CHAPTER 3

A Comparative Study of Inclusive Banking through Neobanks and Traditional Banks in India

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ABSTRACT

The study titled A Comparative Study of Inclusive Banking Through Neobanks and Traditional Banks in India examines how different banking models contributed to financial inclusion. The objectives are to analyze adoption behaviour and usage patterns of neobanks and traditional banks, to evaluate the influence of demographic factors on banking choice, and to compare effectiveness in terms of accessibility, convenience, cost, and trust. A descriptive and comparative research design was adopted. Primary data collected from individual banking customers in India through a structured questionnaire using convenience sampling, while secondary data is sourced from RBI reports, journals, and bank websites. The study concludes that adoption was influenced by usability and trust, demographic factors affected preferences, and both banking models displayed distinct strengths and limitations overall.

Keywords: Neobanks, Financial inclusion, Inclusive banking, Digital banking, Banking preferences.

1.0 Introduction

Financial inclusion is one of the major contributors to the development of the economy and society as a whole. Financial inclusion is the availability and affordability of financial services to everyone in society. The traditional banks have made significant contributions towards the development and promotion of inclusive banking in India through the opening of new branches and initiation of new programs that promote inclusive banking in India.They have made their customers feel secure. With time, technology has been advancing rapidly in India.

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DOI: 10.17492/JPI.DYPIU.052603 *ISBN: 978-93-49790-31-5*

The banking sector has changed dramatically due to the incorporation of technology. Neobanks have emerged as new entrants in the banking industry. They are digital banks that do not have physical branches but offer banking services through mobile apps and have partnered with licensed banks. According to studies, digital banking services are going to be used by the public if they find them easy to use and convenient and if they have some basic knowledge about them. The traditional banks are safer compared to neobanks. On the other hand, demographics is an aspect that contributes to the adoption of digital banking services. However, few studies have been conducted on the comparison of the two banking models and how they contribute towards the promotion of inclusive banking in India. They have not taken into consideration the adoption of banking models, demographics of the population, and the effectiveness of banking models in aspects such as convenience, accessibility, cost, and trust. The study has been conducted with the hope of comparing the banking models and how they can be used towards the promotion of inclusive banking.

2.0 Literature Review

Financial inclusion is one of the most discussed terms, and it is considered the most important term in ensuring that all the consumers in society have access to financial services. Earlier studies have proved that the role of traditional banks in promoting financial inclusion in Indian society is significant in terms of banking presence, loans to priority sectors, and government programs (Kumar, 2019).

However, due to the technological revolution, banking has changed its face completely. Neobanks are the digital banking platforms that provide financial services without any physical presence and are available through mobile applications in association with the banks (PwC India, 2021). These digital banking platforms were introduced with the aim of providing easy access, speed, and low operating costs. Recent studies have proved that the adoption of these digital banking platforms by the consumers is due to factors like convenience, ease, and digital literacy (Shaila *et al.*, 2024).

Younger and educated individuals are more likely to use digital banking platforms because of their preference for speed and ease of service. However, various studies have proved that although neobanks are effective in terms of ease and cost-effectiveness, traditional banks are preferred over neobanks because of their higher level of trust and security (Kristu Jayanti College Study, 2025). The majority of individuals today prefer using both types of banks for their higher level of security provided by traditional banks and the ease of service provided by neobanks. Demographic factors such as age, income level, education level, and occupation level may influence the choice of banking. Younger, educated, and technology-savvy individuals are likely to prefer neobanks, whereas older

DOI: 10.17492/JPI.DYPIU.052603 ISBN: 978-93-49790-31-5

individuals and those living in rural areas are likely to prefer traditional banks because of their higher comfort and level of trust (Kumar, 2019; Shaila K. *et al.*, 2024). Although the existing literature has focused on financial inclusion and digital banking, there is a lack of literature that comparatively analyzes both neobanks and traditional banks in the context of India, considering the factors of adoption behaviour, demographic factors, and effectiveness in promoting financial inclusion in the Indian context. The present study, therefore, aims at addressing the knowledge gap in the existing literature by comparatively analyzing both neobanks and traditional banks in the context of India.

3.0 Methodology

The research is titled "A Comparative Study of Inclusive Banking Through Neobanks and Conventional Banks in India." The research is descriptive and comparative in nature. Descriptively, the research aims to identify the pattern of customers using neobanks and traditional banks. Additionally, the research aims to identify the demographic factors of customers using neobanks and traditional banks. Comparatively, the research aims to identify the differences between neobanks and traditional banks in the context of inclusive banking in India. The research is based on both primary and secondary data.

3.1 Objectives

- To identify the pattern of customers using neobanks and traditional banks.
- To examine the demographic factors of customers using neobanks and traditional banks.
- To evaluate the differences between neobanks and traditional banks in the context of inclusive banking in India.

The target audience of the research is the customers of banks in India, including students, employed people, self-employed people, and owners of small businesses. Because of time limitations, the research will be based on non-probability convenience sampling. The expected number of customers for the research is 20-25. The research will be based on both primary and secondary data. For primary data, the research will be based on a structured questionnaire. The conclusions will be drawn from the responses of the customers. The research again mentions the non-probability convenience sampling approach due to time limitations and the target audience of the research, which is the customers of banks in India.

4.0 Discussion

This chapter discusses how we analyzed our primary data collected. Our analysis is mainly based on customer perceptions of these new banks, referred to as neobanks,

DOI: 10.17492/JPI.DYPIU.052603 *ISBN: 978-93-49790-31-5*

compared to traditional banks. We used a total of 23 responses, including descriptive statistics, weighted mean ranking, and chi-square tests.

Table 1: Profile of Respondents

Category	Frequency	Percentage (%)
18 – 25	19	82.60%
26 – 35	3	13.00%
36 – 45	1	4.40%
Total	23	100.00%

Source: Survey

In terms of who our respondents were, it is evident that a vast majority of our respondents, about 82.6%, were aged between 18-25 years. This means that our study mainly focused on how young people perceive these new banks. The second group, aged between 26-35 years, accounted for about 13%. This group mainly comprises young professionals. The third group, aged between 36-45 years, accounted for about 4.4%.

Table 2: Adoption Behaviour and Usage Patterns

Usage Indicator	Primary Category	Frequency	Percentage (%)
Current Bank Type	Both (Hybrid)	12	52.20%
	Traditional Bank	7	30.40%
	Neobank	4	17.40%
Usage Frequency	Weekly	10	43.50%
	Daily	6	26.10%
Digital Adoption Level	Medium Level	13	56.50%
	High Level	10	43.50%
Primary Neobank Motivator	UI/UX & Speed	9	39.10%
Primary Traditional Bank Motivator	Trust & Branches	11	47.80%

Source: Survey

The high percentage of the younger population may be attributed to the fact that the younger population is increasingly using digital banking platforms. This population is generally more open to using innovative financial products such as mobile banking, digital wallets, and neobanks. They are the future users of digital banking products, and their opinions may be useful to predict the future trends in the adoption of digital banking products. The table indicates that 52.2% of the respondents use both traditional and neobanks, which implies that there is a growing interest in a hybrid approach to banking services. On the other hand, 30.4% of the respondents use traditional banks as their primary source of banking services, while 17.4% use neobanks as their primary source of banking services. Regarding the frequency of use of banking services, 43.5% of the respondents use banking services on a weekly basis, while 26.1% use them on a daily basis. Regarding the level of adoption of digital banking services, 56.5% of the respondents have a medium level of adoption, while 43.5% have a high level of adoption.

The findings indicate that 39.1% of the respondents prefer to use neobanks because of the UI/UX and speed of service delivery, while 47.8% prefer traditional banks because of the trust and availability of branches. The findings indicate that customers prefer the speed and convenience offered by neobanks, while traditional banks are preferred because of their trust and availability of branches.

Table 3: Chi-Square Test Results

Factor	Chi-Square Value (χ^2)	p-value	Result
Age	2.471	0.65	Not Significant
Income	7.133	0.522	Not Significant
Education	6.441	0.375	Not Significant
Occupation	7.275	0.296	Not Significant

Source: Survey

A chi-square test was used to assess whether there is a relationship between demographic variables and the choice between neobanks and traditional banks. From the results, it can be seen that the p-values for all demographic variables are higher than the significance level of 0.05. This indicates that there is no relationship between demographic variables and the choice between neobanks and traditional banks.

This indicates that variables such as age, income level, education level, and occupation have no impact on the choice between neobanks and traditional banks. The results indicate that the choice between neobanks and traditional banks may be influenced by other factors rather than demographic characteristics. Such factors may include service quality, convenience, technology used in the bank, and trustworthiness.

Table 4: Weighted Mean Ranking of Service Indicators

Indicator	Mean	Standard Deviation	Rank	Preference
Convenience (Speed)	2.45	0.66	1	Neobank
Accessibility (24/7)	2.43	0.66	2	Neobank
Cost (Fees/Charges)	2.27	0.69	3	Neobank
Customer Support	1.95	0.65	4	Neutral / Traditional
Trust (Security)	1.73	0.69	5	Traditional

Source: Survey

DOI: 10.17492/JPI.DYPIU.052603 ISBN: 978-93-49790-31-5

The weighted mean analysis shows that convenience and speed rank first with a mean of 2.45. It shows that respondents have a preference for neobanks because of the quick services they offer. Accessibility, which includes 24/7 availability, ranks second with a mean of 2.43. It shows the advantage of digital banking platforms because users can access the services anywhere and at any time. Cost rank third with a mean of 2.27. It shows that respondents perceive that neobanks offer cost advantages due to the reduced costs and charges. Customer support ranks fourth with a mean of 1.95. It shows that respondents still prefer traditional banks for support and solving problems. Lastly, trust and security rank fifth with a mean of 1.73. It shows that respondents perceive traditional banks as more reliable and secure compared to neobanks.

Table 5: Effectiveness in Promoting Inclusive Banking

Target Group	Mean Score	Model Effectiveness
Students / Young Adults	2.27	Neobank
Small Business (MSMEs)	2	Equal Effectiveness
Low-Income Earners	1.91	Traditional Bank
Rural Population	1.83	Traditional Bank

Source: Survey

The analysis indicates that the service delivery of neobanks is more effective among the youth and young adults, as shown by the mean score of 2.27. In terms of small businesses (MSMEs), the mean score of 2.00 implies that both traditional banks and neobanks are equally effective in-service delivery. This is because small businesses may require both digital banking and traditional banking facilities.

However, in terms of low-income earners, the analysis indicates that traditional banks are more effective in-service delivery, as shown by the lower mean scores of 1.91 and 1.83. This is because low-income earners may experience challenges in accessing the internet and may prefer traditional banking facilities. In this case, traditional banks can be seen to promote financial inclusion among low-income earners and rural populations.

5.0 Findings and Conclusion

Based on the analysis of primary data collected from 23 respondents, some of the key findings are as follows:

From the demographic analysis of the primary data collected from 23 respondents, it is found that most of the respondents are from the age group of 18-25 years, i.e., 82.6%. This shows that younger people are more involved in digital banking facilities. This is

DOI: 10.17492/JPI.DYPIU.052603 ISBN: 978-93-49790-31-5

because younger people are more familiar with technology-based financial facilities such as mobile banking and neo-banking applications.

The study also found that most of the respondents are in favour of a hybrid bank model. About 52.2% of the total respondents are found to be using traditional banks as well as neobanks. This shows that people are using traditional banking facilities as well as digital banking facilities. At the same time, 30.4% of the total respondents are found to be using traditional banks only, and 17.4% are found to be using neobanks only.

Digital banking is obviously becoming increasingly popular among respondents. For instance, a significant percentage of respondents use digital banking regularly. Specifically, 43.5% of respondents access digital banking weekly, while 26.1% access it daily. The findings indicate that most customers tend to use moderate to high levels of digital banking. The weighted mean findings reveal that when customers are given a choice, speed and convenience rank highest, followed by accessibility and cost efficiency. Simply put, customers want fast banking.

The analysis of the inclusive banking effectiveness shows that customers who are students or young adults can use neobanks to a greater extent because they can easily use digital banking services. However, traditional banks are more effective for low-income groups and people living in rural areas because they can easily access bank services and have more trust in them.

As can be seen from the results of the chi-square analysis, demographic factors like age, income, education level, and occupation do not significantly influence customers' preferences for neobanks over traditional banks. In brief, the choice between traditional banks and neobanks is based only on the level of service quality. The results of the chi-square analysis indicate that neobanks and traditional banks are both very significant for the development of inclusive banking in the country. Future of the Indian Banking Industry: The banking industry in the future will be a blend of traditional and digital banking.

6.0 Future Scope of the Study

Although this study provides valuable insights into inclusive banking, it also reveals many avenues for further research. Future studies could use a larger and more geographically dispersed sample to produce more in-depth and comprehensive findings.

The study could also be carried out with participants from different geographical areas and rural regions of the country to gain deeper insights into digital banking adoption in different socio-economic settings. Further areas of exploration could be undertaken by including additional variables in determining banking preferences, such as financial literacy and cybersecurity. Another potential area of exploration could be undertaken by analysing and determining the sustainability of neobanks in the Indian financial market and its

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alignment with different regulatory frameworks and partnerships with licensed banks. Comparative studies could be undertaken between different nations and emerging economies of the world to gain deeper insights into how digital banking platforms are facilitating financial inclusion in different settings and regulatory frameworks. Further areas of exploration could be undertaken by gaining deeper insights into customer satisfaction and service quality and innovation in different banking institutions and how it could be improved for facilitating inclusive banking.

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DOI: 10.17492/JPI.DYPIU.052603 *ISBN: 978-93-49790-31-5*