

NEO BANKING: A COMPARATIVE ANALYSIS OF INDIA & THE UK

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ABSTRACT

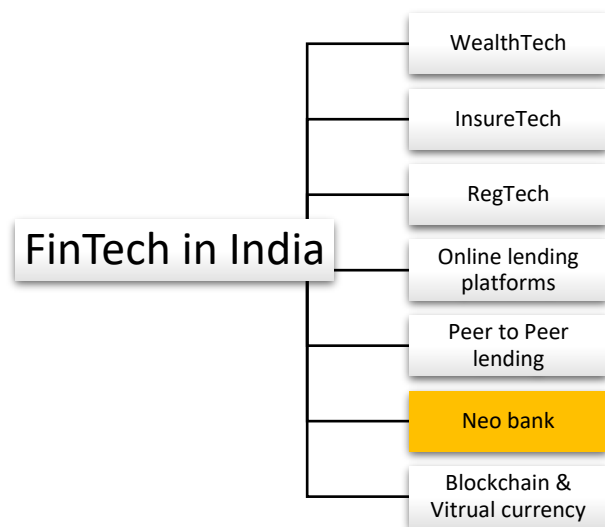
Neo banks are considered to be a disruption in banking and finance and are pioneers of innovative products that ease the daily financial requirements of people across the globe. The rise of digital banking services is mainly attributed to increased smartphone penetration and the availability of affordable internet services. The paper attempts to compare and analyse the neo banking scenario in a developing country – India and a developed country- The United Kingdom (UK). The paper identifies and examines the factors that play a crucial role in the overall success of neo banks namely – Government regulations, industry growth projections, licensing policy, business profitability, customer base, products and services offered, and investor funding pattern, through an extensive review of available literature on neo banks of both countries, to identify the gaps and devise a plan to fill those gaps for the smoother and faster growth of neo banks in India.

Keywords: Neo bank, comparative analysis, developed economy, developing economy, India, The UK.

BACKGROUND

The world is witnessing the evolution of Fintech, which has taken financial services by storm. The advent of Artificial Intelligence and Machine Learning (AI & ML) has transformed the way of carrying out financial activities among a major chunk of people. The complexity and time-consuming process of the traditional banking setup has further boosted the businesses of FinTechs. The COVID-19 pandemic proved to be a blessing in disguise for the FinTechs and accelerated the adoption of digital platforms among end consumers (Roller, 2022).

FinTech is an umbrella term that has multiple branches that cater to the overall financial needs of consumers with its innovative and customized products and services, as shown in the image below:



The present study will discuss one of the most evolving branches of the FinTech- Neo banks.

A neo bank operates virtually and has no physical presence (*What Is a Neobank?*, 2023). Neobanks are fintech companies that provide a smoother banking experience. They are trying to solve problems in the banking sector using technology and design (*Neobanks in India -with 23 Perfect Examples PrimeInvestor*, 2021). Neo banks are an extension to the online banking format but are different in the sense that digital banking applications offer services provided by its traditional bank unit whereas neo banks not only provide basic banking services but also provide additional services and products on the top of it (Vaidhyathan, 2024). Neo banks have the liberty to offer customized and innovative products as per the needs of the users. Neo banks work along with traditional banks to offer these services at a lower cost and at a faster speed as compared to traditional banks.

Neo banks serves as a financial dashboard for its customers and create a superior customer experience by simplifying the entire banking process, like opening an account, money transfer, tracking expenses, applying for loan, filing taxes etc.

Apart from the core banking activities customers can access the following facilities:

- Operate multiple bank accounts
- Avail credit/ debit card facilities
- Pay utility bills
- Investment activities
- Manage Foreign Exchange (FOREX) transactions
- Pay to business creditors/ receive money from business debtors
- Goods & Service Tax (GST) filing
- Payroll management
- Access airport lounges
- Buy Now Pay Later (BNPL)

Neo banking products are customized keeping in mind the financial needs of the underbanked and unbanked population. Target market for majority of these application-based service providers are Micro Small and Medium Enterprises (MSMEs), millennials, teenagers, big corporates and couples. The reason for targeting this segment of customers is the notion that they are more tech-savvy, discontent with the tedious processes of traditional banking, drawn to the gig economy, and early adopters of FinTech services, whereas MSMEs still remain an untapped market for having easy access to financial services that is a huge growth potential for neo banks.

Global neo banking at a glance

The global neo banking landscape is ever-emerging and has disrupted the digital financial space most innovatively. There are around 272 neo banks across the globe (*The List of Neobanks and Digital Banks in the World in 2023*, n.d.) and the industry is projected to reach \$556.66 billion by 2027 at a CAGR of 47.2% (*Neobanks*, 2023). This rise in the adoption of neo banking is attributed to the increase in smartphone penetration, access to the internet, focus on customer-centric products, faster and paperless onboarding, and user-friendly in-app operations. Neo banks

have achieved a good customer base in developed countries like Europe, The UK, The USA, and Japan, while the emerging markets for it are the developing economies of the Asia–Pacific region (*Neobanking Market Size, Outlook, Scope And Industry Analysis Report 2023 To 2032*, n.d.), India being one of the highest adopters of FinTechs (*Financial Services Sector in India | Fintech Industry in India*, n.d.).

Figure 1 represents the key players in neo banking industry. The major brand share is enjoyed by Cash app followed by Revolut, headquartered in the UK.

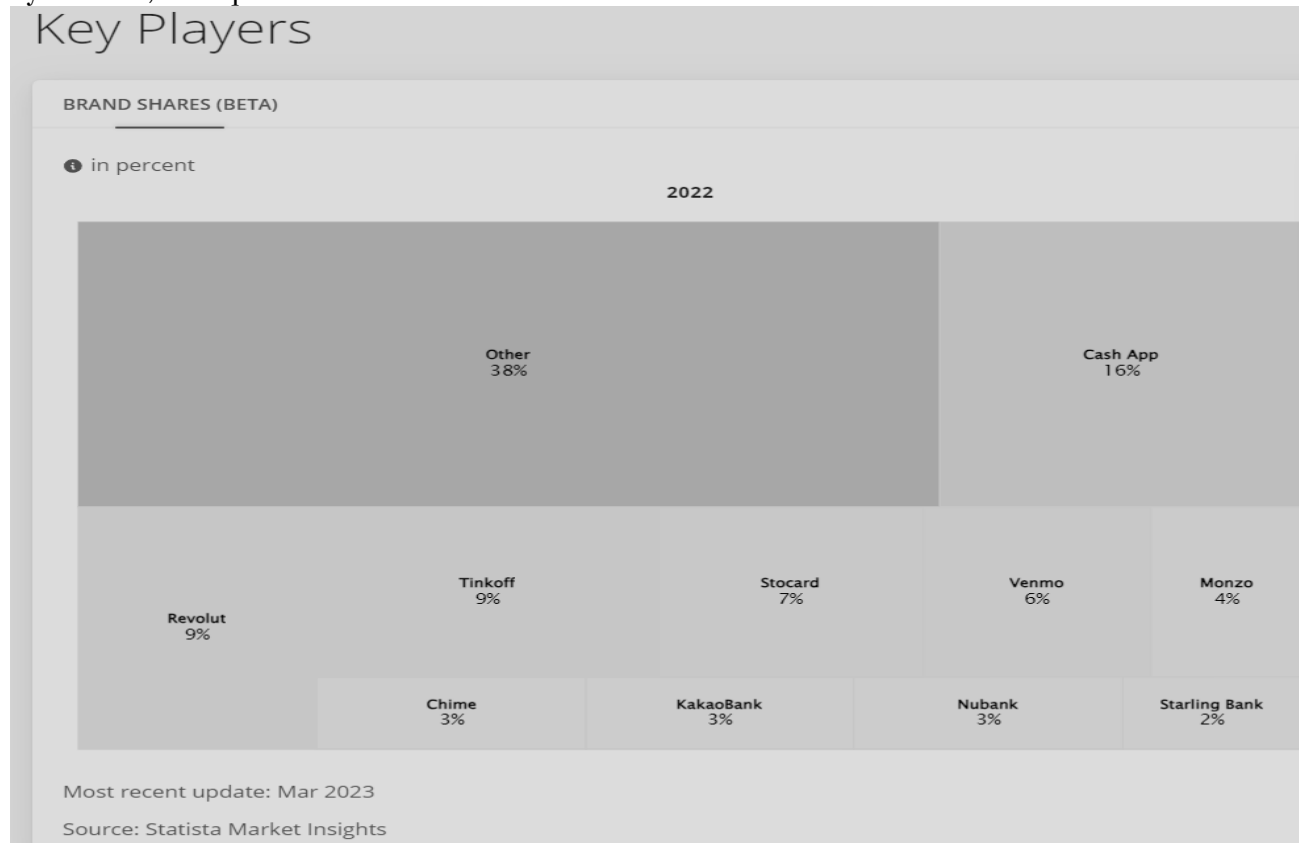


Figure 1 (Source: Statista market insights, 2023)

The user base of neo banks has seen a continuous and steady rise since the year 2017 and is expected to have a user base of 338.10 million users globally by the end of 2025, whereas the transaction value is expected to reach 7.63 trillion dollars as presented in *Figure 2* and *Figure 3* respectively.

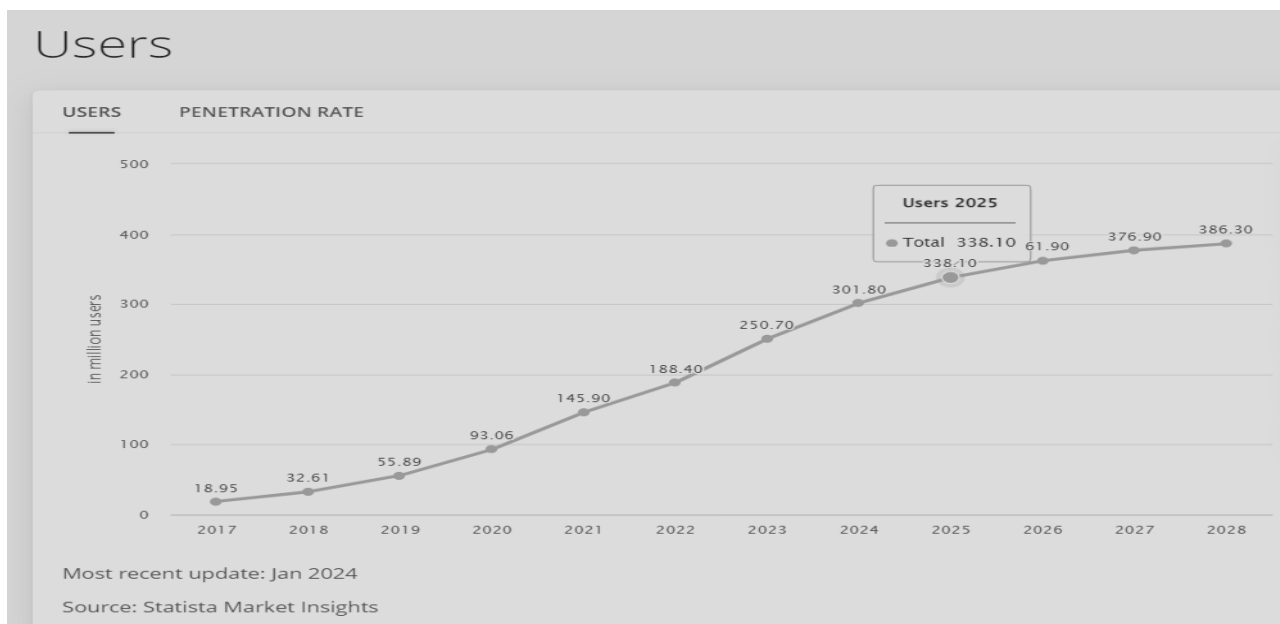


Figure 2 (Source: Statista market insights, 2024)

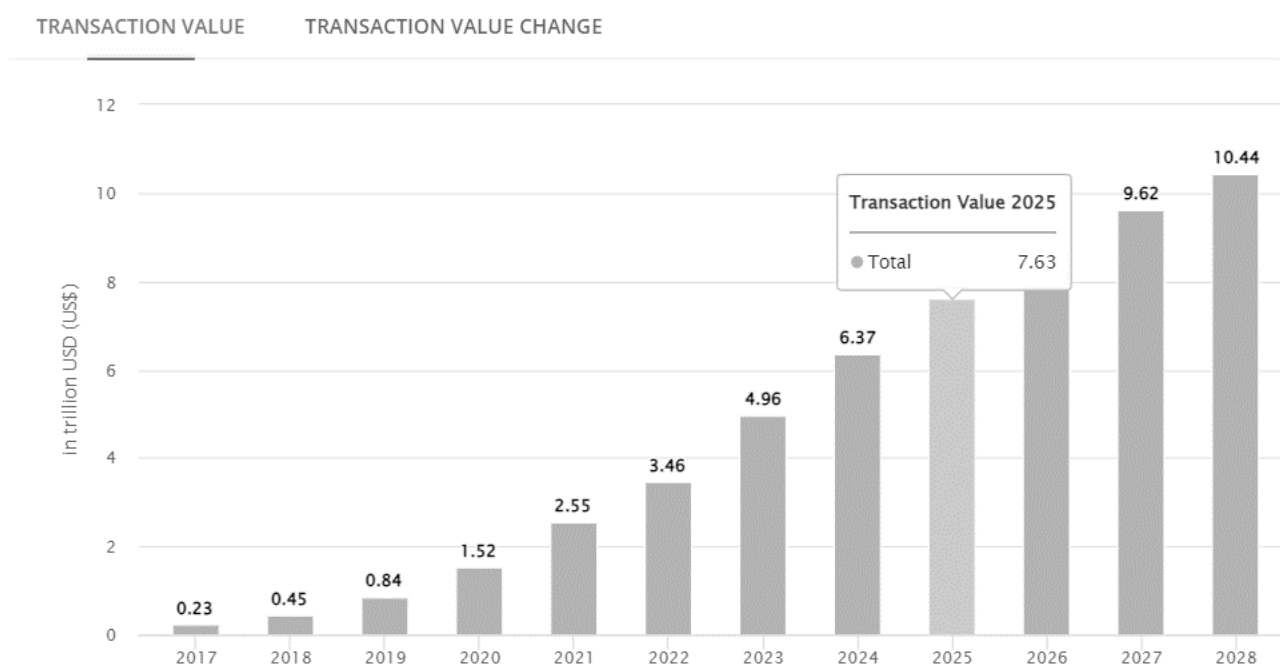


Figure 3 (Source: Statista market insights, 2024)

The global trends indicate continuous growth in the user penetration rate which is one of the reasons for an increase in the transaction value as well.

Despite the similarities in the product offerings across the globe, not all neo banks enjoy the same level of success or profitable business operations. The popular and big neo banks are set up in developed countries like the United

Kingdom, and have a huge customer base and profitable business operations while neo banks in developing countries like India are still struggling to achieve a decent customer base & profitability.

Both these countries have a strong foundation of traditional banking setup and similar regulatory framework for setting up a neo bank, however, the licensing framework differs in the UK, where neo banks can avail a full-fledged banking license, while neo banks in India has to work in partnership with traditional banks and operate as “front end only neo banks”.

Research Methodology

The study is based on secondary data analysis. The study will compare a developed country - the UK and a developing country – India. The UK is considered the pioneer for innovations in the mobile banking space and its capital city London is the top global financial center (Jones, 2024), was the first country to introduce the concept of Regulatory Sandbox for Fintechs in the year 2015 (Goo & Heo, 2020) and India is the second fastest adopter of Fintech and ranks second in the world with most numbers of people having a neo banking account (Kadar, 2022) are considered for comparison in this study. Neo banks in both countries offer similar services and target the same customer base – teenagers, SMEs, and retail. On the regulatory grounds, testing of FinTech products in a controlled environment setup named Regulatory Sandbox is used by both countries.

To compare the neo banking scenario in the UK and India, available literature in the form of research papers, Government policies, and websites of nodal institutions, blogs and articles were extensively studied and the key similarities and differences in this sector were understood to know what process should be implemented by developing countries achieving success in neo banking adoption among its people.

The comparison aims to bring out the key factors that play a major role in making neo banking flourish in India, when compared with the UK.

Research Objectives

1. To understand the penetration of neo banks in both countries.
2. To understand the growth rate of neo banks in both countries.
3. To understand the changes in policy regulations to accommodate the disruption in the financial ecosystem observed in both countries.

Neo banks in the United Kingdom- An Overview

The advent of online banking in the UK ways back to 1983 when The Bank of Scotland became the first bank in The UK to offer internet banking services called Homelink (England, 2022a) and later in 1997, it launched a complete Internet banking service enabled via text (*History of Mobile Banking – How It All Started? | Finanteq*, n.d.). The Bank of Scotland again took the lead and launched the world's first mobile banking app for smartphones in 2007 and since then, The United Kingdom has been considered to be a frontrunner in neo banking industry as well, with the launch of Tinkoff Bank in 2006 in Russia (European Union), which is the first neo bank in the world. The success of Tinkoff was followed by the launch of Starling Bank in 2014, Atom Bank, Revolut, and Mozo in 2015 which were particularly headquartered in the UK (Redesigning Financial Services, 2022).

The rise of neo banks in the UK is attributed to the lack of trust among consumers in the traditional banks after the global financial crisis of 2007-08 (Arun et al., n.d.), low-cost services and ease of use of neo banking applications. The majority of the neo banking users are under 34 years of age group (*Monzo Revenue and Usage Statistics (2024)*, n.d.). The UK has the second-highest user penetration rate in the world as shown in *figure 4*:

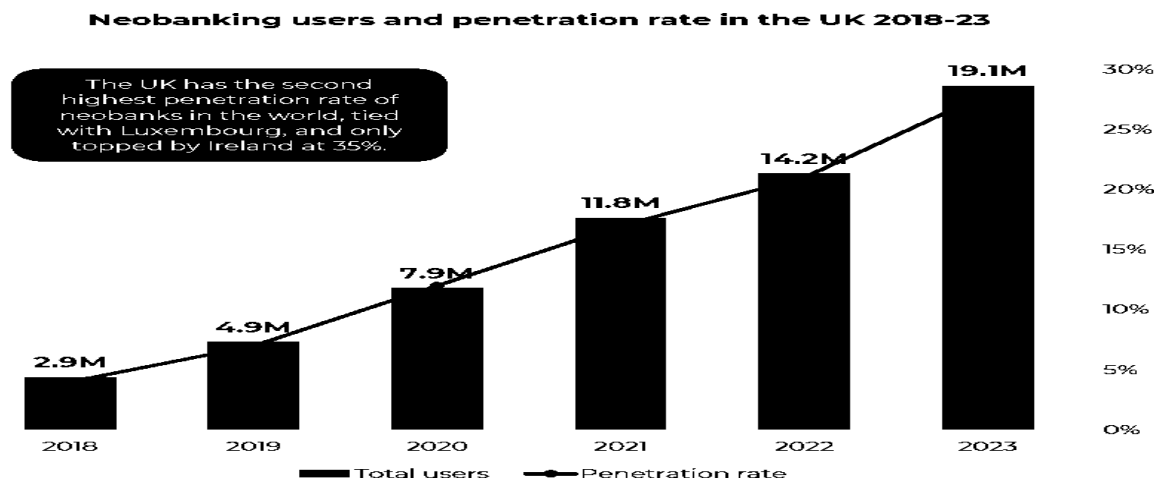
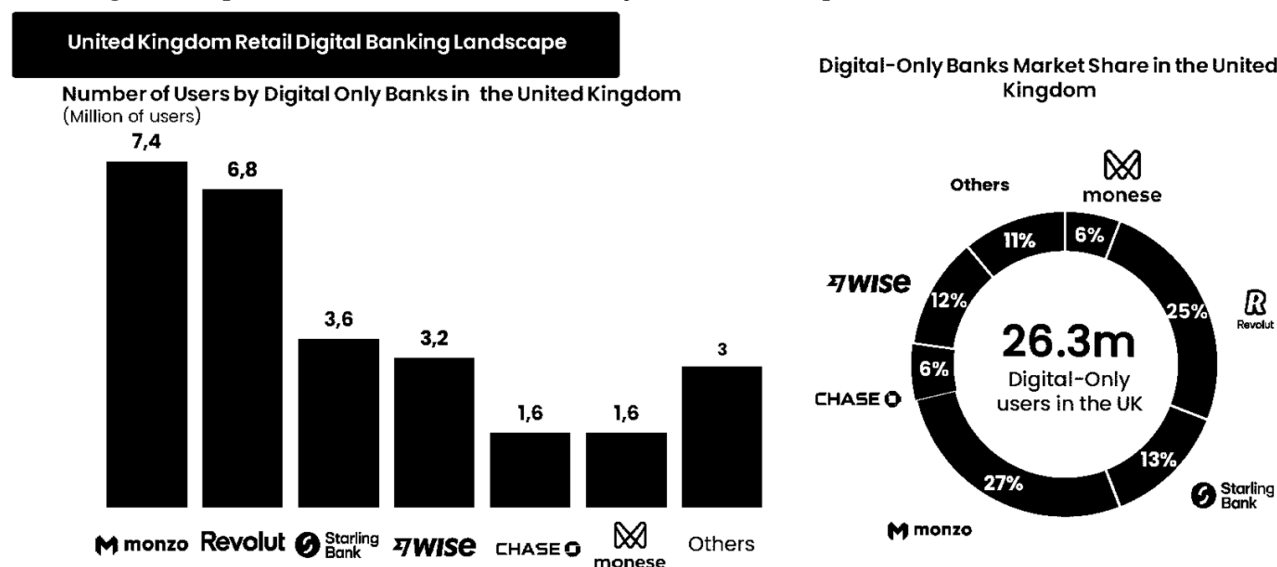


Figure 4 (Source: Statista, Digital market insights: Neo banking UK, 2023)

The major players in the UK neo banking market are Monzo with 7.4 million users, followed by Revolut and Starling bank. *Figure 5* represents the user base of the major neo banks operational in the UK.



Source: C-innovation data, and Finder research. 2023

Figure 5 (Source: C- innovation data, 2023)

Technological advancements in the UK have enabled digital challenger banks to establish their business and have given tough competition to the traditional banking sector, so much so that there has been a decline in employment opportunities in the traditional banks leading to layoffs of the bank employees. Apart from digitalization, changes in regulation and the economic environment, changes in customer's preferences and behaviors are the major challenges faced by the UK banking sectors (Erin Maddren, June 2023).

In response to the evolution in the banking sector, major players of the UK traditional banking segment have started partnering with FinTechs to expand their digital presence, reducing their physical branches and restructuring their operations, thereby reducing costs and increasing the profitability (Erin Maddren, June 2023).

There are 29 neo banks operational in The UK as of June 2024, all of them having a full stack banking license. The target market of these neo banks can be largely categorized as follows:

- All Adults (Generation X, Millennials and Generation Z)
- Teenagers
- Business houses (MSMEs and corporates)

Figure 6 represents the snapshot of operational neo banks based on their target audience:

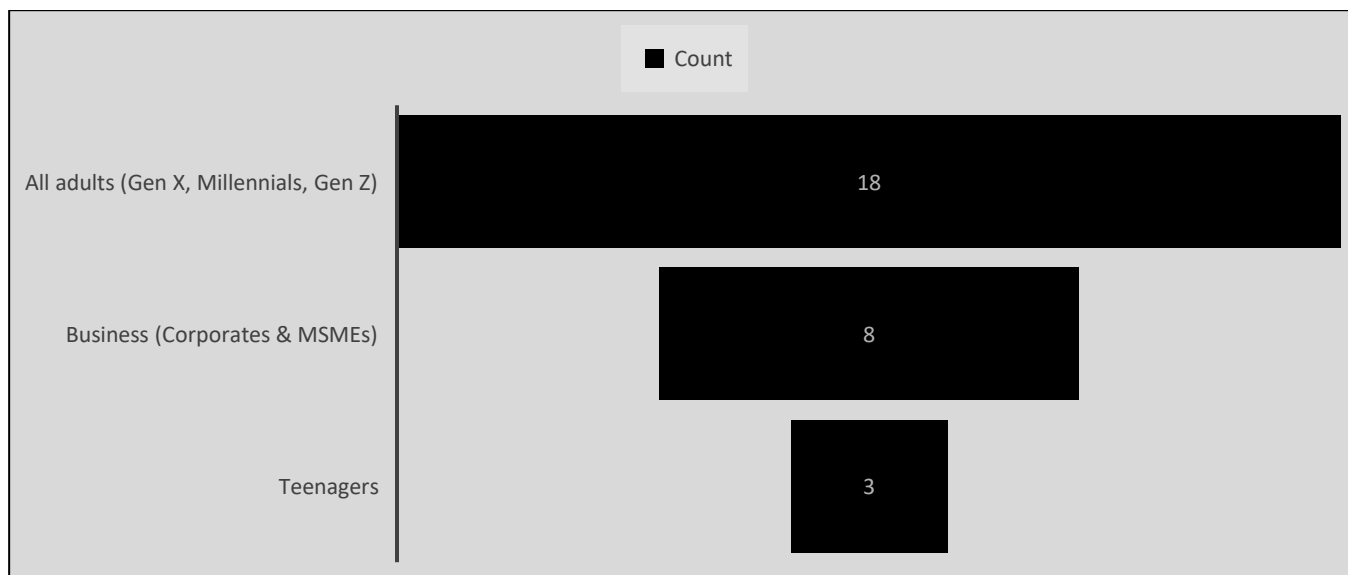


Figure 6 (Authors own)

Neo banks in India- An Overview

Neo banks in India are progression to mobile and online banking technology. Neo banking in India started in 2013 with the launch of Insantpay and RazorpayX applications (*Neo Banks in India*, n.d.). The evolution of neo banking in India is presented in Figure 7:

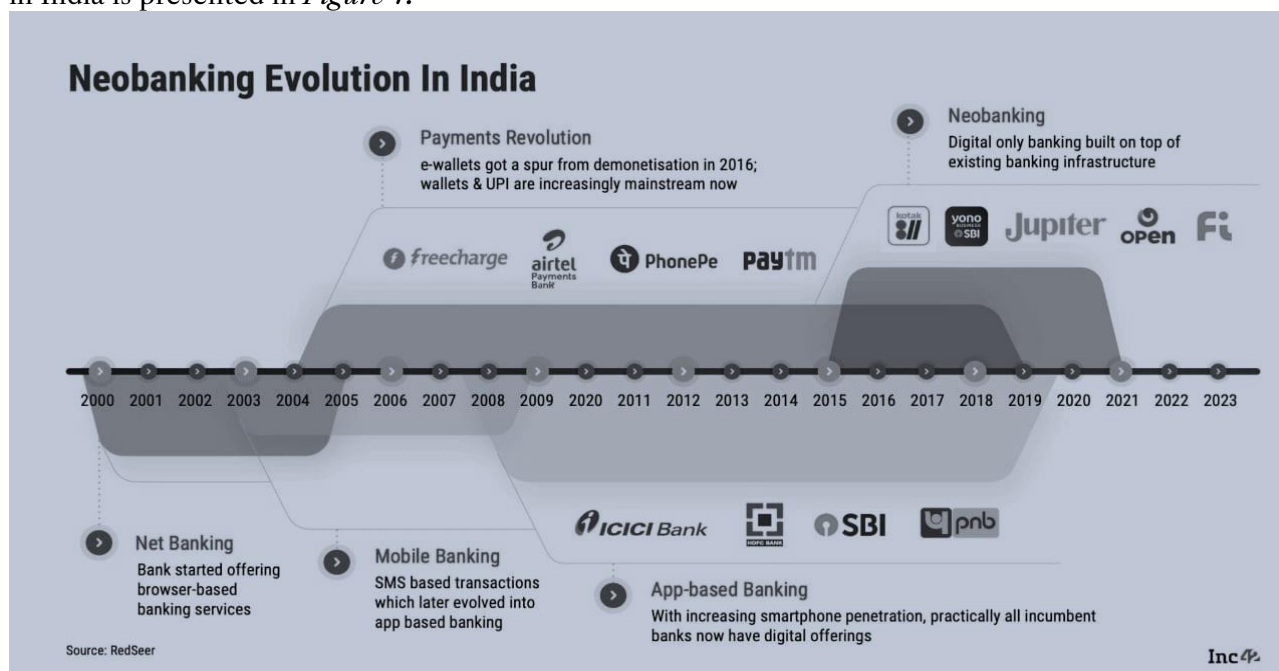


Figure 7 (Source: RedSeer, n.d.)

Neo banks in India form a part of the “Banking as a Service”(BaaS) model which allows nonbanks (like FinTech and even non-FinTech Businesses) to provide banking services through a tie-up with traditional bank’s via Application Programming Interface (API). This allows them to build their own features as a layer on top of the existing banking services.

Neo banks are expected to have a customer base of 21.75 million users by 2028 (*Neobanking - India / Statista*

Market Forecast, n.d.) The increasing popularity of neo banks in India is the youth population of India, 50% of whom are below the age of 28 years, and the fact that India is home to 190 million underbanked and unbanked population (*Fintech Sector Is Catalysing India's Growth Story among Unbanked Population* / *Zee Business*, n.d.) and the fastest growing gig economy in the world.

India stands second in the world with 37.1 crore (26% of the population) having a neo bank account after Brazil, which stands first with 43% of its population having a neo bank account (Kadar, 2022)

The growth of neo banks in India is accelerated by MSMEs and tech-savvy millennials. There are 633.9 lakh MSMEs in India (Tambe, 2023), having limited access to formal credit services and majority of the neo banks are targeting this segment to increase business opportunities. Traditional banks are expanding their reach to these sectors by partnering with neo banks. Federal bank, a private sector bank, opened 3 lakh accounts via partnering with neo banks (*Federal Bank Opens 300,000 Accounts with Neo-Bank Partners*, n.d.), which clearly indicates that it's no longer "Neo banking Vs. Traditional Banking" it is "Neo Banking with Traditional Banking" in India.

In India where women are considered to be less active in financial decisions, is also considered a potential market for neo banks to grow. It is estimated that by catering to the needs of females in India, banks and other financial institutions can add upto \$700 billion in yearly revenues (*The Role of Financial Education in Empowering Women via Inclusive Finance - ET Edge Insights*, 2024). The lack of female contribution in making financial decisions is a result of low financial literacy and confidence. The gap of financial literacy among females can be achieved by spreading awareness among women through door-to-door campaigns, making them more active in the usage of financial products.

India has seen active participation from private sector banks in partnering with neo banks to provide a better banking experience to its users, however, the public sector banks have not still shown much enthusiasm in partnering with neo banks.

The biggest public sector bank in India – State Bank of India (SBI) launched its digital arm, SBI YONO in 2017, to increase its online market presence and it is considered to be the biggest neo bank in India with a customer base of 5 Cr users (www.ETBFSI.com, n.d.-a).

The launch of digital arms was followed by Kotak bank- a private sector bank, and it launched Kotak811, a neo bank giving an ode to the Demonetization date in India (migrator, 2017). Kotak811 had a customer base of 21.3 million customers as on 2022 (Chandani, n.d.).

The success of the digital arms of Indian native banks was followed by DBS bank, a Singapore based bank, that launched its digital arm- digibank in 2016. Digibank onboarded 1mn customers in a year of its launch (*Banking without Branches, DBS Digibank India Gains 1m Customers in a Year*, n.d.).

Apart from the digital arms of these digital arms or termed as "Autonomous unit of traditional banks", as termed by NITI Aayog, majority of the neo banks in India are "Front- End only neo banks", while the licensing for "Full – Stack banking license" is not permitted by the Regulators.

There are 45 neo banks operational in India as of June 2024. The target market of these neo banks can be largely categorized as follows:

- Womens
- All Adults (Generation X, Millennials and Generation Z)
- Couples
- Teenagers
- Dairy sector (dairy farmers and dairy value chain)
- MSMEs
- Corporate houses

Figure 8 represents the snapshot of operational neo banks based on their target audience and partnering banks:

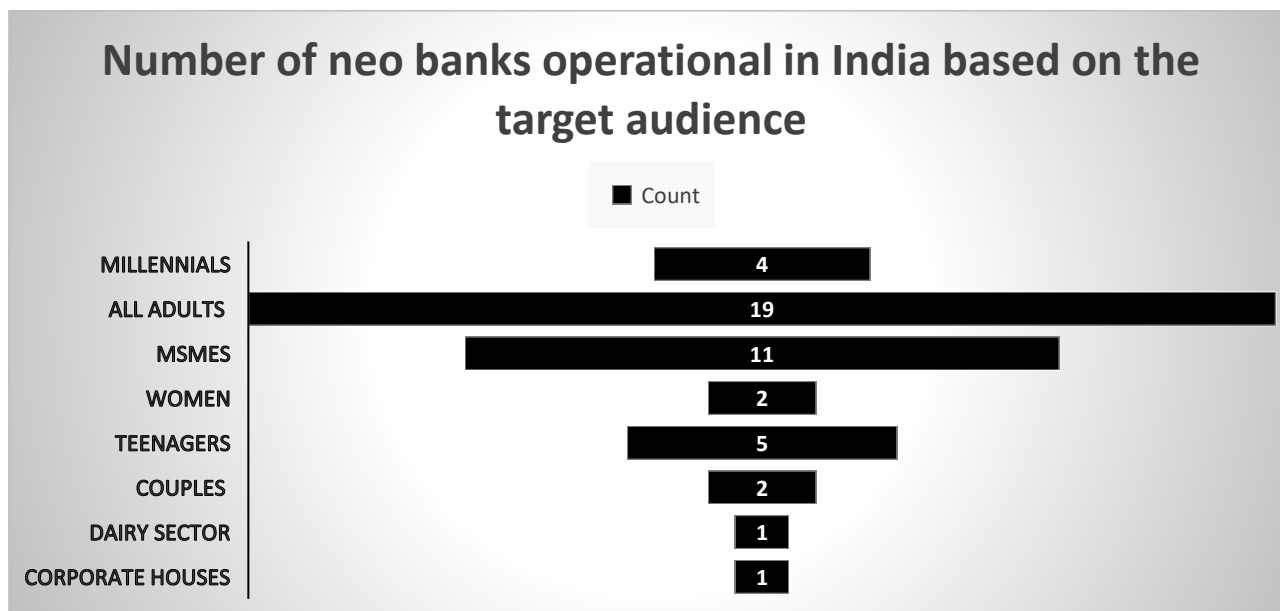


Figure 8 (Authors own)

Partnering bank/ financial institution(FI)	Target Audience							
	Millennials	All Adults	MSMEs	Teenagers	Dairy Sector	Corporate houses	Women	Couples
Private Sector Banks	*	*	*	*	*	*		
NBFCs			*				*	
Venture Capitalists		*	*	*				*
Public Sector Bank		*	*					

Table 1

As per figure 7, 42% of the neo banks cater to all customer segments, while 24% of neo banks focus exclusively on MSMEs, and 11% target teenagers.

Table 1 summarizes the partnerships done by banks and financial institutions based on the target audience. It can be observed that private-sector banks are eager to enter lucrative segments via neo banks to increase their customer base and brand value, while PSU's are still very selective in partnering with neo banks and are targeting a safer audience, including MSMEs and adults across all age groups and professions.

Table. 2: *Neo banking Comparison: India & the UK*

Particulars	Neo banking in the UK	Neo banking in India
Licensing framework	<p>Licenses are of two types:</p> <ul style="list-style-type: none"> - Front end focused neo banks - Full stack banking license <p>To start a neo bank, companies need to partner with a licensed and legacy bank or apply for a full stack banking license.</p>	<p>Licenses are of three types:</p> <ul style="list-style-type: none"> - Front end focused neo banks - Full stack banking license - Autonomous body of traditional banks. <p>Full stack banking license is not yet allowed.</p>

Particulars	Neo banking in the UK	Neo banking in India
	Allows the option to have a full stack banking license (Arun et al., n.d.)	Has to partner with a licensed legacy bank. The autonomous bodies of traditional banks have also gained success in India and are more popular.
Regulation	<p>The regulatory authorities are:</p> <ul style="list-style-type: none"> - Financial Conduct Authority (FCA) - Prudential Regulatory Authority (PRA) <p>PRA takes care that financial safety and soundness of banks while FCA takes care of how the neo banks treat customers. The policies laid by these two authorities is to be followed by neo banks.</p> <p>To obtain the full stack banking license, a neo bank needs to fit in the category of “Challenger bank” (Tomych & Company, n.d.). This implies that upon getting a full stack banking license, a neo banks becomes a challenger bank.</p>	<p>Neo banks in India are not directly regulated by the Reserve Bank of India (RBI). The traditional bank they partner with are regulated by the RBI and follow all the policy guideline laid down by the RBI while partnering or launching neo bank.</p> <p>RBI is in the process to streamline the regulations for FinTechs, and has issued a draft frame work for FinTech Self-Regulatory Bodies (SRO) (<i>Rbi Fintech Sro: RBI Issues Draft Framework for Fintech Self-Regulatory Bodies - The Economic Times</i>, n.d.).</p> <p>The purpose of this SRO is to establish standard policies/ protocols for the FinTechs and to keep a check on the timely enforcement of the same and to keep a track of customer grievances redressal and dispute resolution (Bureau, 2024).</p>
Regulatory Sandbox	<p>Regulatory Sandbox (RS) in UK is regulated by the FCA. Following are the features of regulatory sandbox (<i>Regulatory Sandbox</i>, 2022):</p> <ul style="list-style-type: none"> -There is no minimum capital requirement mentioned for the applicant to participate in the RS and the applicants can be done throughout the year. - The new ideas can be tested among its consumers for a short period of time to assess the viability of the project. <p>Time scales in RS:</p> <ul style="list-style-type: none"> - Assessment of the application takes 2 to 3 weeks. - Panel review of the product takes 8 	<p>Regulatory Sandbox (RS) in India is regulated by the RBI. Following are the features of regulatory sandbox (<i>Reserve Bank of India - Reports</i>, n.d.):</p> <ul style="list-style-type: none"> - The applicant should have a minimum net worth of Rs. 50 lakh for applying in RS and the application are theme/ sector based. - A satisfactory Credit score and the conduct of the bank accounts of the applicant is required. - The Financial inclusion goals of the RBI are also considered while testing the product. <p>Time scales in RS:</p> <ul style="list-style-type: none"> - Preliminary screening of idea takes 4

Particulars	Neo banking in the UK	Neo banking in India
	<p>to 12 weeks.</p> <ul style="list-style-type: none"> - Time to issue Sandbox tool if the authorization is restricted is 6 to 12 months. -The testing period runs for a maximum of six months. 	<p>weeks.</p> <ul style="list-style-type: none"> - The test plan designing takes 3 weeks. - The assessment of the application takes 3 weeks. Regulatory modifications if required are suggested at this stage. - Testing of idea, that includes close monitoring of the test takes 12 weeks. - Evaluation of the idea takes 4 weeks. <p>The viability of the idea is communicated at this stage.</p> <ul style="list-style-type: none"> - The applicant may require further regulatory approvals before launching the product/ services in the market.
Services offered	<ul style="list-style-type: none"> - Savings account - Tax payments - Virtual debit/ credit cards - FOREX transfers - Spend Analyzer - Loans - Investments options - Money transfer - Making Donations - Insurance 	<ul style="list-style-type: none"> - Pay roll management - Airport lounge access - Utility bill payment - Expense split - Investment options - Loans - Savings account - GST payments - FOREX transfers - Virtual debit/ credit cards - Insurance
Target customer	<p>The target market is small businesses, teens & millennials.</p> <p>Neo bankers have set this target market based on the notion that the millennials are more tech friendly and the best potential consumers of digital applications.</p>	<p>Neo banks are targeting teens (students), millennials, MSMEs and couple and women's.</p> <p>The have been efforts to spread financial awareness among women's and teenagers and thereby making them use the neo banking applications.</p>
Marketing strategy	<p>Neo banks uses TV advertisement, social media, word of mouth and referral marketing strategies, community building and brand – bidding (Yurcan, 2022) to acquire customers.</p>	<p>Use of community building, social media marketing, push by bank branch, sponsoring events, word of mouth, newspaper ads and referral strategies are used.</p>
Profitability	<p>The major neo banks in UK namely, Monzo (Browne, 2023), Starling (<i>Starling Reports Six Fold Increase in Profits - Starling Bank, n.d.</i>) & Revolut (<i>Revolut Invests in Future Growth as Revenue Tops \$1bn in 2022; Expects to Hit \$2bn in 2023, 2023</i>) has achieved profits after struggling in the initial years of launch. One of the reasons for it can be the consumers in UK are preferring to</p>	<p>None of the front end only neo banks in India have achieved profits.</p> <p>Customer acquisition a retention plays a major role in hitting profits, which is still a big challenge for neo banks.</p> <p>Indian consumer has a primary bank account with a traditional bank and depends heavily on it for daily financial activities.</p>

Particulars	Neo banking in the UK	Neo banking in India
	have neo bank account as their primary account.	
Industry growth projection	The neo banking industry is expected to grow at a CAGR of 12.85% by 2028 (<i>Neobanking - United Kingdom / Statista Market Forecast</i> , n.d.) .	Indian neo banking market is expected to grow at a CAGR of 14.61% by 2028 (<i>Neobanking - India / Statista Market Forecast</i> , n.d.) and this growth will be accelerated by the millennials (www.ETBFSI.com, n.d.-c).
Investor Funding	Globally, the funding in the FinTech segment has dried up significantly impacting the neo banks. As neo banks in UK have full stack banking license they can opt for IPO or sustain on their own profits.	The decrease in the global fintech funding by investors, it will be difficult for neo banks to survive in the long run as none of the neo banks have achieved profits nor they can opt for IPO, their only ray of hope.

(Source:Authors own)

FINDINGS

Neo banks in both countries offer a similar range of products and are targeting almost a similar group of customers based on the strata of people who have limited access to financial services or are considered to be early adopters of digital innovations. The growth prospects of the industry are also along the same lines, presenting a positive road ahead for neo banks. The neo banks in the UK has a user base of 26.3 million, capturing 38% of its total population with a positive growth at a CAGR of 12.85% by 2028. As per a report, the neo banks in The UK will capture more than half of UK's digital banking users predominantly targeting the adult population (*The UK Digital-Only Banks Report*, n.d.). While Indian neo banks have a user base of 37.18 million, capturing 26% of its total population with a growth prospect of 14.61% CAGR, indicating the potential to capture the untapped market.

The advertising strategy in both countries aims to reach the masses by promoting their products on social media (*Sideways*, n.d.) and sponsoring of sports events. In India, educational campaigns are organized to spread awareness among females regarding financial literacy. A neo bank named LXME, targeting female customers provides step-by-step guidance over a call by a financial expert on how to onboard the app and start basic investing. It has been observed that the autonomous unit of traditional banks gets the added advantage of the brand name of the traditional bank and recommendations from the bank staff for using its digital bank. Apart from this, the co-branding strategy of neo banks in which they partner with a traditional bank to launch credit/ debit cards has strengthened their brand equity, widening the customer base (Mogaji, 2023).

Inferences from secondary data show that the UK's neo banks, having the advantage of full-stack banking licenses, can offer more products compared to the neo banks in India. The freedom to offer varied products has helped in attaining profitability and spreading their business operations in other major developing and developed countries. The profits from business operations not only help the neo banks to lower their dependency on external investors to sustain their business but also help in building a better brand image and opt for IPOs.

There has been evidences of neo banks being shut down due to a lack of investor funding, both in India and the UK, reinforcing the need to be self-sufficient in terms of funding business operations to be a crucial aspect. Neo banks like Akudo (www.ETBFSI.com, n.d.-d), Yelo, Walrus club in India, and Bank North in UK (England, 2022b) had to discontinue their operations due to a lack of investor funding.

There are a handful of neo banks in India namely – OcareNeo, flashpay, Pencilton, Payzello, that were about to launch their applications but disappeared mid-way, a probable reason for the same can be a lack of investor funding, finding the correct product- market fit (Dadan et al., 2022), or regulatory barriers (Finextra, 2023) that forced them to drop the idea of launching its application. Here, the partnering of neo banks with traditional banks can be a blessing in disguise as the traditional banks have huge capital and risk appetite to support neo banks, which ultimately increases their customer reach.

In response to the non-availability of full-stack banking licenses in India, neo banks have started applying for NBFC

licenses, and payment aggregator licenses to scale their business and offer loans on their own books, thereby building their asset base (Bhakta & Mittal, 2023). To date, two neo banks in India namely – Jupiter (*Jupiter Nbfsc - General / QnA*, 2023) and FI (“Neobanking Startup Fi Secures NBFC Licence from RBI,” 2024), has been approved for the NBFC license by the RBI. If all the neo banks opt for NBFC licenses, the existence of neo banking industry will be a big question mark in India.

The trust factor of consumers for neo banks remains a matter of concern among innovators. Customers in India would choose to visit a bank branch for a personal interaction regarding their finances which is evident from the number of increase in bank branches in India. As per a report, the bank branches of private sector banks have increased from 14,893 to 161,89 within the financial year ending March 2022 (www.ETBFSI.com, n.d.-b). In contrast to this, there has been a significant decrease of about 60% in the UK bank branches in the last 8 years, ending December 2023 (*60% of UK Bank Branches Have Closed in 8 Years - Chris Skinner's Blog*, n.d.). This implies the preference and trust of Indian consumers for branch banking and personal interaction over the digital format, which can be a hindrance for the neo banks.

Neo bankers face the challenge of changing how Indian consumer banks and this trust for digital banking can be instilled among consumers only through proper guidelines and positive support from the regulators. While the regulations are already in place in the UK, the Indian regulators are now emphasizing streamlining the process and rules to be followed by FinTechs to avoid non-compliance by the companies through the FinTech self-regulatory body (SRO), this autonomous body will act as a representative of FinTechs, contributing to their growth and evolution (*Reserve Bank of India - Reports*, n.d.).

The setting up of IFSCA, a center to facilitate trade and finance between India and other countries, and the signing of FinTech agreements with the UK and Singapore to boost innovation in digital space will give a new direction to the innovators and more neo banks like Revolut and Tide will enter Indian markets giving more competition to existing neo banks, and making them offer a variety of customized products at a competitive price to the consumers. The change in regulations has disrupted the neo banks in the UK and India. With more importance given to streamlining FinTechs in India, the regulators' belief that FinTechs are here to stay and flourish is evident. The recent compliance and regulatory developments in the FinTech ecosystems are seen to be a positive sign for the development of this ecosystem in the long run (Sharma, 2025), making the FinTechs ecosystem more robust, which in turn will instill more trust among the end users.

Whereas in the UK, Brexit has changed the strategic and operational dimensions of the neo banks. Post Brexit, UK neo banks lost automatic access to European markets, and many of the neo banks have to now focus only on domestic markets. Many prominent players of the UK neo banking have started applying for a banking license in other countries to expand their business, which has impacted the operational cost for many neo banks.

RECOMMENDATIONS

On the regulations front, granting a full stack banking license can prove to be a game changer for neo banks, as starting and operating a neo bank in a region where the regulatory environment is restrictive & rigid would be very inconvenient. Europe, in this matter, has easier regulatory mechanisms, and its regulatory support in the form of Payment Services Directive Law has helped in the emergence of multiple Neobanks in Europe whereas, China, by 2025, is expected to become one of the biggest players in the Neobank market. (Finfan, n.d.). Apart from the UK, a full-stack banking license is provided in other developing countries like Europe, The USA, and developing countries like China. Taiwan and Hongkong were the first to grant stand-alone first ones to grant stand-alone neo banking licenses in Asia in the year 2019 (Finfan, n.d.).

The set-up of Regulatory Sandbox in India is a positive step taken towards the overall betterment of FinTech industry. Still, a further relaxation of the minimum capital requirement and credit score of applicants required for registering in the Regulatory Sandbox should be provided to encourage more and more innovators to participate in the FinTech ecosystem. But these relaxations should not be at the cost of the robustness of the regulations.

MSMEs are a huge untapped market in India (633.9 lakh MSMEs) and have growth potential for neo banks. The neo banks in India should increase their presence among the MSMEs by spreading awareness of their products and services to the new-age entrepreneurs who are more tech-savvy. The penetration among MSMEs can be further boosted by targeting businesses registered with the Start-up India platform.

Another untapped market for neo banks that can build the long-term profitability and sustainability path for neo banks is the emergence of the gig economy in India (to reach 2.35 Cr by 2030 as per NITI Aayog report) and the increasing financial independence among women. More products & services can be designed to cater to the

financial needs of this strata.

Neo banks can also target the growing dairy sector of India. There are over 75 million dairy farmers in the country ("Neo Bank for Dairy Sector Raises \$3 Mn," 2021) and as explained in *figure 7*, as of now only one neo bank is catering to this segment. The dairy industry in India contributes to 24.64% of global milk production and India ranks first position in the world (*Dairy Industry In India - Growth, FDI, Companies, Exports*, n.d.), can be a good opportunity for neo banks to expand.

One more factor that is crucial for the growth of neo banks is instilling trust among its end users that the applications they are using are safe to use in all regards. In a country that is heavily dependent on traditional banks and their regulators, trust can only be built when these autonomous bodies are of a positive opinion of the neo banks. By fast-tracking the setting up of SRO-FT, the compliance part will be taken care of and the neo banks can save themselves from penalties arising out of non-compliance with regulations.

Another landmark in this area is the set-up of the Digital India Trust Agency (DIGITA) to verify the authenticity of digital lending apps and save users from fraudulent lending apps (*RBI Bets On Digital India Trust Agency (DIGITA) To Verify Digital Lending Apps*, n.d.). Once launched, these autonomous bodies will boost the confidence of end users.

Apart from this, the involvement of public sector banks in partnering with a neo bank can give a big boost to this industry. Most of the neo banks are backed by private sector banks, while the PSUs are more interested in launching their neo bank as an "autonomous body of the traditional bank". With the support and creditworthiness of these PSUs as a partnering bank, neo banking in India can achieve greater heights.

MANAGERIAL IMPLICATIONS

The study will contribute to the thin literature available on the neo banking industry in India and it will also help the neo bankers to understand the point of difference existing in this industry in other countries as compared to India. The study gives a brief about the course of action taken by the regulators in anticipation of the disruptions already faced by developed countries and how the neo bankers can build their products considering the regulatory requirements.

CONCLUSION

The UK was the early adopter of neo bank, India too has picked up the pace and is now standing alongside the leading developed countries in the adoption of neo banks. Neo banking industry in both countries is evolving at a fast pace, striking a balance between innovation and regulation of their respective countries. There is still a huge untapped market that needs to be catered to in both countries' presenting a bright picture of this industry. While the regulations to encourage industry growth are already in place in developed countries, it is still a wait-and-watch game for neo bankers in India, as it will shape the entire future of this industry in India and provide a real picture of where neo banking stands in the coming years in India.

The neo banks in India are use case-based, and in the long run, the partnership between traditional banks and FinTech's will impact positively to the overall financial goals of the country.

LIST OF ABBREVIATIONS

Abbreviation	Full description
FinTech	Financial Technology
WealthTech	Wealth Technology
RegTech	Regulatory Technology
InsureTech	Insurance Technology
FOREX	Foreign Exchange
AL and ML	Artificial Intelligence and Machine Learning
BNPL	The Buy Now Pay Later
GST	Goods & Service Tax
The UK	The United Kingdom
The US	The United States of America
MSME	Micro, Small & Medium Enterprises
BaaS	Banking as a Service

API	Application Programming Interface
RBI	Reserve Bank of India
FCA	Financial Conduct Authority
PRA	Prudential Regulatory Authority
SRO	Self – Regulatory Bodies
IPO	Initial Public Offering
IFSCA	International Financial Services Centers Authority
DIGITA	Digital India Trust Agency
PSU	Public Sector Bank
NBFC	Non-Banking Financial Company
FI	Financial Institutions

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