

NEOBANKS VS TRADITIONAL BANKS: THE BATTLE FOR DIGITAL DOMINANCE IN FINANCIAL SERVICES

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Abstract

This article conducts a comparative study of traditional banks and neobanks to examine their relevance in the digital economy. Neobanks, also known as fintech or challenger banks, operate online, offering streamlined and personalized financial services such as debit/credit cards, savings accounts, and tailored solutions. Unlike traditional banks with physical branches and high costs, neobanks cater to specific market segments, including millennials, gig economy workers, and small businesses. The study analyzes structural, operational, and strategic differences, highlighting neobanks' agility, technology, and lower fees. Using sentiment analysis and multi-criteria decision analysis, it examines consumer trust, data security, and regulatory compliance issues in developing economies. Findings indicate neobanks' rising popularity in emerging markets like India and China due to increased smartphone use, internet access, and digital literacy. However, challenges like regulatory compliance and consumer trust remain. The study concludes that neobanks' success depends on consumer confidence and regulatory adjustments, potentially leading to a hybrid financial ecosystem.

Keywords:- Banking, Traditional Banks, Neobanks, Technology, Financial Services.

Neobanks which also known as challenger or fintech banks are banks that are online operated financial institutions. They may not have physical branches but provide lots of financial services just like a traditional bank. Services

like debit cards, credit cards, savings account etc are provided. They are user friendly offered at very nominal fee and also provide modern features.

There are few types of Neobanks like online only bank which do not have any physical presence, one type where they

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partner with some traditional banks and provide services. There is another type where they are fully licensed and operate independently and offer various financial services like lending and investments. Some Neobanks combine traditional and fintech technology to gain benefit of both traditional banks and fintech banks.

Review of Literature

(Kusnawi et al., 2023) in their study examines Neobanks performance using support vector machine and finds a positive trend towards Neobanks.

(Bhatnagar et al., 2024) in their study uses Delone and McLean Information System Success (DMISS) model to find out the adoption of Neobanking and its resistance in India. This study shows that by integrating e-trust and personal innovativeness into banking Neobanking can be adopted in India.

(László et al., 2024) in their study about adoption of Neobanking conveys that by using perceived usefulness, perceived trust and ease of use will help a consumer to adopt Neobanking services.

Research Gap

Even though Neobanks are getting much popularity in this modern era, the difference between traditional banks and Neobanks are not fully understood. Though both look similar their operational framework and business models are entirely different. Neobanks are booming in developed countries but the things or results in a developing country are still unknown. Adoption of Neobanks is heavily dependent upon customer trust, perceived usefulness and

data privacy. Using secondary data to get more information about Neobanks and also solving the issues with sentiment analysis is relevant to get more insightful information about how Neobanking is developing.

Statement of the Problem

Neobanks are emerging as a swift challenger to traditional banks and their long-standing dominance in the digital age. While Neobanks are becoming widely accepted in developed countries, developing countries are still exploring their acceptance in contemporary economic landscapes that are not without regulatory challenges, trust issues, and limited infrastructural advancements. The issue of this research is to assess and contrast the relative strengths and weaknesses of Neobanks and traditional banks, and examine whether Neobanks can support growth and maintain consumer trust in developing economies like India.

Objectives of the Study

1. A Comparative Analysis of Traditional Banks and Neobanks.
2. The impact of Neobanking in Developing Economies.

Significance of the Study

This research is important because it emphasizes the transformation Neobanks are bringing to the financial services world. By contrasting Neobanks with traditional banks, valuable information is provided for policymakers, regulators, financial institutions, and consumers. The findings will guide understanding of how Neobanks may influence financial inclusiveness, user experience, and cost

reduction in developing economies. Additionally, this research adds to academic research by addressing the gaps in literature on the adoption and challenges of Neobanking in emerging markets.

Methodology

This study utilizes a mixed-methods design, includes qualitative and quantitative methods to compare Neobanks and traditional banks. The analysis mainly relies on the secondary data derived from academic journal articles, industry reports and market/industry analyses, along with trusted financial news sites, published between 2014 and 2024.

The first tool used was Sentiment Analysis where the Consumer feedback and reports were coded for positive, neutral, and negative sentiments to understand perceptions of fees, customer experience, trust and technology uptake.

The second tool was Multi-Criteria Decision Analysis (MCDA), a structured scoring system (1-5 scale) was implemented to evaluate Neobanks and Banks in relation to interest rates, fees transparency, user experience and innovation.

Through a qualitative-quantitative translation method, not only were subjective insights (e.g., trust, regulatory constraints) coded, but were also able to be quantified for comparison. Together, this framework allowed for a comprehensive evaluation and provided the foundation for hypothesis testing.

Hypotheses Testing

Based on the objectives of the study, four hypotheses were formulated and

tested using the above methods. The results are presented below:

H1: Neobanks provide better customer experience compared to traditional banks.

Sentiment analysis of customer feedback and MCDA scoring of user experience factors (ease of use, personalization, app design). The result was the Neobanks scored 5/5, while traditional banks scored 3/5. Therefore, Neobanks outperform in customer experience.

H2: Neobanks charge lower fees than traditional banks.

Comparative review of fee structures (account charges, card fees, transaction costs) supplemented by MCDA scoring. Resulting, Neobanks offer more transparent and lower fees (score 1 vs. 4 for traditional banks). Supported that Neobanks maintain a cost advantage.

H3: Traditional banks enjoy higher levels of customer trust than Neobanks.

Sentiment analysis of consumer trust indicators (security, stability, reputation). It shows Traditional banks scored higher on trust and credibility (average 4/5 vs. 2.5/5 for Neobanks). That is, Trust remains stronger with traditional banks.

H4: Neobanks are more agile in adopting technology than traditional banks.

MCDA evaluation of technology adoption (use of AI, ML, big data, digital onboarding, API integration). Neobanks scored 5/5, traditional banks 2/5. Supported that Neobanks lead in technological innovation.

The findings suggest that Neobanks could outperform traditional banks on customer experience, reduced fees, and technological nimbleness, while traditional banks lagged, but within customer trust and stability traditional banks still have the advantage. Therefore, it seems the two types of banks complement rather than substitute, suggesting a hybrid version of banking in the future.

Research Design

A combination of qualitative and quantitative analysis is utilized. This mixed-methods approach allows for a thorough examination of customer satisfaction, technological advancements, and legal challenges faced by both traditional banks and Neobanks.

Data Collection

The study is descriptive in nature and uses Secondary data sourced from

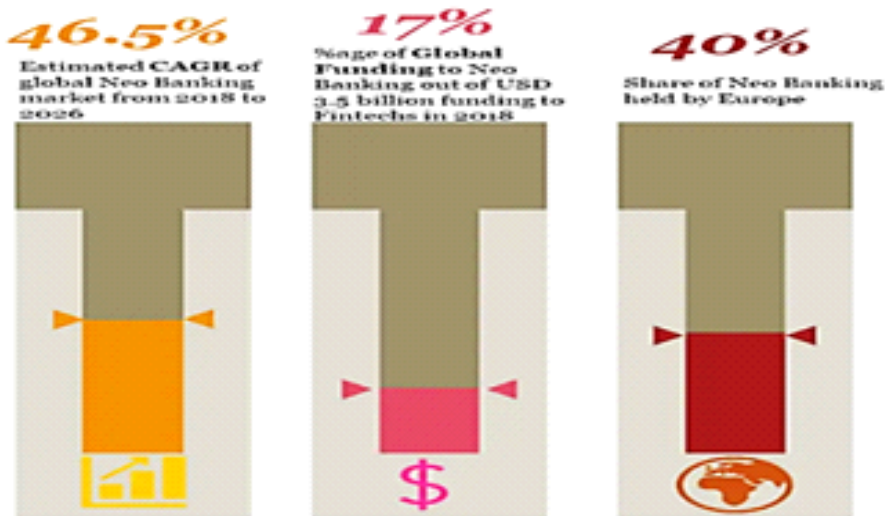
reputable academic journals, reputed websites, industry reports and market analyses. Criteria for selecting these sources included relevance, credibility, and recent publication dates, ensuring the data is current and reliable. The data collection period covers the last ten years to capture contemporary trends and developments.

Data Analysis

Neobanks are digital institutions which provide better user experiences and easy-to-adapt programmable solutions for tax, accounts and payments via open application programming interfaces (APIs).(Services & Insights, n.d.). Based on Growth adoption factors Europe holds the highest number of Neobanking shares globally

(Zion Market Research, 2019). It is anticipated that the Asia-Pacific region would expand rapidly. In the regional nonbank market, China, India and Japan

Figure 1
Global Growth of Neobanks



Source: Zion Market Research (2019)

will have the fastest-growing economies. According to Neobanks' smooth and practical solutions, rising smart phone usage, technology integration and financial knowledge, emerging nations like China and India are expected to show healthier economic indicators in the future.

Key Differences

There are many factors that can be taken into consideration while looking at the distinctness between traditional and Neobanks.

i. Infrastructure and technology: Neobanks are using latest technology to implement their services and to get to potential customers.

ii. User experience: Neobanks gives utmost importance to customer experience, giving spontaneous mobile apps, simple user assimilation process, and personalized assistance that engage tech forward customers. (SAXE Global, 2023)

iii. Operating costs: Neobanks operating without physical infrastructure or branches, benefit from substantially reduced running cost.

iv. Target market: Neobanks usually serve to unaddressed consumers or marginalized customer groups, examples include millennials, gig economy workers, and small businesses who are provided with customized financial solutions designed to meet their unique preferences and requirements. (SAXE Global, 2023)

Challenges Faced by Neobanks

i. Regulatory compliance: Neobanks have to go through long legal steps before the commencement stage. (About & Lists, n.d.)

ii. Competition: Already established banks and fintech companies are competition to Neobanks and therefore they have to outperform all others to get successful.

iii. Scalability: Scalability contributes to another challenge as Neobanks tries their best to expand their market reach all while keeping alive the existing personalised services. (About & Lists, n.d.)

iv. Trust and loyalty: Building customer trust and loyalty is a huge task for Neobanks as it has to be earned.

Comparative Analysis

The table 1 highlights the major distinctions between Neobanks and traditional banks, providing a comparative analysis of features that play a critical role in the decision-making process for consumers and businesses alike. These features emphasize not only the operational differences but also the strategic focus of both types of banking institutions.

Operational Architecture of Neobanks

i. Retail and Business Consumers: Retail customers typically prioritize ease of use and low fees, whereas business customers value features like payroll management and lending options. This differentiation highlights the tailored services Neobanks provide to meet distinct needs.

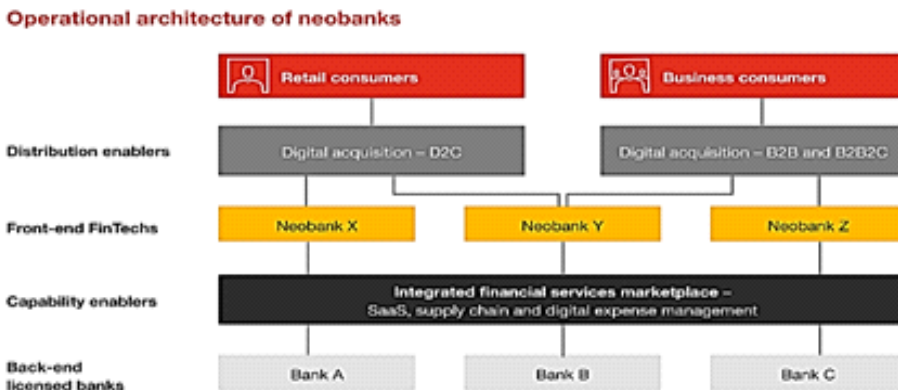
ii. Distribution Enablers: Neobanks acquire retail customers directly (D2C) and businesses through direct (B2B) or partnership-based models (B2B2C). This contrasts with traditional banks' branch-

Table 1
Key Differences between Neobanks and Traditional Banks

Feature	Neobank	Traditional Bank
Characteristics	Agility	Stability
Target Market	SMEs, Younger Generation	Institutions, Large Business, General Public
Deposit Guarantee	Depending on the bank	Yes
Banking License	Depending on the type	Yes
Application	Yes	Depending on the bank
Credit Card	Depending on the type	Yes
Branches	No	Yes
Face-to-Face Communication	No	Yes
Maximum Deposit	Medium	High

Source: *The Enlight Zone*. (Precious, 2022)

Figure 2
Operational Architecture of Neobanks



Source: *PwC Analysis (The Evolution of Neobanks in India, 2021)*

based customer acquisition, showcasing Neobanks’ flexibility and efficiency in expanding their customer base.

iii. Front-End Fin-Techs: Neobanks such as X, Y, and Z deliver services through user-friendly digital interfaces. This focus on user experience often surpasses that of traditional banks, which

may struggle to modernize their interfaces and customer service.

iv. Capability Enablers: Integrating Software-as-a-Service (SaaS), supply chain management, and digital expense management creates efficiencies and enhances customer satisfaction. Traditional banks might find it challenging to replicate

this level of innovation due to their legacy systems.

v. Back-End Licensed Banks: Partnerships with licensed banks (like Banks A, B, and C) enable Neobanks to leverage compliance and operational support, maintaining regulatory standards while focusing on customer-facing innovation. Traditional banks, managing all operations internally, may not have this flexibility.

Comparative Analysis of Neobanks and Traditional Banks

For comparing Neobanks vs Traditional banks qualitative data were used and therefore sentiment analysis along with qualitative-quantitative translation (scoring system) was used. Multi-criteria decision analysis (MCDA) or content analysis is taken as a basis where points or ratings are given for each statement by analysing its positive neutral or negative tone. (Takeaways & Offered, 2024)

1. Fees:

Traditional Banks: Generally have higher fees and complex fee structures.

Neobanks: Offer less fees and more transparent fee rates.

2. Interest Rates:

Traditional Banks: Generally provide low interest rates for the deposits.

Neobanks: Provide higher rate of interest on deposits.

3. Customer Experience:

Traditional Banks: Perceived as reliable but slower to adopt new technologies.

Neobanks: Excel in personalized services and fee transparency.

4. Technology Adoption:

Traditional Banks: Gradually adopting new technologies but generally lag in innovation due to larger, more established structures.

Neobanks: Leading the charge in employing modern technology like AI, machine learning, and big data for personalized banking experiences.

Impact of Neobanks in Developing Economies

By providing digital, accessible and affordable financial services Neobanks are transforming the financial landscape of the developing economy. Traditional banks have branches that are becoming costly in today's situation. Lower fee, free cards, no annual fee or providing joining bonus these offers are attracting new generation and also older people into Neobanking. There are several problems like low literacy level; trust issues and issues related to data security are all big problems in a developing economy. To wrap up, Neobanks are significantly transforming developing economies by boosting financial inclusion, encouraging entrepreneurship, and modernizing banking services. Their sustained success, however, hinges on overcoming regulatory hurdles, earning consumer trust, and enhancing digital infrastructure. Their ability to customize services to the unique needs of these economies will be crucial to fully realizing their potential.

Findings

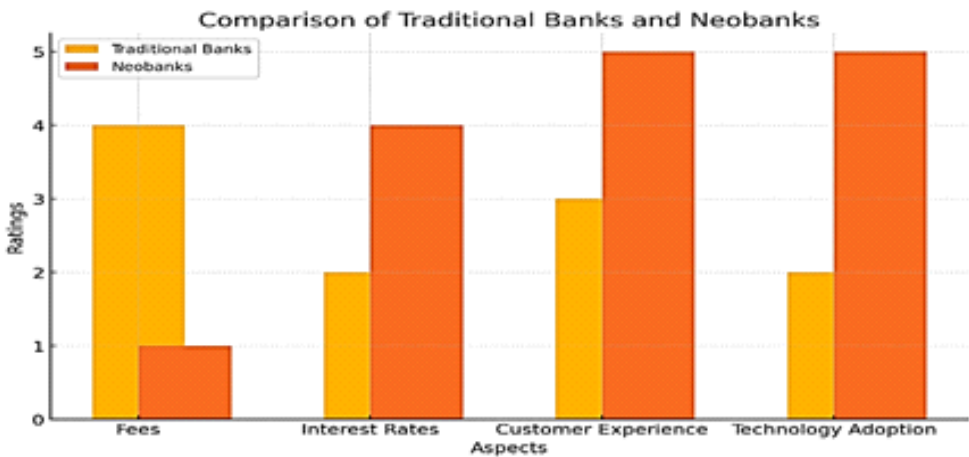
- 1. Market Growth** – The Indian neo-banking industry is projected to grow at a CAGR of 42.16% (2024–2032), reflecting strong adoption potential.

Table 2
Comparative Scores of Neobanks and Traditional Banks

Feature	Neobanks	Traditional Banks
Fees	1	4
Interest Rates	4	2
Customer Experience	5	3
Technology Adoption	5	2

Source: *Takeaways & Offered (2024)*

Figure 3
Comparative Sentiment Scores of Neobanks and Traditional Banks



Source: *Takeaways & Offered (2024)*

- 2. Customer Experience** – Neobanks scored 5/5 in user experience versus 3/5 for traditional banks, showing their edge in personalization and digital convenience.
- 3. Cost Advantage** – Neobanks provide lower and more transparent fees, supported by sentiment analysis; traditional banks retain higher and complex fee structures.
- 4. Trust Factor** – Traditional banks remain stronger in trust and credibility (score 4 vs. 2.5),

highlighting a persistent consumer reliance on legacy institutions.

- 5. Technology Adoption** – Neobanks are more agile, scoring 5/5 in innovation versus 2/5 for traditional banks.
- 6. Barriers in Developing Economies** – Major challenges include regulatory hurdles, low financial literacy, and data security concerns, which slow wider adoption.
- 7. Hybrid Future** – Evidence suggests a complementary model, where

traditional banks provide trust and stability while Neobanks drive innovation and efficiency.

Suggestions

- **For Regulators:** Simplify licensing norms, ensure **data protection frameworks**, and mandate transparent disclosures to build trust.
- **For Neobanks:** Focus on **cyber security, transparency, and awareness campaigns** to strengthen consumer confidence.
- **For Traditional Banks:** Collaborate with Neobanks to **upgrade digital infrastructure**, expand outreach, and attract younger demographics.
- **For Consumers:** Promote **digital literacy and financial education** to encourage safe adoption of Neo-banking.
- **For Policymakers:** Support **financial inclusion initiatives** through incentives for fintech innovation and integration with national digital ecosystems.

Conclusion

Neobanks are revolutionizing financial services by offering innovative, tech-

driven solutions without the physical constraints of traditional banking infrastructure. They provide lower fees, higher interest rates for deposits, zero joining fees and enhanced customer experiences, which make them appealing to younger generations, older generations and also small businesses. Neobanks are critical for increasing financial inclusion, addressing underserved communities, and providing basic banking services in remote places in developing economies. However, their success depends upon overcoming regulatory challenges, building consumer trust and addressing digital literacy gaps.

As the financial landscape evolves, Neobanks have the potential to reshape banking practices with their focus on innovation and agility. Their growth in developed and developing markets indicates a shift in consumer preferences towards more digital, flexible banking options. To maximize their impact, Neobanks need to navigate regulatory environments and consistently deliver secure, reliable services. The future of banking will probably move into a hybrid model that integrates the merits of both Neobanks and traditional banks, ultimately enhancing the financial services landscape worldwide.

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