Chapter 2

Book Chapter

A Study On Impact Of Digital Financial Inclusion Of Youth In Bengaluru – NEO Bank Perspective

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Abstract

This study is about the impact of digital financial inclusion of youth in Bengaluru –Neo Bank perspective. Youths are the main target consumers for Neo Banks as they adapt to new products and services faster than any other age group. The impact of Neo Banks is more on youth in their usage. The primary data has been source to measure and conclude impact efficiently using descriptive analysis. Neo banks started gaining trust but the services are to be improved likewise the popularity.

Keywords: Descriptive Analysis (DA). Digital financial Inclusion (DFI). Non Banking financial company (NBFC). Financial inclusion (FI).

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1 Introduction

Financial inclusion is providing access to financial services, products, services, and instruments. Digital financial inclusion as a global development agenda.(Ozili, 2022). However, The social dynamics of financial engagement with new technologies demand a shift away from a simplistic individualistic adopter/non-adopter binary framework and a 'supply-oriented' financial infrastructure.(Aziz & Naima, 2021). Research claims that Street merchants mostly rely on loan sharks, who charge exorbitant interest rates ranging from 350% to 800% annually, in the lack of official credit. (Bhowmik & Saha, 2013). Digitalization of financial services started gaining popularity after the demonetization in India. And after there was a major pandemic hit globally, it caused most of the industries a recession. Developing countries, particularly in Asia, are adopting and enhancing digital financial inclusion to help alleviate poverty.(Tay, Tai, & Tan, 2022). Technology plays a significant part in corporate development and has a significant impact on financial results and managerial strategies as it develops throughout time.(I. Mittal & Bansal, 2023).Mobile banking has become a viable method to increase underprivileged populations' access to financial services as a result of the widespread use of mobile technology, especially in developing nations.(Das & Selvamani, 2024).

There is a need to follow the fundamental principles of digital financial inclusion to regulate the activities of financial institutions and their agents in the digital provision of financial services, enhance regulatory oversight of innovative financial products and service systems, and safeguard the rights of financial service consumers in Ukraine.(Naumenkova, Mishchenko, & Dorofeiev, 2019).

1.1 Neo Bank

The COVID-19 pandemic, coupled with significant digital transformation, has compelled global participation, leading to widespread acceptance of mobile payments. (Al-Qudah et al., 2024). Further, Due to new phenomena, issues with international trade brought on by supply chain disruptions worldwide, and geopolitical conflicts, the business climate has grown more unstable and complex in recent times.(Okr glicka, Mittal, & Navickas, 2023). Digital payment apps gained more usage and that became highest profitable industry during the pandemic. Then people were more found having personalized services in banking as in the pandemic, the public faced financial problems due to the non-availability of transportation and banking services during the lockdown. Then the neo-banks started to emerge establishment in India when there were no players or competition in the market.A neobank is distinct from a "challenger bank." While both aim to compete with large, long-established national banks, a challenger bank is a chartered financial institution—a

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smaller, more innovative retail bank specifically established to attract business away from traditional banking giants. Neo Banks are banking service providers that only exist digitally with no physical branches or outlets. Europe has emerged as a key growth area for the neo-bank industry. Similar to the US, regulatory reforms have facilitated this expansion. In 2018, the European Union introduced the Second Payment Services Directive (PSD2), mandating that banks open their payment infrastructure to third-party providers.

These banks provide services by having partnerships with the existing traditional banks. They provide personalized services to their users by collecting their primary data. That means it is unique to every user that they get customized service based on their needs.Neo-banks have gained popularity among users transitioning to digital platforms, but their varying experiences in different economies have sparked both skepticism and optimism. Concerns arise regarding issues such as expansion, profitability, competition, and market saturation. Conversely, there is optimism about their overall potential.

1.2 How Neo Banks personalized the service?

Modern banks utilize open application programming interfaces (APIs) to facilitate the exchange of information between the information systems of various organizations using standard data transmission protocols. The implementation of open APIs impacts the information security of banks, specifically concerning the protection of information assets.(Gorodianska, Nosenko, & Vember, 2019). They are based on the concept of Artificial Intelligence and Information technology and neither any physical branch has been formed.Enhancing public sector services including the banking sector in particular would require this integration.(P. Mittal & Gautam, 2023).

The user interface of these banks is easy to use and they constantly take the user preference and update it accordingly to make it easier and more helpful to user to use the service. These banks provide customer support that is available throughout the day and all the days of the week through the use of chatbots and virtual assistant. The services are personalized according to the customer needs and some banks provide the options to customize their needs and set financial goals and the banks will provide the tools required to reach them in specified time. The Banks monitor their customers and keep them informed about their updates, expenses and investments plans by providing written notification to them through text messages and mails.

1.3 Indian Neo Banks:

Major changes have occurred in the competitiveness and market structure of Indian banking. (Monis & Pai, 2023). Neo Banks do not have a banking license as traditional banks

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but they must obtain non-banking finance company (NBFC) license. The partnership banks have all the rights to access the information about the bank financial information and other information. RBI also has access to financial information, features and processes. It must be constantly monitored by partnered banks and RBI. Neo banks will follow the rules about data security that is given by the partnered bank. During the opening of account and the investment the partner banks will monitor about KYC rules of neo bank.

1.4 Rules to be followed by neo-banks:

- The Payment and Settlement Systems Act of 2007
- Rules and instructions from RBI about usage of technology for financial service, privacy and security. There are currently 15 Neo Banks that are operating in India.(see table 1)

1.5 Impact of Neo banks on youth

In Indian population 60% of them are youth. In Karnataka 21.73% of state's youth reside in Bengaluru making it district with highest number of youths in whole state. Bengaluru is India's silicon city which biggest software hub in the country that generates highest foreign fund flow to the country. This way Bengaluru is exposed to best of the technology, infrastructure and financial services of the country. As we see the youth are highly adaptable to any change that is same with digital financial services. In the digital financial services these are neo banks which provide personalized service that is mostly wanted by youth who want everything personalized as their social media and entertainment. These Neo Banks also provide the lending service to users which will be useful and acts as the pocket money to youths and help managing the small and daily expenses of users. These Neo banks also provide the good rewards depending on their usage and preferences. This is also the tool used to gain more customers. These banks provide the deep transparency that users will be able to see all the charges and details about their profile, this also provides the user interface that allows user to see their expenses of their months. That can develop habit of monitoring their expenses and also habit of saving more. That is the necessary habit to the youth who will be facing the financial space in their future. But as much as neo banks are gaining more trust and some people are using lending without their need making them to borrow at unwanted times and this study aims to understand this impact and usage.

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Table 1. Neo Banks

Name	Partner Bank	Installations (Nos)	Establishment
Fi money	Federal Bank	1 crore	2021
NiyoX	Equitas Small Finance Bank and Visa	50 Lakhs	2021
Jupiter	Federal Bank	63 Lakhs	2021
Instant Pay	ICICI Bank	10 thousand	2022
Razor Pay	Visa and 71 Banks	10 Lakh	2014
Fampay	IDFC First Bank	1 crore	2019
Freo Save	Equitas Small Finance Bank	1 Lakh	2022
Chqbook	NSDL Payment Banks	10 Lakh	2020
Akudo	RBL Bank Limited	10 Lakh	2022
Mahila Money	Transcorp, Visa, My Shubh Life, Avail Finance, and Shivalik Bank	1 Lakh	2021
Zikzuk	Yes Bank, RBL Bank, Indusland Bank	1 thousand	2011
Finin by Open	SBM Bank	10 thousand	2019
Fold	Sutton Bank	Not found	2021
Tide	Clear Bank	1 Lakh	2017
Mool	SBM Bank	1 Lakh	2020

2 Objectives of the Study

- To understand the nature and extent of Neo Banking
- To identify the factors that determines Banking services
- To measure and analyze the usage of Neo Banking on youth

3 Methodology Used

The authors Khera et al.'s (2022) have created a unique financial inclusion via the internet index that spans 52 developing and emerging markets to assess its effect on financial inclusion. They discovered that the use of digital banking services has served as a key

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factor in the expansion of financial inclusion, exhibiting substantial regional and national differences as well as the greatest advancements seen in Africa and Asia. Policies are required to close the digital gap, guarantee continued advancements in financial inclusion, as preserve public confidence in financial institutions in light of the COVID-19 pandemic's quick expansion in the use of digital payments.

Study by Adityadev and Jagadeesh's (2023) used a combination of primary and secondary data collection methods. Primary data was gathered through questionnaires and surveys directed at various respondent groups, including users of digital credit services, neo-banks, and traditional banking systems. Secondary data was collected from articles and published research about digital financial services.

4 Tables and Figures

Table 2. Neo Bank Holders

Terms	Percentage of respondents holding a neo bank account
Yes	39.6%
No	60.4%

Table 3. Neo banks are more efficient in opening the account

Terms	Percentage of respondents
Strongly agree	34%
Agree	28.3%
Neutral	30.2%
Disagree	7.5%
Strongly disagree	0%

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Table 4. Neo Banks provide good interest rates for their users than traditional banks

Terms	Percentage of respondents
Strongly agree	15.1%
Agree	28.3%
Neutral	32.1%
Disagree	18.9%
Strongly disagree	5.7%

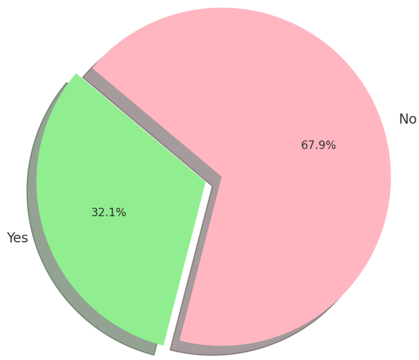

Figure 1. The Percentage Of Respondents Using Digital Cards

5 Analysis and Interpretation

The survey results indicate that neo banks have not yet achieved widespread adoption among the respondents, with only 39.6% holding a neo bank account compared to 60.4% who do not.(see table 2) A vulnerable population is unable to use digital products for financial inclusion—which is essential to their present financial well-being—is caused by a lack of financial literacy. The digital revolution has made things more complicated and has led to an overuse of digital financial products. Because it is very easy to implement, financial literacy has consequently grown to be an important policy instrument for enhancing people's financial well-being.(Mandal, Saxena, & Mittal, 2022). This limited adoption impacts the eligibility for digital credit cards, as only 32.1% of respondents are eligible while 67.9% are not, likely due to the low number of neo bank account holders.(see figure 1).

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Despite this, a significant portion of respondents perceive neo banks as efficient in opening accounts, with 34% strongly agreeing and 28.3% agreeing, suggesting positive user experiences. Additionally, 34% agree and 26.4% strongly agree that neo banks can improve the standard of living, reflecting optimism about their potential benefits. (see table 3).In terms of financial management, 35.8% agree and 26.4% strongly agree that neo banks help gain better control over expenses and funds, indicating confidence in the financial tools provided by neo banks.

However, opinions are more mixed when it comes to interest rates, with 32.1% of respondents being neutral, 28.3% agreeing, and 15.1% strongly agreeing that neo banks offer better rates than traditional banks, while 18.9% disagree and 5.7% strongly disagree.(see table 4). This neutrality suggests uncertainty or a lack of sufficient information among respondents about the comparative interest rates offered by neo banks.Researchers are working on volatility measure predicting as a result of emerging differences in the economy-wide risk factors that affect financial security pricing. (Gupta & Mittal, 2008).

6 Conclusion

It is evident from the data that a sizable percentage of the respondents reside in cities. Male students pursuing commerce make up the majority of those surveyed, and pocket money is typically their primary source of income. Although a significant portion of the respondents are aware of Neo banking services, not all of them are making use of them. The ability to open accounts on several platforms is provided by Neo banks, yet many respondents do not take use of this opportunity. Nonetheless, it is clear that Neo banks are starting to acquire popularity and the confidence of the younger population. This pattern suggests to a gradual but continuous rise in young people's adoption and acceptance of Neo banking services.

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