



Neo-banks vs Traditional banks

Description

What is a Neo bank:

- Neo banks operate exclusively online without traditional physical branch networks.
- They provide digital and mobile-first financial solutions such as payments, money transfers, money loans, and more.
- Jupiter, Fi Money, and Niyo are some of the top neo banks in India.

Advantages of Neo banks:

- Due to their technological nature, neo banks do not need any physical bank branches, which helps them save on overhead costs (the cost of running the business).
- Neo banks are able to offer lower fees and higher interest rates on checking and savings accounts to customers.
- They are easy to access from anywhere through a smartphone.
- Since neo banks are completely digital, they operate 24 hours a day and their services can be accessed at any time.
- Fintech companies can open specialized neo-banks that target a specific type of customer's needs. For example, LXME aims to become India's first Neo bank for women, which will offer product solutions that address women-specific financial needs and their emotional preferences.

Challenges of Neo banks:

- People don't trust neo-banks as much because they don't have a physical presence, which makes them a risk for customers in case of any issues or challenges.
- Neo-banks offer only a small range of basic banking products and services as compared to the large number of complex financial services that traditional banks offer.
- Tech literacy is still very low in India.
- Reserve Bank of India has not yet not recognized neo banks as banks. This is a big



challenge for the growth of the neo bank industry.



What is a traditional bank:



- Traditional banking refers to banks with a physical presence and a domestic banking license.
- They are financial institutions dedicated to providing in-person customer service and the management of money that their clients deposit in the bank's custody.

Advantages of traditional banks:

- In-person customer service may appear more trustworthy to customers.
- Traditional banks provide far more variety of financial products than neo banks.
- They can meet the banking requirements of less tech-savvy customers or people in rural areas of the country who prefer face-to-face interaction with the manager.
- Commercial banks help to create credit, which leads to increased production, employment, and consumer spending, all of which help to grow the economy.

Challenges of traditional banks:

- Accessibility with traditional banks is lacking. Customers have reduced access to their own banking information outside of business hours. When traveling, they may not be able to find a branch or ATM without high fees.
- Compared to neo-banks, they have higher monthly fees and lower interest rates.
- Even though traditional banks have much larger capital with them, they still only provide basic services through online. This has resulted in banks being unable to reap the benefits of next-gen IT solutions.
- Visiting a bank branch sometimes becomes inconvenient for people. Customers have to stand in long queues, deal with improper customer engagement, submit tedious documents, or deal with complex systems they aren't able to understand.

Partnership:

- Majority neo banks are collaborating with traditional banks. With this partnership, traditional banks are able to reach young and tech-savvy customers and neo banks are gaining the trust of public.

Conclusion:

Neo bank has made banking much more convenient than ever before. It is fast, user-friendly, and easily accessible from anywhere in the world. Yet traditional banks hold a very important place in the growth of an economy through credit creation. If neo banks are recognized by the RBI and manage to gain people's trust, their customer base will grow many fold. Whether it will replace traditional banking in the future is still hard to say as the full potential of neo-banks is yet to be seen.

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