

A Study on Awareness and Challenges of Neo-Banking Among Millennials in Mysuru City

Dr. Harsha Vardhan G., Dr. Shyamala G.

Faculty, DOS in Business Administration (BIMS), Manasagangothri, University of Mysore, Mysuru - 570006, Karnataka, India.

DOI: <https://doi.org/10.51583/IJLTEMAS.2025.1408000040>

Abstract: The Neo-banking sector is expanding rapidly due to the increasing penetration of the internet and smartphones, supportive government initiatives for digital payments (like UPI), and a large unbanked or underbanked population. The study is aimed at analyzing the awareness, challenges and satisfaction level on Neo- Banking Services. The study is exploratory and is based on primary data collected from 100 samples from Mysuru city of Karnataka. SPSS version 21 was used for data analysis and interpretation. The study found that there is a significance difference in factors with respect to awareness, challenges and satisfaction level among respondents. The factors on awareness, challenges and satisfaction level have been identified. Therefore, this study would assist millennials in acquiring the required knowledge to make savings and investment decisions in future in order to reach the desired economic growth.

Keywords: Neo-banking, Awareness, Challenges, Satisfaction Level, Investment Decision and Economic Growth.

I. Introduction:

Neo banks, also known as digital-only banks or challenger banks, are financial institutions that operate entirely online without traditional physical branches. The concept emerged in response to technological advancements, changing customer expectations, and the need for more efficient, user-friendly, and cost-effective banking services. The rise of neo banks began in the early 2010s, primarily in Europe and the United States, driven by regulatory support for financial innovation (such as the UK's Open Banking initiative) and the growing adoption of smartphones and digital payments. Unlike traditional banks, neo banks leverage modern technology stacks, big data, and advanced analytics to offer customized banking solutions, low fees, and seamless digital experiences. Neo banks typically provide services like digital savings and checking accounts, instant fund transfers, expense tracking, personal finance management, and sometimes lending and investment products. They target tech-savvy customers, millennials, freelancers, and small businesses who prefer convenient, mobile-first banking experiences over visiting physical bank branches.

In countries like India, the neo banking sector is expanding rapidly due to the increasing penetration of the internet and smartphones, supportive government initiatives for digital payments (like UPI), and a large unbanked or underbanked population. Unlike fully licensed banks, many neo banks in India operate in partnership with traditional banks under a co-branded model, complying with the Reserve Bank of India's (RBI) regulatory framework. Despite their rapid growth, neo banks face challenges such as regulatory constraints, building customer trust, ensuring data security, and competing with traditional banks that are also upgrading their digital offerings. Overall, neo banks are transforming the financial services landscape by promoting financial inclusion, enhancing customer convenience, and driving innovation in the banking sector.

II. Review of Literature:

This part of the paper brings out the results of review of literature made on the chosen topic based on few important studies conducted in the past:

Chandrashekar and Arora (2021) analyzed the developing contours of neo banking and crystallized the way it transformed the customer experience through the actions and services of digitally-only financial institutions. An important dimension of their findings is the shift from a traditional relationship-based bank model to a digital-first, app-only approach, benefiting from being user-convenient.

Gupta and Sharma (2022) focused on customer satisfaction and trust factors influencing customer perception towards digital-only banks. Their research indicated that while digital interfaces, 24x7 support, and much less document requirement add to user satisfaction, security, and trust remaining issues.

KPMG India (2022) focused on the study of Jupiter and other neo banks from India, as said in the report. Apart from this, the report mentioned how Jupiter, through intuitive budgeting tools, zero-balance accounts, and cashback-based customer engagement, succeeded in establishing a millennial- driven banking brand.

Patel and Desai (2023) compared conventional banks and neo-banks based on customer service and efficiency. According to their research, neo-banks are much better than traditional banks in terms of access to digital user experience and responsiveness. The research stated that neo banks would also need to enhance their offerings and make strategic partnerships for long-term sustainable competition in the market, even though traditional banks have a broader suite of products and a higher level of customer trust.

Statement of The Problem:

In today's fast-paced digital world, traditional banking systems often struggle to meet the evolving expectations of tech-savvy customers. Neo banks have emerged as a response to this demand, providing banking services entirely through mobile apps and online platforms without the need for physical branches. Another key reason for the rise of neo banks is the need to bridge the gap in financial inclusion. In many developing countries, a significant part of the population remains unbanked or underbanked due to barriers like geographical remoteness, complex paperwork, or lack of trust in conventional banks. Neo banks leverage technology to offer easy account opening, instant fund transfers, and affordable banking services, reaching underserved communities and small businesses that were traditionally excluded from formal banking.

Need for The Study:

NEO banks bring innovation and cost efficiency to the banking sector. By operating without expensive branch networks and outdated legacy systems, they can offer lower fees, better interest rates, and personalized services through data analytics and AI. This encourages competition and pushes traditional banks to upgrade their digital capabilities as well. As a result, neo banks are not just an alternative but a catalyst for transforming the entire banking ecosystem towards greater convenience, inclusivity, and innovation. This helps promote broader financial participation and supports economic growth. Modern customers, especially millennials and Gen Z, expect banking services to be fast, convenient, and accessible 24/7 through digital channels. They prefer user-friendly mobile apps over visiting traditional bank branches. Neo banks use data analytics and AI to offer personalized banking experiences such as spending insights, automated savings, budgeting tools, and instant alerts, enhancing customer satisfaction.

Objectives:

1. To analyze the awareness and usage of NEO banking Services
2. To identify the challenges and concerns of using NEO banking platforms.

Scope of The Study:

The present study is relating to the awareness, challenges and satisfaction towards Neo banking services and it is limited to the millennials only. The geographical scope of the study is limited to the Mysuru city in Karnataka State. Out of the many factors impacting the neo banking on millennial well – being. the study is confined to demographic profile and awareness, challenges and satisfaction towards Neo banking services on millennials' well-being.

III. Reserch Methology:

The present study is exploratory in nature. The study is based on primary data. A survey was conducted for the study among the millennials in Mysuru from Karnataka state. Respondents were selected by using stratified random sampling technique. Primary data from 100 respondents was collected through structured questionnaire. To analyze the data collected from millennials and verify the hypotheses set, various statistical tools and techniques have been applied in the study such as ANOVA, contingency coefficient, P value and factor analysis, hypotheses set for the study are tested. SPSS version 20 was used for data analysis to draw meaningful conclusion.

IV. Results and Discussions:

This part of the study deals with data analysis and interpretation. The data collected from primary source using a structured questionnaire has been tested for its reliability and the result is as under:

Reliability Analysis of The Questionnaire:

Cronbach's Alpha Index was used to determine the reliability based on internal consistency of the questionnaire. Typically, items having a coefficient of 0.70 are considered adequate for the study. The outcome of reliability analysis of the variables is presented in following table.

Millennials' Result of Reliability Analysis of Awareness, Challenges and Level of Satisfaction Variables

Sl. No.	Variables	No. of Statements	Cronbach's Alpha
1	Awareness	5	0.906
2	Challenges factors	5	0.852

Source: Primary Data

Demographic Profile of the Respondents

Sl. No	Demographic Factors	Frequency	Percentage
1	GENDER		
	Male	52	52.0
	Female	48	48.0
2	AGE		
	20-25 years	20	20.0
	26-30 years	20	20.0
	31-35 years	48	48.0
	36-40 years	12	12.0
3	EDUCATIONAL QUALIFICATION		
	PUC	40	40.0
	Undergraduate	16	16.0
	Postgraduate	28	28.0
	PhD.	16	16.0
4	OCCUPATION		
	Part-time job	40	40.0
	Own Business	4	4.0
	Freelancing	8	8.0
	Family Business	48	48.0
5	NATURE OF RESIDENCE		
	Urban	45	45.0
	Semi - Urban	55	55.0
6	MONTHLY INCOME		
	Rs.5000-Rs.10000	12	12.0
	Rs.10000-Rs.15000	24	24.0
	Rs.15000-Rs.20000	40	40.0
	Rs. 20000 and above	24	24.0

Source: Primary Data

Gender:

From the above table, male respondents were 52 (52%) and remaining female respondents were 48 (48%).

Age:

From the above table, majority of the respondents belonged to 22-24 years (48%). There were 20 respondents (20%) belonged to 18-20 years and 20-22 years. Remaining respondents belonged to 24 years above (12%).

Educational Qualification:

From the above table, majority of the respondents were PUC holders (40%), 16% were done with their undergraduate programs, 28% were post graduate holders and remaining 16% were PhD holders.

Occupation:

Above table shows the occupation of the respondents. Majority of the respondents have occupied with family business. 40% of the respondents have part-time job. 8% of the respondents occupied with freelancing and remaining 4% have occupied with own business.

Nature of Residence:

From the above table majority of the respondents were belonged to Semi – Urban (55%) and remaining were belonged to Urban (45%).

Monthly Income:

Above table shows the income level of the respondents. Majority of the respondents were belonged the income level of Rs.15000-Rs.20000 (40%) followed by Rs.10000-Rs.15000 and Rs. 20000 and above (24%). Remaining were belonged to Rs.5000-Rs.10000 (12%).

Awareness and Usage of Neo Banking Service:

This section includes the analysis of awareness and usage of Neo banking service of the respondents.

Hypotheses:

H₀: There is no significance difference in awareness and usage of Neo banking Service of the respondents.

H₁: There is a significance difference in awareness and usage of Neo banking Service of the respondents.

ANOVA for Awareness and Usage of Neo Banking Service of the Respondents

ANOVA						
Particulars		Sum of Squares	df	Mean Square	F	Sig.
The difference between Neo banks and traditional banks	Between Groups	40.1000	4	10.240	10.857	.000
	Within Groups	89.600	95	.943		
	Total	130.560	99			
Usage of Neo banks account/service	Between Groups	74.1000	4	18.740	26.028	.000
	Within Groups	68.400	95	.720		
	Total	143.360	99			
Recommend Neo banks to friends	Between Groups	47.200	4	11.800	11.826	.000
	Within Groups	90.800	91	.998		
	Total	138.000	95			
Neo Banking service are user friendly	Between Groups	71.240	4	17.810	13.579	.000
	Within Groups	124.600	95	1.312		
	Total	195.840	99			
Aware of Neo Banks	Between Groups	37.240	4	9.310	8.114	.000
	Within Groups	109.000	95	1.147		
	Total	146.240	99			

Source: Primary Data

The awareness and usage of NEO banking service among respondents are presented in the above table. The F-test is significant five per cent level. Therefore, significantly differing from other. There is a significant difference in Neo banks and traditional banks with p-value 0.0000, there is a significant difference in Usage of Neo banks account/service with p-value 0.0000, Recommend Neo banks to friends with p-value 0.0000, Neo Banking service are user friendly with p-value 0.0000 and aware of Neo Banks with p-value 0.0000. it is indicated that all selected variables with respect to awareness and usage of Neo banking service are significantly differ from each with p-value is less than 0.05. Hence, there is a significance difference in awareness and usage of Neo banking Service of the respondents.

Factor Analysis of Awareness and Usage of Neo Banking Service:

The awareness and usage of Neo banking service variables have been analyzed by using Principal Component Analysis (PCA). The following factors have been considered for PCA.

- The difference between Neo banks and traditional banks.
- Usage of Neo banks account/service.
- Recommend Neo banks to friends.
- Neo Banking service are user friendly.
- Aware of Neo Banks.

The questionnaire contained statements to enumerate the opinion from respondents about their awareness and usage of Neo banking service. The respondents expressed their opinion on the scale from 1-5 (1 for '*strongly disagree*' and 5 for '*strongly agree*') for all the factors considered.

KMO and Bartlett's Test for Awareness and Usage of Neo Banking Service

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.811
Bartlett's Test of Sphericity	Approx. Chi-Square	302.699
	df	10
	Sig.	.000

Source: Primary Data

The Kaiser-Mayer-Olkin (KMO) and Bartlett's test conducted to identify the adequacy of samples for factor analysis of awareness and usage of Neo banking service. The KMO value arrived is 0.811 which is greater than 0.5. Hence, the samples used for the present factor analysis are found to be adequate. The Chi-square test value is 302.699 and it is significant at five per cent level. Therefore, the test of sphericity has been satisfied. This implies that there are strong relations among the factors used for the analysis of awareness and usage of Neo banking service.

Component Matrix for Awareness and Usage of Neo Banking Service

Component Matrix ^a	
	Component
	1
The difference between Neo banks and traditional banks	.771
Usage of Neo banks account/service	.900
Recommend Neo banks to friends	.874
Neo Banking service are user friendly	.905
Aware of Neo Banks	.723
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

Source: Primary Data

The factors identified under one component are presented above. All five factors are identified. Neo banks and traditional banks, Usage of Neo banks account/service, Recommend Neo banks to friends, Neo Banking service are user friendly and aware of Neo Banks are identified under first component. Accordingly, these identified factors are the strong factors that jointly influence the awareness and usage of Neo banking service at first place.

Challenges and Concerns of Using Neo Banking Platforms:

This section includes Challenges and Concerns of Using Neo Banking Platforms of the respondents.

Hypotheses:

H₀: There is no significance difference in the challenges and concerns of using Neo Banking Platforms of the respondents.

H₁: There is a significance difference in in the challenges and concerns of using Neo Banking Platforms of the respondents.

ANOVA for Challenges and Concerns of Using Neo Banking Platforms

ANOVA						
Particulars		Sum of Squares	df	Mean Square	F	Sig.
Worried about hidden charges or fees in Neo banking services	Between Groups	42.444	4	10.611	22.128	.000
	Within Groups	45.556	95	.480		
	Total	88.000	99			
Concern about the security of money with Neo banks	Between Groups	50.000	4	12.500	13.808	.000
	Within Groups	86.000	95	.905		
	Total	136.000	99			
Lack personal customer support compared to traditional banks	Between Groups	44.040	4	11.010	11.494	.000
	Within Groups	91.000	95	.958		
	Total	135.040	99			
Resolve issues or complaints with Neo Banks	Between Groups	77.204	4	19.301	25.272	.000
	Within Groups	72.556	95	.764		
	Total	149.760	99			
Technical problems or app glitches make it hard to use Neo banking services	Between Groups	61.071	4	15.268	19.113	.000
	Within Groups	75.889	95	.799		
	Total	136.1000	99			

Source: Primary Data

The challenges and concerns of using Neo banking platforms among respondents are presented in the above table. The F-test is significant five per cent level. Therefore, significantly differing from other. There is a significant difference in worried about hidden charges or fees in Neo banking services with p-value 0.0000, there is a significant difference in concern about the security of money with Neo banks with p-value 0.0000, Lack personal customer support compared to traditional banks with p-value 0.0000, Resolve issues or complaints with Neo Banks with p-value 0.0000 and technical problems or app glitches make it hard to use Neo banking services with p-value 0.0000. it is indicated that all selected variables with respect to the challenges and concerns of using Neo banking platforms are significantly differ from each with p-value is less than 0.05 Hence, there is a significance difference in in the challenges and concerns of using Neo Banking Platforms of the respondents.

Factor Analysis of the Challenges and Concerns of Using Neo Banking Platforms:

The challenges and concerns of using Neo banking platforms variables have been analyzed by using Principal Component Analysis (PCA). The following factors have been considered for PCA.

- Worried about hidden charges or fees in Neo banking services.
- Concern about the security of money with Neo banks.
- Lack personal customer support compared to traditional banks.
- Resolve issues or complaints with Neo Banks.
- Technical problems or app glitches make it hard to use Neo banking services.

The questionnaire contained statements to enumerate the opinion from respondents about their challenges and concerns of using Neo banking platforms. The respondents expressed their opinion on the scale from 1-5 (1 for '*strongly disagree*' and 5 for '*strongly agree*') for all the factors considered.

KMO and Bartlett's Test for Challenges and Concerns of Using Neo Banking Platforms

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.767
Bartlett's Test of Sphericity	Approx. Chi-Square	251.099
	df	10
	Sig.	.000

Source: Primary Data

The Kaiser-Mayer-Olkin (KMO) and Bartlett's test conducted to identify the adequacy of samples for factor with respect to the challenges and concerns of using Neo banking platforms. The KMO value arrived is 0.767 which is greater than 0.5. Hence, the samples used for the present factor analysis are found to be adequate. The Chi-square test value is 251.099 and it is significant at five per cent level. Therefore, the test of sphericity has been satisfied. This implies that there are strong relations among the factors used for the analysis of the challenges and concerns of using Neo banking platforms.

Component Matrix for Challenges and Concerns of Using Neo Banking Platforms

Component Matrix ^a	
	Component
	1
Worried about hidden charges or fees in Neo banking services	.804
Concern about the security of money with Neo banks	.859
Lack personal customer support compared to traditional banks	.800
Resolve issues or complaints with Neo Banks	.736
Technical problems or app glitches make it hard to use Neo banking services	.820
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

Source: Primary Data

The factors identified under one component are presented above. All five factors are identified. Worried about hidden charges or fees in Neo banking services, Concern about the security of money with Neo banks, lack personal customer support compared to traditional banks, resolve issues or complaints with Neo Banks and Technical problems or app glitches make it hard to use Neo banking services are identified under first component. Accordingly, these identified factors are the strong factors that jointly influence the challenges and concerns of using Neo banking platforms at first place.

V. Conclusion:

To conclude, this study was aimed at analyzing the demographic profile, awareness, and challenges towards neo banking on millennials well-being in Mysuru city located in Karnataka State. The study found that there is a significance difference in awareness and usage of Neo banking Service of the respondents. The factors identified under one component. All five factors are identified: namely, Neo banks and traditional banks, Usage of Neo banks account/service, Recommend Neo banks to friends, Neo Banking service are user friendly and aware of Neo Banks are identified under first component. Accordingly, these identified factors

are the strong factors that jointly influence the awareness and usage of Neo banking service at first place. Further, it has been found that there is a significance difference in in the challenges and concerns of using Neo Banking Platforms of the respondents. The factors identified under one component. All five factors are identified. Worried about hidden charges or fees in Neo banking services, Concern about the security of money with Neo banks, lack personal customer support compared to traditional banks, resolve issues or complaints with Neo Banks and Technical problems or app glitches make it hard to use Neo banking services are identified under first component. Accordingly, these identified factors are the strong factors that jointly influence the challenges and concerns of using Neo banking platforms at first place. So, there is a need for SEBI to take initiatives to create awareness about less explored investment decision especially for youth. If the millennials start to learn the investment aspects in various avenues, it will be helpful for them in future and also the wealth of the nation will increase results in reach the desired economic growth.

References:

1. Arner, D. W., Barberis, J. N., & Buckley, R. P. (2016). The evolution of fintech: A new post-crisis paradigm? *Georgetown Journal of International Law*, 47(4), 1271–1319.
2. Gomber, P., Kauffman, R. J., Parker, C., & Weber, B. W. (2018). On the fintech revolution: Interpreting the forces of innovation, disruption, and transformation in financial services. *Journal of Management Information Systems*, 35(1), 220–265.
3. Jagtap, M. (2022). Neo banks in India: A growing trend in digital banking. *International Journal of Research and Analytical Reviews*, 9(2), 54–59.
4. Kapoor, R., & Shah, R. (2020). Digital banking in India: Neo banks and the new financial era. *International Journal of Advanced Scienceand Technology*, 29(3), 1923–1931.
5. Reserve Bank of India. (2021). Report on Digital Lending including Lending through Online Platforms and Mobile Apps. Retrieved from <https://www.rbi.org.in/>
6. Statista Research Department. (2023). Digital banking users in India 2021–2027. Retrieved from <https://www.statista.com/>
7. PwC India. (2021). Fintech and Beyond: Innovation in Financial Services. Retrieved from <https://www.pwc.in/>