A STUDY ON CUSTOMER PERCEPTIONS AND ADOPTION OF NEO BANKS IN PALGHAR CITY

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ABSTRACT

Purpose: To investigate the key factors influencing customer perceptions of neobanks and examine the factors that drive or hinder the adoption of neobanks and study the relationship between perceptions and adoption of neobanks.

Design/Methodology/Approach: Quantitative data was collected through Structured Surveys from 181 Individuals from Palghar City through Google Forms. Simple Random Sampling Technique has been adopted for the collection of data. Secondary data was collected from websites and research papers. The data was analyzed using Simple Percentage Analysis, One Way ANOVA and Binomial Logistic Regression was used to identify the relationship between Education Level and Perception towards Neo Banks.

Findings: It revealed that security, trustworthiness and convenience are the most crucial factors influencing customer perceptions of Neobanking services. Neobanking services have gained some traction in Palghar City. Building trust, emphasizing security features, and ensuring user-friendly and convenient platforms will be crucial for attracting a wider customer base.

Research Limitations: The main limitation of this paper is that the study is conducted regarding Perception and Adoption of Neo Banks in Palghar City only.

Research Implications: This study will help in understanding Neo Banks to emphasize the innovative features and product development for Consumers to digitally literate and make them aware about the security features and for Policy Makers to implement policies that promote the adoption of Neobanking services in rural areas who are limited to traditional banking services.

Paper Type: Research Paper

Keywords: Neobanking; Digital Literacy; Customer Adoption; Digital Banking; Fintech; Service Adoption; Customer Perception

INTRODUCTION

As time has progressed, technology has changed quickly, allowing for the launch of new innovative products. This advancement has also been witnessed in the financial technology industry and hence the past several years has experienced a massive boom and the emergence of thousands of new fintech businesses.

Therefore, non-bank fintech firms have given rise to a new breed called the new banks which enables resolving online experiences by providing little or no fee services. As a result, the fintech sector has effectively filled the gap left by the development of neo-banks in India.

What are Neobanks?
Neobanks are digital-only banks that provide banking services through online platforms and mobile apps. They are also known as "challenger banks" because they challenge the traditional banking model.

Neobanks are a key part of the next generation of banking in India. They offer a variety of services, including Online savings accounts, Digital money transfer, Payment solutions, Lending and Customized banking services.

There are several Neobanks in India which include Freo, Zik Zuk, Akudo, Finin, Chqbook, Niyo, Mahila Money, RazorPay X, Instant Pay, Fam Pay, Fi Money, Jupiter etc.

Benefits of Neobanks in India:

- **Low cost:** Reduced regulation, credit risk, and the absence of physical branches keep operating costs for new banks low which boosts profits. Whereas other banks charge monthly maintenance costs.

- **Speedy service:** Tech allows customers to navigate through the neo bank apps smoothly, efficiently and in a fast manner. Money transfers and lending transactions can be done in a few minutes on a neo bank.

- **Easy account creation:** Unlike traditional banks customers can create an account on a neo bank in a few simple steps.

Downsides of Neobanks:

- **No branches:** Since there are no physical bank branches, customers do not have contact with a direct person. As a result, the connection loses its human element and becomes impersonal. **Limited services:** Neo banks do not have a banking license they do not provide all of the advantages of a typical bank.

- **Security:** Neo banks operate 100% digitally. They are therefore vulnerable to cyberattacks, security lapses, and other online dangers.
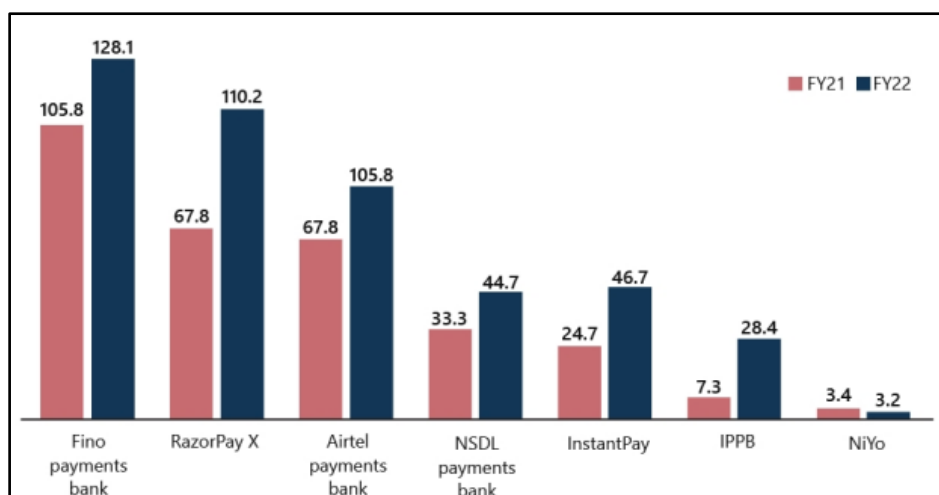
Top 8 Neobanks, operating revenue (Mn, USD)

The future of Neobanking in India:

Transaction value in the Neobanking market is projected to reach US$138.70bn in 2025. Transaction value is expected to show an annual growth rate (CAGR 2025-2028) of 12.22% resulting in a projected total amount of US$196.00bn by 2028. The average transaction value per user in the Neobanking market amounts to US$7.32k in 2025. From a global comparison perspective, it is shown that the highest transaction value is reached in the United States (US$2,103.00bn in 2025). In the Neobanking market, the number of users is expected to amount to 21.75m users by 2028. User penetration will be 1.31% in 2025 and is expected to hit 1.47% by 2028.
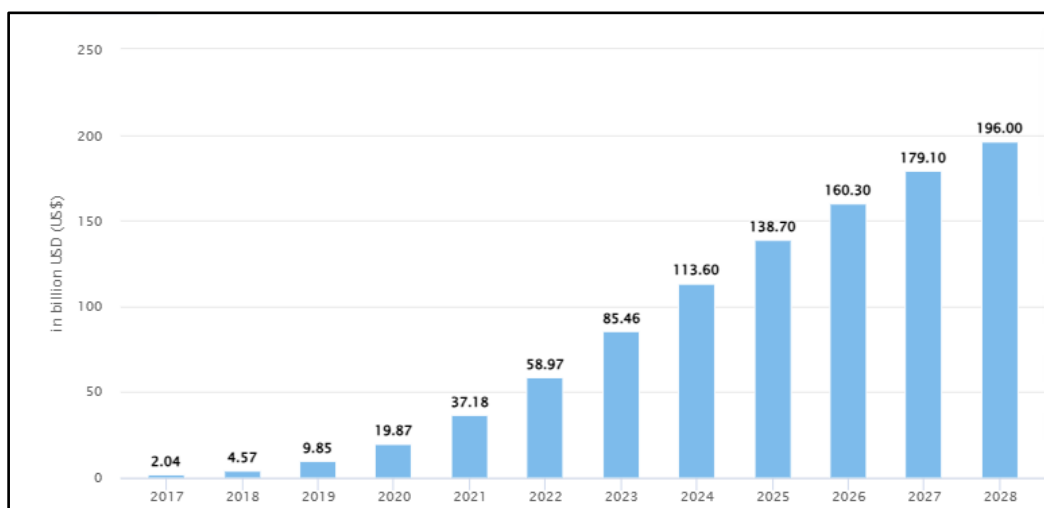
Notes: Data was converted from local currencies using average exchange rates for the respective year.

Most recent update: Mar 2024. Source: Statista Market Insights

LITERATURE OF REVIEW:

Nagy, S., Molnár, L., & Papp, A. (2023) have investigated Customer adoption of Neobank Services from a technology acceptance perspective – Evidence from Hungary. The main aim was to understand the usefulness, ease of use and attitude towards use of Neobank services. The convenient sampling technique was adopted with

the size of 475 respondents in European Union in Hungary. The data was analysed through SPSS 28 and AMOS. Structural Equation Model was used. Absolute and Relative Model fit was evaluated with a Chi-square. It was concluded that intention to use is directly influenced by attitude towards use, which in turn is positively influenced by trust, perceived usefulness and perceived ease of use.

Nithyakirrthy, P., Shanthi, R., & Pawar, P. S. (2024) studied the Dimensions of Risk in the Effect of Customers' Awareness and Knowledge on the Readiness to adopt Neobanks. The purpose of this study is to find out how aware consumers are about neobanks, as well as risk factors and readiness for neobank adoption. Additionally, the data was analysed by using percentage analysis of demographic profile of respondence, trend analysis, Regression and build SEM Model from the survey data of 169 respondents that had access to online banking services by using Convenient Sampling Technique in Chennai, Tiruvallur in Tamil Nadu and Bangalore in Karnataka, India. The findings indicate that while financial risk and security risk have no obvious association with knowledge, awareness and social risk have a substantial link with knowledge that results in readiness to use neobanks. The study concluded that banks must create electronic banking services to streamline operations and management. People are also not very aware of neobanks or the use of fintech.

Bhatnagr, P., & Rajesh, A. (2024) study was conducted on Neobanking adoption – An integrated UTAUT – 3 perceived risk and recommended model. The aim to study a conceptual model based on behavioral theories (UTAUT-3 model) to evaluate the adoption, usage and recommendation for Neobanking services in India. The survey method was adopted to collect data from 680 Delhi NCR respondents. Empirical results suggested that behavioral intention (BI) to usage, adoption and recommendation affects Neobanking adoption positively. The study concluded that it would help bank managers, risk professionals, IT Developers, regulators, financial intermediaries and Fintech companies planning to invest in or develop similar Neobanking services. Additionally, this research provides significant insight into how perceived risk determinants may impact adoption independently for the Neobanking service.

Matraku, G. (2024). The study explored the influence of nationality and financial literacy on satisfaction with neobank services among university students. A convenience sampling method was adopted, utilizing student groups on WhatsApp in the lectures. From 96 University students. Through a comparative analysis between German and international students, the study unveils that international students exhibit significantly higher satisfaction levels, suggesting that cultural differences and the requirement for international financial services play a crucial role. The data was analysed using Percentage Analysis, Ordinary Least Squares (OLS) regression and Analysis of Covariance (ANCOVA). The findings highlight the importance of tailored financial services and the potential of financial education in enhancing neobank satisfaction. The study deepens understanding of digital banking customer behavior and provides recommendations to neobanks aiming to increase adoption of services and client loyalty among college students.

Dr. Umakanth. S, Avinash Raj David, Anitha Jangid, Joseph Brendon, Mohammad Omar Sharieff, Sahil Rajpal, & Shreyas Mohan. (2023). This research aims to investigate the consumer perception of Neobanking services among the youth in India, with a special focus on the factors influencing their adoption and usage. The Data was collected from 72 respondents by using Convenient Sampling Technique by using Google Form. The data was analysed using Simple Percentage Analysis. This research has important implications for neobanks and traditional banks operating in the Indian market. Neobanks should focus on building trust and providing a secure and user-friendly interface to attract more youth consumers. The research finding indicates that most of the respondents haven't transacted online and 71.4% of the respondents have only one account.

RESEARCH GAP OF THE STUDY:
Customers' ignorance of the benefits and services offered by internet banking is one of the main causes of their reluctance to adopt it. Furthermore, it has been noted that a significant contributing reason to customers' reluctance to use online banking is a poor level of awareness about the service. Adoption and usage of internet banking are significantly impacted favorably by awareness of its benefits and services.

RESEARCH QUESTIONS:

Based on the literature review, the following research questions have been framed.

1. How familiar are the customer with the concept of neobanks?

2. What factors have contributed to the customer knowledge, awareness and risk of neobanks?

OBJECTIVES:

- To investigate the key factors influencing customer perceptions of neobanks in Palghar City, including factors such as security, convenience, trust, and perceived value.

- To examine the factors that drive or hinder the adoption of neobanks among residents of Palghar City, such as age, income, education level, and digital literacy.

- To analyze the relationship between customer perceptions and their actual adoption behavior of neobanks in Palghar City.

RESEARCH HYPOTHESIS:

H1: Individuals with higher levels of education will have more positive perceptions of neobanks in Palghar City.

H0: There is no significant relationship between education level and perceptions of neobanks in Palghar City.

H1: Individuals who perceive neobanks as more secure are more likely to adopt and use Neobanking services in Palghar City.

H0: There is no significant relationship between perceived security of Neobanks and the likelihood of adopting and using Neobanking services in Palghar City.

RESEARCH METHODOLOGY:

- **Data Source:** Using primary data, this study aims to improve customer perception and adopt Neobanks. The structural questionnaire provided the necessary information. Additionally, books, newspapers, articles and journals have provided secondary data.

- **Sampling technique:** The Simple Random Sampling Technique is used for this study through questionnaire method.

- **Sample size:** The sample size for the study is 181 respondents from the Palghar in Maharashtra, India.

- **Study Period:** The study takes a period of three months from December 2024 to February 2025.

- **Data Analysis:** In this study, the data is analysed using percentage analysis of demographic profile of respondence, One Way ANOVA and Binomial Logistic Regression.

- **Parameters of Variables:** The types of variables considered for the study are Education Level, Perception of towards Neobanks (Security, Convenience, Trustworthiness, Customer Service, Fees and Charges and Innovative Features) and Adoption of Neobanks

DATA ANALYSIS AND INTERPRETATION:

1. Demographic Profile of the respondents:

Demographic Profile (N=181)	Items	Frequency	Percentage (%)
Age (in years)	18-25	63	34.81
	26-35	44	24.31
	36-45	31	17.13
	46-55	37	20.44
	56 and above	6	3.31
Gender	Male	86	47.51
	Female	95	52.49
Education Level	SSC	30	16.57
	HSC/Diploma	10	5.53
	Bachelor's Degree	47	25.97
	Master's degree	81	44.75
	PhD	13	7.18
Monthly Income	Below ₹20,000	75	41.43
	₹20,000 - ₹40,000	59	32.60
	₹40,000 - ₹60,000	19	10.50
	₹60,000 - ₹80,000	10	5.53

	₹80,000 and above	18	9.94
Occupation	Student	26	14.36
	Employed (Private Sector)	99	54.70
	Employed (Government Sector)	16	8.84
	Self-Employed	18	9.94
	Business Owner	8	4.42
	Retired	2	1.10
	Homemaker	12	6.64
Regular use of the Internet per week	Daily	159	87.85
	Several times a week	12	6.63
	A few times a week	4	2.21
	Once a week	0	0
	Less than once a week	6	3.31
Comfort of using Online Banking Services	Very Comfortable	80	44.20
	Comfortable	64	35.36
	Neutral	31	17.13
	Uncomfortable	4	2.21
	Very Uncomfortable	2	1.10
Regular use of the Mobile Banking Applications per week	Daily	67	37.02
	Several times a week	50	27.63
	A few times a week	30	16.57
	Once a week	16	8.84
	Less than once a week	18	9.94
(Source: Primary Data)			

Interpretation: The demographic profile reveals a predominantly young and educated population among the respondents in Palghar City. A significant majority (87.85%) use the internet daily, indicating a high level of digital literacy. The majority of respondents are employed in the private sector (54.70%). A large proportion (80%) expressed being comfortable or very comfortable with online banking services. This suggests a digitally inclined and financially engaged population which could be a potential market for Neobanking services in Palghar City.

2. Perception and of Neobanks Survey Results

Descriptives						
	Security	**Convenience**	**Trustworthiness**	**Customer Service**	**Fees and Charges**	**Innovative Features**
N	181	181	181	181	181	181
Missing	0	0	0	0	0	0
Mean	3.83	3.66	3.71	3.61	3.10	3.59
Median	5	4	4	4	3	4
Standard deviation	1.42	1.30	1.36	1.37	1.41	1.33
Minimum	1	1	1	1	1	1
Maximum	5	5	5	5	5	5

3. Neobanking Services Frequency

Particulars (N=181)	Items	Frequency	Percentage (%)
Have you ever used a Neobanking service?	Yes	119	65.74
	No	62	34.26
How often do you use Neobanking Services?	Daily	22	12.15

Several times a week	41	22.66
A few times a week	29	16.02
Once a week	21	11.60
Less than once a week	68	37.57
(*Source:* Primary Data)		

Interpretation: The results indicate that respondents in Palghar City consider several factors highly important when choosing a banking service.

- **Security:** The highest mean rating (3.83) suggests that security is of utmost importance to respondents.

- **Trustworthiness:** With a mean rating of 3.71, trustworthiness is also highly valued.

- **Convenience:** Respondents rated convenience highly, with a mean rating of 3.66.

- **Customer Service:** While important, customer service received a slightly lower mean rating (3.61) compared to security, trustworthiness, and convenience.

- **Fees and Charges:** Respondents placed a moderate level of importance on fees and charges, with a mean rating of 3.10.

- **Innovative Features:** The mean rating for innovative features was 3.59, indicating a moderate level of importance.

- **Variability:** The standard deviation for each factor indicates some variability in responses. This suggests that while some respondents strongly emphasize certain factors, others may prioritize different aspects.

Adoption: A significant proportion (65.74%) of respondents in Palghar City have used Neobanking services, indicating a reasonable level of adoption.

Usage Frequency: Among users, a considerable number (22.66%) use Neobanking services "several times a week," while 37.57% use them "less than once a week." This suggests a range of usage frequencies among neobank users.

The findings suggest that respondents in Palghar City prioritize security, trustworthiness and convenience when considering banking services. While a significant proportion have adopted Neobanking services, usage frequency varies. These insights can be valuable for neobanks operating or planning to enter the Palghar City market to tailor their offerings and marketing strategies to meet the specific needs and preferences of the target audience.

Hypothesis 1: Education Level and Perceptions of Neobanks

1. One-Way ANOVA – Education Level as Grouping Variable Security as Dependent Variable

One-Way ANOVA (Welch's)				
	F	df1	df2	p
Security	0.277	4	38.0	0.891

Interpretation: The ANOVA results for "Security" revealed no statistically significant differences in perceived security of neobanks across different education levels in Palghar City. The p-value of 0.891 indicates that the observed variations in security perceptions among individuals with varying educational backgrounds are likely due to chance and not a systematic effect of education level. This suggests that education level does not significantly influence how individuals in Palghar City perceive the security of Neobanking services.

2. One-Way ANOVA – Education Level as Grouping Variable Convenience as Dependent Variable

One-Way ANOVA

One-Way ANOVA (Welch's)				
	F	df1	df2	p
Convenience	0.777	4	38.9	0.547

Interpretation: The p-value (0.547) is significantly greater than the typical alpha level of 0.05. This indicates that there is no statistically significant difference in the perceived convenience of neobanks across different education levels in Palghar City.

3. One-Way ANOVA – Education Level as Grouping Variable Trustworthiness as Dependent Variable

One-Way ANOVA (Welch's)				
	F	**df1**	**df2**	**p**
Trustworthiness	0.699	4	38.6	0.597

Interpretation: The ANOVA results for "Trustworthiness" show a p-value of 0.597, which is greater than the typical alpha level of 0.05. This indicates that there is no statistically significant difference in the perceived trustworthiness of neobanks across different education levels in Palghar City.

4. One-Way ANOVA – Education Level as Grouping Variable Customer Service as Dependent Variable

One-Way ANOVA (Welch's)				
	F	**df1**	**df2**	**p**
Customer service	0.122	4	37.2	0.974

Interpretation: The ANOVA results for "Customer Service" show a p-value of 0.974, which is significantly greater than the typical alpha level of 0.05. This indicates that there is no statistically significant difference in the perceived importance of customer service in neobanks across different education levels in Palghar City.

5. One-Way ANOVA – Education Level as Grouping Variable Fees and Charges as Dependent Variable

One-Way ANOVA (Welch's)				
	F	**df1**	**df2**	**p**
Fees and charges	0.920	4	38.1	0.463

Interpretation: The ANOVA results for "Fees and Charges" show a p-value of 0.463. Since the p-value (0.463) is greater than the typical alpha level of 0.05, we fail to reject the null hypothesis. There is no statistically significant difference in the perceived importance of fees and charges in neobanks across different education levels in Palghar City. Individuals with different levels of education do not significantly differ in how much importance they place on fees and charges when considering Neobanking services.

6. One-Way ANOVA – Education Level as Grouping Variable Innovative Features as Dependent Variable

One-Way ANOVA (Welch's)				
	F	**df1**	**df2**	**p**
Innovative features	0.359	4	37.9	0.836

Interpretation: The ANOVA results for "Innovative Features" show a p-value of 0.836, which is significantly greater than the typical alpha level of 0.05. This indicates that there is no statistically significant difference in the perceived importance of innovative features in neobanks across different education levels in Palghar City. Individuals with different levels of education do not significantly differ in how much importance they place on innovative features when considering Neobanking services.

7. One-Way ANOVA – Ever used Neobanking Service

One-Way ANOVA (Welch's)				
	F	**df1**	**df2**	**p**
Used Neobank	0.624	4	38.1	0.648

Group Descriptives					
	Education Level	**N**	**Mean**	**SD**	**SE**
Used Neobank	1	30	0.633	0.490	0.0895
	2	10	0.800	0.422	0.1333
	3	47	0.617	0.491	0.0717
	4	81	0.691	0.465	0.0516
	5	13	0.538	0.519	0.1439

Interpretation: The ANOVA results for "Used Neobank" show a p-value of 0.648. Since the p-value (0.648) is significantly greater than the typical alpha level of 0.05, we fail to reject the null hypothesis. There is no statistically significant difference in the proportion of individuals who have used Neobanking services across different education levels in Palghar City. The proportion of individuals who have used Neobanking services

does not appear to vary significantly between different education levels in Palghar City. Education level does not seem to be a significant predictor of neobank adoption among the respondents.

Hypothesis 2: Perceived Security and Neobank Adoption

Binomial Logistic Regression

Model Fit Measures			
Model	**Deviance**	**AIC**	R^2_{McF}
1	233	237	3.31e-4

Model Coefficients - Used_Neobank							
		95% Confidence Interval					
Predictor	**Estimate**	**Lower**	**Upper**	**SE**	**Z**	**p**	**Odds ratio**
Intercept	0.6061	0.161	1.051	0.227	2.671	0.008	1.83
Perceived_Secure	0.0870	-0.528	0.702	0.314	0.277	0.781	1.09
Note: Estimates represent the log odds of "Used_Neobank = 1" vs. "Used_Neobank = 0"							

Interpretation: The logistic regression analysis does not provide significant evidence to support the hypothesis that individuals who perceive neobanks as more secure are more likely to adopt Neobanking services. The p-value for "Perceived_Secure" is not statistically significant, suggesting that the observed relationship between perceived security and neobank adoption may be due to chance. Based on the logistic regression analysis, there is no strong evidence to suggest that perceiving neobanks as secure significantly increases the likelihood of adopting Neobanking services among individuals in Palghar City.

CONCLUSION

This study aimed to investigate customer perceptions of neobanks and their adoption behavior in Palghar City. The findings reveal that security, trustworthiness and convenience are the most crucial factors influencing customer perceptions of Neobanking services. While a significant proportion of respondents have adopted Neobanking services, usage frequency varies.

The analysis did not find a significant association between education level and perceptions of neobanks, suggesting that individuals across different educational backgrounds hold similar views regarding the importance of various factors in choosing a banking service. Similarly, the study did not find a significant relationship between perceiving neobanks as more secure and the likelihood of adopting them. These findings suggest that while Neobanking services have gained some traction in Palghar City, there is still room for growth. Building trust, emphasizing security features and ensuring user-friendly and convenient platforms will be crucial for attracting a wider customer base. Further research could explore the role of age, income and digital literacy in greater detail to understand the specific needs and preferences of different customer segments.

IMPLICATIONS:

For Neobanks:

- **Prioritize Security and Trust:** Given the high importance placed on these factors, neobanks should prioritize robust security measures, transparent communication about their security protocols and build strong customer trust through ethical and responsible business practices.

- **Enhance Convenience:** Focus on features that enhance user experience and convenience, such as easy account opening, 24/7 customer support seamless integration with other financial services and personalized offerings.

- **Competitive Pricing:** While not the primary concern, offering competitive pricing and transparent fee structures can be a valuable differentiator in the market.

- **Target Specific Segments:** While education level did not significantly influence perceptions, further analysis can explore the role of other demographic factors (age, income, occupation) to identify specific target segments and tailor marketing strategies accordingly.

- **Innovative Features:** Emphasize the development and promotion of innovative features that address the specific needs and preferences of the target audience in Palghar City, such as local payment options, partnerships with local businesses and financial management tools.

For Consumers:

- **Financial Literacy:** Encourage financial literacy initiatives to empower consumers to make informed decisions about choosing and using Neobanking services.

- **Critical Evaluation:** Educate consumers to carefully evaluate the security features, customer service offerings and fee structures of different neobanks before planning.

For Policymakers:

- **Conducive Regulatory Environment:** Create a supportive regulatory framework that encourages innovation and responsible growth in the Neobanking sector while ensuring consumer protection.

- **Financial Inclusion:** Implement policies that promote the adoption of Neobanking services among underserved segments of the population, such as those in rural areas or with limited access to traditional banking services.

LIMITATIONS AND SCOPE FOR FUTURE RESEARCH:

- **Explore the role of other socio-demographic factors:** Investigate the impact of age, income, occupation and digital literacy on neobank adoption and perceptions in greater detail.

- **Analyze the impact of specific neobank features:** Conduct in-depth analysis of the impact of specific features (e.g., peer-to-peer payments, investment options, personalized financial management tools) on customer satisfaction and usage behavior.

- **Investigate the role of marketing and promotions:** Analyze the effectiveness of different marketing channels and strategies in driving neobank adoption.

- **Conduct longitudinal studies:** Track changes in neobank usage and customer perceptions over time to understand the evolving landscape of Neobanking in Palghar City.

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