literacy gaps and regulatory challenges which have to be addressed for neo-bank research to its potential. The future of neo-banking lies in regulatory adaptability, customer trust and scalability. Through integrating AI-driven financial education, expanding partnerships with the traditional banks and enhancing fraud detection, neo-banks can increase adoption and also drive a long-term financial inclusion.

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