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SMART BANKING, SMARTER CUSTOMERS: THE NEO BANK IMPACT

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Abstract

The evolution of financial technology in the global market has caused a huge change in the global banking ecosystem, marking the birth of the neobanks – digital only services which provides its services exclusively through online platforms. This study explores the impact of neobanks and digital financial services (DFS) based on the customers perception, trust, and adoption with a focus on the Indian market from the primary data collected through conducting a survey on 100 samples for the study, and it highlights how the neobanks are perceived as convenient, cost effective, and technologically advanced , which offers a flawless mobile experience making it easy for using the digital platforms, transparent fee structures , and innovative features like real time alerts and spending analysis. The youngsters, digitally literate customers show strong preference for using the neobanks, while their major concerns around data security, regulatory safeguards, and lack of physical branches temper the overall trust levels among the users. Review of literature findings enhance that neobanks are reshaping banking by highlighting the efficiency, inclusion, and customer oriented, though challenges of profitability, regulation, and cybersecurity persist. The study concludes that the neobanks do not replace the traditional banks but rather they complement the additional financial system pointing towards a hybrid model that combines the digital agility with the trust, reliability, and stability. Sustainable growth of neo banks will depend on enhancing security, regulatory transparency, and customer literacy, while the policy maker and the financial institution must encourage innovation without compromising customers trust and confidence.

Keywords: Neobanks; Financial Technology (FinTech); Customer Perception; Trust; Digital Financial Services (DFS); Digital Banking; Indian Banking Sector; Financial Inclusion; Hybrid Banking Model

1. INTRODUCTION

The emergence of financial technology has completely altered the global banking environment, making way for new entrants such as Neobanks and Digital Financial Services (DFS). The global banking industry is witnessing an intense transformation with the technological innovation and changing customer expectations. On the hand the traditional banks operate in a conventional way with the physical operations, whereas the Neobanks can be termed as the digital only banks which carries a complete financial services through the digital platforms where there is no need for any physical presence, the neobanks focuses on providing financial services that are user convenience, cost efficiency, and personalized financial solutions .The rise of neobanks and digital financial service providers, therefore marks a paradigm shift from institution centric to customer centric banking. Additionally, this new banking model not only alters the way banking is perceived and practiced but also lays a foundation for an inclusive, efficient, and technology enabled financial system. As the world moves towards digital economy, it is important to understand the significance of emerging online banking models.

2. OBJECTIVES

1. To study customer perception, usage, and trust towards neo-banks compared to traditional banks.
2. To evaluate customer perception regarding ease of use and convenience, Fees and interest rates, innovation and digital features, Mobile app user experience, Customer service quality.

3. REVIEW OF LITERATURE

Martin Garteiz-Goxeascoa (2024) in their research article examines critical evaluation of existing literature concerning user trust in digital banking, with a focus on neobanks. The theoretical underpinning of this research work is based on TAM, AIB, and EIM models. The current chapter helped in designing a conceptual framework where security, transparency, government regulation, customer service, and application experience were identified correspondingly as the hypothesized predictors for trust in a neo banks.

Rajshree S et al., (2025) analyses the variables impacting customer adoption in digital-only banks, proposing a theoretical model with attitude, trust, risk, security, and a new construct called ‘green concern’, all added to the existing model of UTAUT2. The research in this article conducted in India proved all these variables, as well as a few basic variables in the model of UTAUT2, to be important indicators of customer adoption in digital-only banks.

Shanti R et al., (2024) analyzes the digital transformation effects on neo bank efficiency. As a digital-only bank, neo banks complete with conventional banks by providing an entirely digital bank service. using Indonesian neobank evidence, this study shows digital transformation firstly negatively affects efficiency due to its cost but can improve a neobank’s efficiency in the future. This research aims to complete a research gap by targeting an emerging phenomenon in neo banks.

Ilnytskyy D et al., (2024) in their research article found that the neo-banking is a result of the interaction between digital and green transformations. Most studies have concentrated on aspects of neo-banking related to digitalization, fintech, innovation, and blockchain. .and the main issues that characterize e-banking, like security, risk, and trust. The innovation and competitiveness theories, behavioral finance, network and system theories, and the sustainable development complete the above-mentioned neo banking technology growth factor with reasons for customer adoption.

Cuahtemoc et al., (2024) assess the S-O-R Framework to describe customer behavior in neobanks. The stimulus includes perceived financial security that comprises facets of ease of payment and system security in the virtual service space. This will be used to impact neobank trust which manifests customer beliefs in the bank’s dependability. Trust is a precursor to customer behavior, which leads to the response of customer retention and switching costs involved with defection to a traditional bank.

Ms. Shikha et al., (2025) explores the neo-banks are a huge disruptor in conventional banking, with their digital and customer-centric approach and usage of fintech, which provides a better experience in terms of efficiency and inclusion. However, despite being used further in the light of the onset of the COVID 19 pandemic, they have a lot of challenges in terms of being profitable, trusted, and approximately regulated, especially in countries such as India, where customer prefer conventional banks.

Somnath Sardar and Kavita Anjaria (2023) examines neo-banks are branchless and fully digital institutions that by adopting technological innovations, create very convenient, transparent, and customer-focused banking. These services disrupt traditional banking. The low- cost online model, equipped with AI and big data analytics, improves efficiency and expands financial inclusion. However, it faces significant challenges related to regulatory issues and cybersecurity matters, particularly in India, where neo-banking services collaborate with traditional banks under RBI rule.

Taneja et al., (2024) in their study develops an integrated model to understand the customer intentions towards adopting digital-only neo-banks, especially in developing economies. It underlines the most existing studies rely on the UTAUT2 framework but were not tested and contextualized enough for this region. In this review, the trust and perceived risk are established as a key factor influencing the customer’s acceptance of digital financial services, and since such fraud and privacy concerns form a crucial part of perception, building trust and minimizing such perceived risk are basic to adoption.

Sakshi Sharma (2024) examines neobanks and conventional banks are discussed in parallel with regard to the Indian landscape while neobanks introduce new and alternative service that are more cost- friendly, ensuring an overall better customer experience, this further accelerated through COVID -19. for their part, traditional banks remain more stable and profitable but struggle under pressure to improve their digital capabilities and efficiency. Neobanks, on the other hand, have regulatory challenges and issues of sustainability and competitiveness.

Nila Armelia et al., (2022) explains that digital-only banks are different from traditional banks online services, as they operate without physical branches and therefore have much lower costs. While most prior research focuses on issues related to regulations, financial inclusion, and business models, customer experience has received scant attention, service quality, functional quality, perceived value, usability, and perceived risk emerge as the main drivers of positive customer experiences in digital banking.

Yasintha et al., (2023) paper’s findings show how perceived ease of use and perceived usefulness can foster a positive attitude towards neobanks, with security playing an important role in building trust, but not perceived risk. In contrast, attitude, trust, and social influence were all shown to have a positive impact on intent of usage with trust being a far more important factor in female consumers.

4. RESEARCH METHODOLOGY

This study adopts a quantitative Descriptive research design with a sample size of 100 respondents. Primary data will be collected through questionnaire administrated via Google Forms, applying convenience sampling due to accessibility with which will include demographic questions to gather descriptive statistics about the participants profile, such as age, gender, current occupation, education level, and annual income level. The collected data was analyzed using correlation analysis, and multiple regression analysis to identify the key determinants influencing customer satisfaction with neo bank.

5. HYPOTHESES OF THE STUDY

H₀: There is no significant positive relationship between Determinants and Satisfaction.

H₁: There is a significant positive relationship between Determinants and Satisfaction.

H₀: There is no significant relationship between Perceived Benefits/Drawbacks and Satisfaction.

H₂: There is a significance relationship between Perceived Benefits/Drawbacks and Satisfaction.

H₀: There is no significance relationship between Security Trust and Satisfaction.

H₃: There is a significance relationship between Security Trust and Satisfaction.

H₀: Determinants, Perceived Benefits/Drawbacks, and Security Trust do not significantly predict Satisfaction.

H₄: Determinants, Perceived Benefits/Drawbacks, and Security Trust significantly predict Satisfaction.

6. DISCUSSIONS OF THE STUDY

TABLE 1: Demographic Profile of the respondents

Variables		Frequency	Valid%	Cumulative%
Gender	Male	43	43	43
	Female	57	57	100
	Total	100	100	
Age	18-24	73	73	73
	25-34	13	13	86
	35-44	12	12	98
	45 and Above	2	2	100
	Total	100	100	
Occupation	Student	61	61	61
	Employed	23	23	84
	Self-Employed	12	12	96
	Unemployed	2	2	98
	Others	2	2	100
	Total	100	100	
Education	High School	4	4	4

	Bachelor's Degree	53	53	57
	Master's Degree or Higher	42	42	99
	Others	1	1	100
	Total	100	100	
Annual Income	Below ₹5 lakh	89	89	89
	₹5- ₹10 lakhs	9	9	98
	Above ₹ 10 lakhs	2	2	100
	Total	100	100	
Frequency of Online Banking	Daily	11	11	11
	Weekly	7	7	18
	Monthly	20	20	38
	Rarely	62	62	100
	Total	100	100	
Neo bank do you primarily use	Jupiter	1	1	1
	Kotak	2	2	3
	SBI	2	2	5
	Razor pay	19	19	24
	Phone pe	8	8	32
	Google pay	17	17	49
	Axis	5	5	54
	HDFC Bank	12	12	66
	Fampay	4	4	70
	others	30	30	100
	Total	100	100	

Source: Primary Data

7. INTERPRETATION

The demographic breakdown of the respondents indicates relatively equal gender split with slightly more female respondents (57%) than male respondents (43%). The age group with the highest percentage of respondents is the younger generation between the ages of 18-24 years (73%), followed by those between ages of 25-34 years, who contribute only 13% to the group. The occupational analysis indicates the most respondents are still students (61%), while 23% are employed. The educational attainment levels in the survey appear to be relatively high with a well distributed split where over half the population holds a bachelor's degree (53%), and nearly a similar proportion has a master's degree or higher qualifications (42%). In regards to the average yearly income for the respondents, a vast majority earn lower than ₹5 lakh a year (89%). expectedly due to the highest proportion being constituted by the student. As far as the banking habits are concerned, the adoption of internet banking is moderately high, as 70% of the respondents have accessed internet banking services. However, the corresponding usage intensity indicates the most respondents access internet banking services rarely (62%), followed by monthly (20%), daily (11%), and weekly (7%). While observing the key neo-banking service or digital wallet service used, the pattern is diversified. However, Razor pay (19%) and Google pay (17%) are used by the most people, though a considerable number of respondents (30%) use other digital wallets, thus showing the diversification of preferences and the absence of key players in the

market in the shape of a single neo bank. The findings of the research comprehensively indicate that neo-banking and digital wallet services are largely adopted by the younger, more educated sections, but the intensity of the services is varied, and customer preference has been distributed across multiple digital wallets, not in favor of a single neo-bank service provider.

HYPOTHESES TESTING
CORRELATION
TABLE 2

		Determinants	Perceived benefit drawback	Security trust	Satisfaction
Determinants	Pearson Correlation	1	.258*	.415**	.409**
	Sig. (2-tailed)		.010	.000	.000
	N	100	98	99	98
Perceived benefit drawback	Pearson Correlation	.258*	1	.150	.496**
	Sig. (2-tailed)	.010		.144	.000
	N	98	98	97	96
Security trust	Pearson Correlation	.415**	.150	1	.264**
	Sig. (2-tailed)	.000	.144		.009
	N	99	97	99	97
Satisfaction	Pearson Correlation	.409**	.496**	.264**	1
	Sig. (2-tailed)	.000	.000	.009	
	N	98	96	97	98

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation analysis reveals that all major variables are positively associated with satisfaction. Determinants are significantly and positively associated with perceived benefit-drawback ($r = 0.258$, $p < 0.005$), security trust ($r = 0.415$, $p < 0.01$), and satisfaction ($r = 0.409$, $p < 0.01$); which confirms that stronger determinants cause high level of both trust and satisfaction. Perceived benefits-drawbacks is strongly and positively associated with satisfaction ($r = 0.496$, $p < 0.01$); which confirms that higher benefits have a substantial positive impact on satisfaction. Security trust is also significantly and positively associated with satisfaction ($r = 0.264$, $p < 0.01$). However, the association between perceived benefits-drawbacks and security trust is not statistically significant ($r = 0.150$, $p > 0.05$). Based on this result we can concluded that perceived benefits drawback is a stronger determinant of satisfaction, followed by determinants and security trust.

8. REGRESSION ANALYSIS

TABLE 3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.578 ^a	.334	.312	2.24953

Source: Authors calculation

a. Predictors: (Constant), Security trust, Perceived benefit drawback, Determinants

The multiple regression was done to find the impact of security and trust, perceived benefits, perceived drawbacks, and determinates of neo banks on customer satisfaction. The results show that the regression model is statistically significant; through the F-statistics value of 15.204, with a p-value less than 0.001, it confirms that all the selected independent variables together explain the variation in customer satisfaction for neo bank. The summary of the model as an R value of 0.578 and R² of 0.334, thus showing that, with the three predictors variables, approximately 33.4% variation in customer satisfaction is explained. The adjusted R² value of 0.312 also justifies the strength of the model.

NOVA^a

TABLE 4

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	230.810	3	76.937	15.204	.000 ^b
	Residual	460.495	91	5.060		
	Total	691.305	94			

Source: Authors calculation

a. Dependent Variable: Satisfaction

b. Predictors: (Constant), Security trust, Perceived benefit drawback, Determinants

Coefficients

TABLE 5

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.968	2.400		2.487	.015
	Determinants	.171	.061	.272	2.796	.006
	Perceived benefit drawback	.582	.129	.399	4.520	.000
	Security trust	.217	.198	.105	1.095	.277

Source: Authors calculation

a. Dependent Variable: Satisfaction

From the coefficients table, perceived benefits and defects have the most positive and significant influence on customer satisfaction with neo bank, $\beta=0.399$ and $p < 0.001$. Based on this observations, neo banks should take sufficient action that would provide customers with cost efficiency, transparency, convince and timesaving. Neo bank determinates, comprising ease of use, innovation, and mobile app experience along with service quality, have a positive impact on customer satisfaction with neo bank: $\beta=0.272$, $p= 0.006$. Therefore, neo banks should also strive to be simple and easy to navigate, with advance technological features.

On the other hand, security and trust do not have a statistically significant effect on customer satisfaction ($\beta = 0.105$, $p = 0.277$). While customer do have a security and regulatory issues, customers do not consider this factor as the drivers of satisfaction, which might be because digitally literate users focus on aspects of convince and functional benefits. In general, the result of regression analysis indicates that customer satisfaction in neo bank is more influenced by perceived benefits and digital determinants rather than trust-related variables, thus supporting the view of neo bank being mainly valued for efficiency, innovation, and convince.

The regression model is statistically significant, as specify by the ANOVA results ($F = 15.204$, $p < 0.001$). The independent variables- Determinants, Perceived Benefits/Drawbacks, and Security Trust-this have a significant effect on satisfaction as a dependent variable. The model explains 33.4% of the variance in Satisfaction ($R^2 = 0.334$), which specify a moderate explanatory power. Therefore, the null hypothesis H04 is rejected and the alternative hypothesis H4 is accepted, since Determinants, Perceived Benefits/Drawbacks, and Security Trust it predicts satisfaction. Since the overall regression model is significant, it supports the conclusion that these factors influence of these aspects on customer satisfaction.

9. FINDINGS

According to the study findings, customers are increasingly accepting of neo banks. In particular, young people and those with digital literacy appear to accept neo bank to a greater extent than older individuals and those without digital literacy skill. The majority of respondents indicated a robust the understanding of neo banks and also used for their convenience and ease of access. The research indicates that neo banks are seen as easier to deal with compare to traditional banks. Additionally, all respondents reported being highly satisfied with mobile app usability, paperless transaction, and shorter time frames for completing financial transactions. Cost benefits were favorable, with survey participants believing that now bank charged significantly lower price than traditional banks and offered a greater transparency with their fees. Customer satisfaction drivers include innovation advanced support via digital technology (e.g., real time alerts, spending analytics, personalized financial advice). However, although many respondents consistently stated having high levels of customer services through online transaction and mobile apps, respondents were not as confident in the trustworthiness of neo banks as they were of traditional banks, primarily due to concern around the safety of their data and the ways neo banks may not offer federal support and absence of physical branch locations. Respondents expressed that they received adequate service with respect to the banking customer experience, but would prefer to meet with someone face to face for assistance with complex banking issues.

10. CONCLUSION

The research finds that neo banks, which are purely digital financial services, are significantly disrupting the banking landscape by providing convenient, cost effective, and technology-centric solutions aligned with changing customer demands. The results indicate that clients, particularly and tech- savvy individuals favor neo bank due to their user friendliness, innovative functionalities, smooth mobile app interface, and clear fees arrangements. These elements play a crucial role in boosting customer satisfaction, encouraging regular usage of banking services. The research emphasis that the quality of customer service in digital support systems are crucial elements in enhancing customer trust and the sustained use of neo bank services. Overall, studies show that neo banks do not entirely replace traditional banks; rather they serve additional financial system. The evolution of banking will probably shift towards a hybrid model that combine the technological advancement and flexibility of neo banks with the trust, regulatory robustness and institutional reliability of conventional banks. Neo banks can achieve sustainable growth by prioritizing security improvement, regulatory clarity, and educating customers, while regulators and financial entities should bolster ecosystems that foster innovation without undermining customer trust.

11. STATEMENTS & DECLARATIONS:

Use of AI Statement

The authors declare that they have not used generative artificial intelligence, specifically ChatGPT in the writing of this manuscript and/or in the creation of images, graphics, tables, or their corresponding captions

Conflict of Interest and Declarations:

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