

## **Neo-Banking as a Driver of Financial Empowerment: Opportunities and Challenges**

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### **ABSTRACT**

The financial services industry has undergone a significant transformation with the emergence of financial technology (FinTech). Among the most notable innovations is a neo-banking digital-only bank that operates without physical branches and deliver financial services through mobile applications and online platforms. Neo-banks are redefining traditional banking models by offering faster, more convenient and cost-effective services. This paper examines the impact of neo-banking on financial empowerment by evaluating its role in improving financial accessibility, promoting inclusion, enhancing financial literacy and supporting economic participation. The study adopts a descriptive research design based on secondary data collected from academic journals, industry reports, and global financial publications. The findings indicate that neo-banks contribute significantly to financial empowerment by reducing entry barriers to banking, offering user-friendly tools for financial management, and enabling underserved populations to access formal financial systems. However, challenges such as cyber security risks, regulatory uncertainty, digital literacy gaps, and trust issues remain critical concerns. The paper concludes that while neo-banking has the potential to democratize financial services, its long-term success depends on strong regulatory frameworks, technological security, and increased customer awareness. Neo-banks are poised to play a transformative role in shaping the future of banking and fostering a financially empowered society.

Keywords: Neo-banking, Financial Empowerment, Financial Inclusion, FinTech, Digital Banking.

### **INTRODUCTION**

Technological innovation has significantly reshaped the global financial sector. Traditional banking systems, often characterized by lengthy procedures and high operational costs, are gradually being complemented and sometimes replaced by digital alternatives. Neo-banks, also known as challenger banks, are branchless financial institutions that provide banking services entirely through digital platforms such as mobile apps and websites.

Financial empowerment refers to the ability of individuals to access financial services, make informed financial decisions, and improve their economic well-being. Neo-banking supports

this empowerment by offering convenient, transparent, and affordable services. Particularly in developing economies, where access to traditional banking remains limited, neo-banks present an opportunity to bridge the financial inclusion gap.

The growing adoption of smartphones and internet connectivity has accelerated the popularity of digital banking platforms. Younger generations, in particular, prefer app-based financial solutions that align with their fast-paced lifestyles. Additionally, the COVID-19 pandemic further emphasized the importance of contactless banking, pushing both consumers and institutions toward digital alternatives. This paper evaluates the extent to which neo-banking contributes to financial empowerment and examines both its opportunities and limitations.

## **REVIEW OF LITERATURE**

Existing research highlights the transformative potential of FinTech in expanding financial access. Studies suggest that digital banking reduces transaction costs and increases efficiency, making financial services more inclusive.

King (2018) emphasized that branchless banking models improve customer experience by leveraging data analytics and automation. Similarly, Vives (2019) noted that neo-banks foster competition within the banking sector, encouraging traditional institutions to innovate.

Ozili (2020) argued that digital financial services play a crucial role in promoting financial inclusion, particularly in developing countries where banking penetration remains low. Meanwhile, Frost et al. (2019) observed that FinTech firms enhance financial intermediation by offering tailored products based on customer behavior.

However, some scholars caution against overreliance on digital systems. Arner, Barberis, and Buckley (2017) highlighted regulatory and cybersecurity challenges associated with FinTech adoption. Trust remains another critical factor influencing customer acceptance.

The literature indicates that while neo-banking holds immense promise, its effectiveness depends on regulatory support, technological infrastructure, and consumer readiness.

## **STATEMENT OF THE PROBLEM**

The emergence of neo-banking has transformed the delivery of financial services by offering digital, accessible, and cost-effective banking solutions. However, the extent to which neo-banks contribute to financial empowerment remains unclear. Challenges such as cybersecurity risks, regulatory concerns, and varying levels of digital literacy raise questions about their effectiveness in promoting financial inclusion and improving financial decision-making. This study therefore examines the role of neo-banking in enhancing financial empowerment within the evolving digital banking landscape.

## **OBJECTIVES OF THE STUDY**

1. To examine the role of neo-banks in promoting financial empowerment.
2. To analyze the benefits of neo-banking for customers.
3. To identify the challenges associated with neo-banking adoption.
4. To assess the future prospects of neo-banks in enhancing financial inclusion.

## **RESEARCH METHODOLOGY**

This study employs a descriptive research design based on secondary data to analyze the impact of neo-banking on financial empowerment. Data were collected from peer-reviewed journals, academic publications, reports from financial institutions and FinTech companies, central bank publications, and reputable online databases to ensure credibility and relevance. The data were analyzed using qualitative methods, including thematic and comparative analysis, to identify key trends and insights related to accessibility, financial inclusion, and customer autonomy. The study primarily focuses on how neo-banks enhance access to financial services and support independent financial decision-making, particularly within the evolving digital banking landscape.

## **NEO-BANKING**

Neo-banks are fully digital financial institutions that operate without physical branches, delivering banking services through mobile applications and online platforms. Typically partnering with licensed banks to ensure regulatory compliance and security, neo-banks emphasize technology-driven, customer-centric innovation. Key features of neo-banks include paperless account opening, reduced service charges, AI-enabled financial insights, real-time payments and transfers, and integrated tools for budgeting and expense management. Prominent examples such as Revolut, N26, and Chime, along with emerging digital banking platforms in India, illustrate the growing global adoption of neo-banking models.

## **FINANCIAL EMPOWERMENT THROUGH NEO-BANKING**

Neo-banking has become a powerful instrument for financial empowerment by utilizing advanced digital technologies to provide inclusive, efficient, and customer-focused financial services. Its innovative approach reduces traditional banking barriers and enables individuals to take greater control of their financial activities.

### **Key Contributions to Financial Empowerment:**

- **Greater Financial Accessibility:** Neo-banks allow users to open and operate accounts anytime and anywhere, eliminating geographical constraints and reducing dependency on physical branches.
- **Affordability of Services:** With lower operational costs, neo-banks typically offer reduced transaction fees, zero-balance accounts, and competitive interest rates, making banking more affordable.
- **Faster and Convenient Transactions:** Real-time payments, instant fund transfers, and quick approvals enhance financial flexibility and improve overall user experience.
- **Improved Financial Literacy:** Features such as spending analytics, savings reminders, and personalized financial insights help customers develop responsible financial habits.
- **Encouragement of Savings Behavior:** Automated savings tools and goal-based financial planning motivate users to manage money more effectively.
- **Enhanced Credit Accessibility:** Alternative credit assessment methods enable individuals with limited credit history to access loans and other financial products.
- **Support for Small Businesses and Entrepreneurs:** Neo-banks provide integrated tools for invoicing, expense tracking, payroll management, and cash flow monitoring, promoting better financial control for businesses.



- **Transparency in Financial Services:** Clear fee structures and real-time notifications reduce hidden charges and improve customer trust.
- **Personalized Banking Experience:** Data-driven recommendations allow customers to receive tailored financial products aligned with their needs and spending patterns.
- **Promotion of Financial Inclusion:** By simplifying onboarding processes, neo-banks help bring unbanked and underbanked populations into the formal financial ecosystem.
- **Time Efficiency:** Fully digital processes minimize paperwork and waiting periods, enabling quicker financial decision-making.
- **Integration with Digital Ecosystems:** Compatibility with e-commerce platforms, digital wallets, and investment apps strengthens participation in the digital economy.

### **CHALLENGES OF NEO-BANKING**

Despite its advantages, neo-banking faces several obstacles:

- **Cybersecurity Risks:** Increased reliance on digital platforms raises concerns about data breaches and fraud.
- **Regulatory Issues:** Many countries are still developing frameworks to govern digital-only banks.
- **Digital Literacy:** Limited technological knowledge may hinder adoption among certain groups.
- **Trust Factor:** Customers accustomed to traditional banks may hesitate to fully rely on virtual institutions.

### **ANALYSIS AND DISCUSSION**

The growth of neo-banking indicates a shift toward customer-centric financial ecosystems. Studies reveal that younger generations prefer digital banking due to speed and convenience. Additionally, the COVID-19 pandemic accelerated digital adoption, reinforcing the relevance of branchless banking. Neo-banks contribute to financial empowerment by providing tools that improve financial decision-making and encourage savings behavior. However, their long-term success depends on regulatory support; technological security, and consumer trust. In developing economies, neo-banks can complement traditional banking rather than replace it, creating a hybrid system that maximizes outreach and efficiency.

### **FINDINGS**

The analysis indicates that neo-banking has substantially improved access to financial services by reducing geographical constraints and simplifying banking procedures. The adoption of digital platforms facilitates more effective financial management through features such as real-time transaction monitoring and automated budgeting tools. Additionally, the cost-efficient operational model of neo-banks enables them to offer competitively priced services, thereby attracting a broader and more diverse customer segment.

However, the expansion of neo-banking is accompanied by persistent challenges, particularly in relation to cybersecurity risks and evolving regulatory requirements. Addressing these concerns is essential for sustaining customer trust and ensuring long-term stability. Overall, the findings suggest that neo-banks possess considerable potential to advance global financial inclusion and strengthen financial empowerment, especially among previously underserved populations.



## RECOMMENDATIONS

To support the sustainable growth of neo-banking and maximize its contribution to financial empowerment, several strategic measures are recommended. Governments and regulatory authorities should establish comprehensive and adaptive regulatory frameworks that balance innovation with consumer protection.

Promoting financial literacy is equally important to encourage informed usage and wider adoption of neo-banking services. Educational initiatives can equip customers with the knowledge required to effectively navigate digital financial platforms.

Neo-banks should prioritize substantial investment in advanced cyber security infrastructure to safeguard customer data and mitigate evolving digital threats. Strengthening security mechanisms is essential for maintaining reliability and long-term customer confidence.

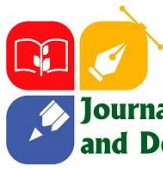
Furthermore, strategic collaboration between traditional banks and neo-banks can enhance service delivery by combining technological innovation with established financial expertise. Such partnerships can facilitate the development of resilient, inclusive, and customer-centric banking ecosystems.

## CONCLUSION

Neo-banking represents a transformative shift in the financial sector by leveraging technology to deliver inclusive and efficient services. Its ability to expand access, reduce costs, and empower customers makes it a powerful driver of financial empowerment. While challenges such as security and regulatory uncertainties persist, the continued evolution of FinTech suggests that neo-banks will play a crucial role in shaping the future of banking. With proper governance and increased awareness, neo-banking can become a cornerstone of a more inclusive financial ecosystem.

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