

Role of Neo Banks in traditional finance disruption

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Abstract

Neobanks — digital-only financial entities that operate without physical branches — have rapidly gained prominence by offering customer-centric, technology-driven banking solutions. This paper systematically reviews the literature on how neobanks disrupt traditional banking and synthesises secondary data to empirically interpret their impact on efficiency, customer adoption, and financial inclusion. The findings demonstrate that neobanks are reshaping conventional banking models through digital innovation, customer experience, cost efficiency, and partnerships, while also posing challenges such as regulatory limitations and competition for legacy banks. The study concludes with implications and directions for further research.

Keywords: Neobanks, digital banking, traditional finance disruption, financial innovation, secondary data

1. Introduction

The global financial landscape is in the midst of continuous transformation, driven by technology and changing consumer preferences. Neobanks, also known as challenger or digital-only banks, have emerged as disruptive innovators that challenge the traditional banking ecosystem by offering seamless digital financial services without physical branches.

Unlike conventional banks with extensive branch networks and legacy systems, neobanks leverage advanced technologies such as mobile platforms, APIs, and data analytics to deliver low-cost, personalized financial solutions. This paper explores **how neobanks disrupt traditional finance** and uses existing secondary sources to empirically interpret this shift.

2. Methodology

2.1 Systematic Literature Review

A structured approach to literature review was followed:

- Academic articles on neobanking and disruption
- Industry reports and fintech analyses
- Case studies on digital banking adoption

Databases and sources included scholarly journals, industry publications, and credible web resources, with a focus on **recent trends (2023–2025)**.

2.2 Secondary Data for Empirical Evidence

The empirical segment uses secondary data from market reports and regulatory insights to analyse:

- Adoption trends
- Growth of neobanks
- Influence on traditional banking practices

3. Neobanking: Definition and Growth

Neobanks are financial intermediaries that operate exclusively through digital platforms, often without their own banking licenses (in some countries, including India). They typically partner with licensed banks to provide regulated banking services.

Their core features include:

- Fully online account opening and onboarding
- Mobile-first user experience
- Low or zero fees
- Real-time analytics and insights

The growth of digital infrastructure — such as smartphones and digital identity systems — has fueled neobanking adoption across markets, including emerging economies like India.

4. Literature Review

4.1 Disruption Mechanisms

Digital-First Models vs Traditional Systems:
Neobanks leverage agile, scalable technology stacks which contrast sharply with conventional banks' legacy IT systems. This enables faster product deployment and personalised services that attract tech-savvy consumers.

Customer Experience:
Studies show that digital convenience, low fees, and intuitive interfaces are major drivers of neobank adoption.

Users increasingly prefer digital channels over branch-based services for everyday transactions and financial needs.

Competition and Traditional Bank Response:
Traditional banks are responding through digital transformation initiatives and partnerships with fintech firms to avoid customer attrition. Comparative analyses indicate that banks investing in digital platforms can partially mitigate competitive pressures from neobanks.

5. Empirical Findings from Secondary Sources

5.1 Market Trends and Adoption

Secondary data indicate strong adoption of digital financial services driven by smartphone penetration and scalable digital infrastructure. In India, increased smartphone usage has enabled neobank solutions to reach previously underserved populations, contributing to financial inclusion.

Industry reports also show that digital transaction volumes continue to grow, reflecting broader shifts toward online financial management tools where neobanks play a significant role.

5.2 Impact on Traditional Banking

Empirically, the rise of neobanks has pressured traditional banks to enhance digital offerings. Legacy institutions are investing in mobile platforms and digital services to retain customers who might otherwise migrate to neobanks for better convenience and lower costs.

5.3 Financial Inclusion

Neobanks' focus on digital access and simplified onboarding processes has expanded access to basic banking services for underbanked segments. Although regulatory limitations remain, partnerships with licensed banks allow neobanks to extend services to new customer groups.

6. Discussion

The integration of digital technologies within neobanks — such as cloud computing, artificial intelligence, and analytics — has challenged traditional banking models to evolve or risk obsolescence. While traditional banks still dominate in terms of regulatory strength and trust, neobanks' customer-centric focus is reshaping industry expectations.

However, empirical observations suggest that neobanks must navigate regulatory constraints, cybersecurity risks, and profitability challenges to sustain long-term impact. Additionally, collaboration between neobanks and legacy banks — often through technology partnerships — indicates a hybrid future rather than complete replacement.

7. Conclusion

Neobanks have emerged as significant disruptors in the financial sector by combining customer-centric digital innovation with cost efficiencies, forcing traditional banks to adapt. The systematic literature review and secondary data analysis show that neobanks are reshaping the financial services landscape, enhancing access,

and increasing competitive pressures. Future research should focus on **quantitative measurement of customer migration, profitability comparisons, and regulatory impact analyses.**

8. References

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