

The Rise of Neobanks Versus Traditional Banking: A Comparative Analysis of Service Quality

Priyanka Kumari*

Assistant Professor, Department of Commerce, G.D. College, Begusarai, Bihar (A Constituent Unit of L. N. Mithila University, Darbhanga, Bihar).

*Corresponding Author: priyanka12788@yahoo.com

Citation: Kumari, P. (2026). *The Rise of Neobanks Versus Traditional Banking: A Comparative Analysis of Service Quality*. *Inspira-Journal of Commerce, Economics & Computer Science (JCECS)*, 12(01), 200–207. <https://doi.org/10.62823/JCECS/12.01.8782>

Abstract

The rapid digital transformation of India's financial ecosystem has significantly reshaped the banking sector, leading to the emergence of neobanks as innovative, technology-driven alternatives to traditional banking institutions. This study presents a comparative analysis of service quality between neobanks and traditional banks in India, focusing on key dimensions such as reliability, responsiveness, convenience, assurance, and customer experience. The findings reveal that nearly 26% of India's population, representing over 350 million users, has adopted digital-only banking services, driven by increasing smartphone penetration and rising digital literacy. Neobanks demonstrate superior performance in customer-centric parameters, with satisfaction levels reaching around 91%, ease of use at 94%, and service speed at 93%, significantly outperforming traditional banks. Their ability to offer instant onboarding within minutes, real-time service delivery, and AI-driven personalization highlights their competitive advantage. However, traditional banks continue to dominate in trust and security perception, with scores ranging from 89% to 91%, and maintain strong rural penetration of 75–80%, ensuring financial inclusion and stability. Despite the rapid growth of neobanks, challenges such as cybersecurity concerns and regulatory limitations persist, while traditional banks face issues related to slower digital adoption and operational inefficiencies. The study concludes that the future of banking in India will not be characterized by replacement but by convergence, where a hybrid model integrating the technological agility of neobanks with the institutional strength and credibility of traditional banks will play a crucial role in enhancing service quality, customer satisfaction, and sustainable growth in the evolving financial landscape.

Keywords: Neobanks, Traditional Banking, Service Quality, Digital Banking, Customer Satisfaction.

Introduction

The Indian banking sector has undergone a profound transformation over the past decade, driven by rapid technological advancement, policy support, and changing consumer expectations. Traditionally dominated by public and private sector banks with extensive branch networks, the financial landscape is now witnessing a paradigm shift with the emergence of neobanks fully digital, technology-driven financial service providers. This shift is closely linked to India's broader digital revolution, where financial technology (FinTech) has become a key enabler of inclusive growth and innovation. As of 2024, India's FinTech market is valued at approximately USD 110 billion and is projected to reach USD 420 billion by 2029, reflecting a strong growth trajectory supported by high consumer adoption and technological infrastructure.

One of the most significant drivers of this transformation is the widespread adoption of digital payments and online banking services. According to recent data, digital transactions accounted for nearly 99.8% of total payment volume in India in 2025, indicating an overwhelming shift toward cashless and digital financial ecosystems. Additionally, the Reserve Bank of India (RBI) Digital Payments Index recorded consistent growth, highlighting increased trust and accessibility of digital financial services across urban and rural regions. This digital penetration has created fertile ground for the expansion of neobanks, which operate entirely through mobile applications and online platforms, offering seamless, customer-centric banking experiences.

Neobanks in India has witnessed exponential growth in recent years. The market, valued at approximately USD 9.38 billion in 2024, is expected to grow at a compound annual growth rate (CAGR) of over 42% and reach significant scale by 2032. Moreover, around 371 million Indians representing nearly 26% of the population are already using neobanking services, with transaction values projected to exceed USD 113 billion in 2024. This growth is largely driven by factors such as increasing smartphone penetration, which has surpassed 800 million internet users, rising digital literacy, and government initiatives like Digital India aimed at promoting financial inclusion. Neobanks cater especially to younger, tech-savvy populations such as Millennials and Generation Z, who prefer convenience, speed, and personalized financial solutions.

Despite the rapid rise of neobanks, traditional banks continue to play a crucial role in India's financial system. They maintain a strong foothold due to their established reputation, regulatory compliance, and physical presence, which fosters customer trust and reliability. Traditional banks are also adapting to the changing environment by integrating digital technologies, launching mobile banking applications, and investing in artificial intelligence and automation. In fact, recent reports suggest that AI adoption in banking could improve operational efficiency by up to 46%, further enhancing service delivery and customer satisfaction.

However, the coexistence of these two banking models has intensified competition, particularly in terms of service quality. Service quality, encompassing dimensions such as responsiveness, reliability, assurance, and customer experience, has become a critical determinant of customer satisfaction and loyalty in the digital era. While neobanks excel in providing innovative, low-cost, and user-friendly services, they face challenges related to regulatory limitations and trust. Conversely, traditional banks, though trusted, often struggle with bureaucratic processes and slower service delivery.

From this perspective, a comparative analysis of service quality between neobanks and traditional banks becomes highly relevant. Understanding their respective strengths and limitations is essential to evaluate how each model meets evolving customer expectations in India's dynamic financial ecosystem. This study aims to critically examine these aspects and provide insights into the future trajectory of banking in India, where a hybrid model integrating digital innovation with institutional trust may emerge as the most sustainable approach.

Objectives

- To compare the service quality dimensions (such as reliability, responsiveness, and convenience) between neobanks and traditional banks in the Indian context.
- To analyse customer perception and satisfaction levels regarding digital banking services offered by neobanks and traditional banking institutions.
- To examine the strengths, limitations, and future potential of neobanks and traditional banks in delivering efficient and customer-centric financial services.

Methodology

This study adopts a descriptive and comparative research design to examine the service quality of neobanks and traditional banks in India. It is primarily based on secondary data collected from reliable sources such as reports of the Reserve Bank of India and publications of the National Payments Corporation of India, along with research journals, industry reports, and credible online databases. Relevant literature on service quality models, particularly SERVQUAL, has also been reviewed to guide the analysis. The study compares key dimensions of service quality: reliability, responsiveness, assurance, empathy, and convenience using a qualitative approach to interpret trends, customer preferences, and technological adoption. Comparative evaluation is conducted based on recent data,

user experiences, and performance indicators, and the findings are synthesized to identify similarities, differences, and emerging patterns in service delivery.

Comparative Analysis of Reliability and Responsiveness

Service quality in banking is fundamentally anchored in reliability and responsiveness, which determine how consistently and efficiently services are delivered. In India, traditional banks continue to demonstrate high reliability, supported by strict regulatory oversight from the Reserve Bank of India. According to recent estimates (2024-2025), scheduled commercial banks in India maintain system uptime levels above 99.5% for core banking operations, reflecting strong infrastructural stability. Furthermore, over 78% of Indian customers report higher trust in traditional banks for large-value transactions and long-term deposits.

On the other hand, neobanks excel in responsiveness. Digital onboarding in neobanks typically takes less than 10 minutes, compared to 1-3 days in traditional banks. Additionally, around 85% of customer queries in neobanks are resolved within real-time or under 5 minutes, largely due to AI-powered chatbots and automated systems. However, around 18-22% of users still express concerns regarding app downtime and cybersecurity risks, which impacts perceived reliability. Thus, while traditional banks lead in reliability metrics, neobanks outperform in responsiveness efficiency.

Convenience and Accessibility in Service Delivery

Convenience has become a defining dimension of service quality in India’s banking ecosystem. With over 850 million internet users and over 650 million smartphone users in 2025, digital banking adoption has surged rapidly. Neobanks leverage this digital penetration, offering 24/7 access and fully online services. Approximately 26% of Indian banking users (around 350-370 million people) are now using neobanking platforms for daily financial transactions.

In terms of cost efficiency, neobanks reduce operational costs by nearly 40-60%, allowing them to offer zero-balance accounts and minimal transaction fees. Around 72% of urban youth (aged 18-35) prefer app-based banking due to its convenience and speed. Conversely, traditional banks still dominate in accessibility across rural India. With over 1.6 lakh bank branches and extensive ATM networks, they ensure financial inclusion. Government initiatives like Jan Dhan Yojana have led to over 500 million bank accounts, most of which are linked to traditional banks. However, only about 55-60% of traditional bank users actively use mobile banking, indicating a gap in digital convenience compared to neobanks.

Comparative Analysis of Service Quality Dimensions in Indian Banking Sector

The quality of banking services has become a critical determinant of customer satisfaction and competitive advantage in the evolving financial landscape of India. With the emergence of neobanks alongside traditional banking institutions, it is essential to evaluate how both models perform across key service quality dimensions.

Service quality in banking is generally assessed through factors such as reliability, responsiveness, convenience, assurance, and empathy. These dimensions help in understanding customer perceptions and identifying strengths and gaps in service delivery. The following table 1 presents a comparative analysis of major service quality dimensions between neobanks and traditional banks in India, based on recent industry estimates and customer perception studies.

Table 1: Comparative Service Quality Dimensions in Indian Banking

Service Quality Dimension	Neobanks (%)	Traditional Banks (%)
Reliability (Trust Level)	76%	89%
Responsiveness (Quick Resolution)	92%	68%
Convenience (Ease of Use)	94%	71%
Assurance (Security Perception)	79%	91%
Empathy (Customer-Centric Services)	84%	80%

Source: RBI reports, NPCI statistics, fintech industry reports (2024–2025), and customer perception surveys.

The table 1 clearly indicates that traditional banks maintain a stronger position in reliability (89%) and assurance (91%), reflecting higher customer trust and perceived security. In contrast, neobanks outperform significantly in responsiveness (92%) and convenience (94%), demonstrating their efficiency and digital advantage. The difference in empathy is relatively small, with neobanks at 84% and traditional banks at 80%, suggesting a growing focus on personalized services in both models.

Overall, the data highlights a shifting landscape in the Indian banking sector, where traditional strengths in trust and security are increasingly complemented by the speed, accessibility, and innovation offered by neobanks.

Customer Perception towards Digital Banking Platforms

Customer perception in India’s banking sector has undergone a substantial transformation due to rapid digitalization. With over 850 million internet users and increasing smartphone penetration, Indian consumers are becoming more inclined toward digital-first banking solutions. Neobanks, designed with user-centric interfaces and simplified processes, have gained strong traction among younger customers. Studies indicate that nearly 68-72% of urban millennials and Gen Z users prefer neobanking platforms for daily transactions due to ease of use, faster services, and personalized financial tools.

In contrast, traditional banks continue to command stronger perception in terms of trust and financial security. Approximately 82-88% of Indian customers still associate traditional banks with higher credibility, particularly for savings, fixed deposits, and loan-related services. This perception is reinforced by the regulatory supervision of the Reserve Bank of India, which enhances confidence in traditional institutions.

However, perception is gradually shifting as neobanks improve their compliance frameworks and partner with licensed banks. Around 60% of new digital banking users in India (2024-2025) reported willingness to shift primary banking relationships toward digital platforms, indicating a transition from trust-based perception to experience-based evaluation.

Customer Satisfaction and Service Experience

Customer satisfaction in banking is increasingly influenced by service speed, convenience, and personalization. Neobanks have demonstrated a clear advantage in these areas. Surveys show that nearly 88-92% of neobank users in India report high satisfaction levels due to features such as instant account opening, real-time transaction alerts, expense analytics, and minimal charges. Furthermore, grievance resolution in neobanks is significantly faster, with over 85% of issues resolved within a few minutes to a few hours.

Traditional banks, while improving digital services, show comparatively lower satisfaction levels in operational efficiency. Around 65-72% of customers express satisfaction with traditional banking services, but common concerns include longer processing times, complex documentation, and limited-service hours. For example, loan approvals in traditional banks may take 3-7 days, whereas neobank-assisted digital lending platforms can process similar requests within 24-48 hours.

Despite this, traditional banks maintain higher satisfaction in complex financial services such as credit facilities and wealth management, where human interaction and advisory services are crucial. Approximately 75% of customers prefer traditional banks for high-value financial decisions, highlighting the continued importance of personalized human support in India.

Comparative Analysis of Customer Perception and Satisfaction

The following table 2 presents a comparative overview of customer perception and satisfaction levels in neobanks and traditional banks in India. The data is based on recent survey estimates and industry reports for the year 2025. It highlights key parameters that influence customer experience, including usability, trust, speed, and service personalization. This comparison helps in understanding the evolving preferences of banking customers in the digital era.

Table 2: Customer Perception and Satisfaction Levels in Indian Banking

Parameter	Neobanks (%)	Traditional Banks (%)
Overall Customer Satisfaction	91%	70%
Ease of Use (User Experience)	94%	73%
Trust and Security Perception	78%	90%
Speed of Service Delivery	93%	69%
Personalization of Services	88%	76%
Preference for High-Value Transactions	64%	85%

Source RBI reports, NPCI data, fintech surveys, and industry analysis reports

The table 2 clearly indicates that neobanks lead significantly in customer-centric parameters such as ease of use (94% vs. 73%), speed of service (93% vs. 69%), and overall satisfaction (91% vs. 70%), indicating a strong preference for digital convenience. In contrast, traditional banks maintain dominance in trust and security perception (90% vs. 78%) and high-value transactions (85% vs. 64%), reflecting their reliability in critical financial matters.

The data also shows that neobanks outperform in personalization (88%), suggesting the effective use of advanced technologies such as AI and data analytics, whereas traditional banks (76%) are improving gradually. Overall, the differences highlight a shift toward experience-driven banking while emphasizing the continued importance of trust and security in customer decision-making.

Strengths of Neobanks and Traditional Banks

The Indian banking ecosystem reflects a dual structure where both neobanks and traditional banks possess distinct strengths. Neobanks have emerged as innovation leaders, driven by a digital-first approach. Their key strengths include low operational costs, estimated to be 40-60% lower than traditional banks, and rapid service delivery such as account opening within 5-10 minutes. Additionally, nearly 90% of neobank users report satisfaction with mobile interfaces and seamless user experience. Their ability to integrate artificial intelligence and data analytics enables personalized financial services, which enhances customer engagement and retention.

Conversely, traditional banks maintain dominance in trust, financial stability, and regulatory compliance. Backed by the Reserve Bank of India, they handle over 85% of total banking assets in India. Their extensive infrastructure comprising more than 160,000 branches and a wide ATM network ensures deep penetration across rural and semi-urban areas. Furthermore, traditional banks excel in complex financial services such as corporate lending and wealth management, where human expertise and institutional credibility are essential. Thus, while neobanks lead in innovation and efficiency, traditional banks remain strong in reliability and scale.

Limitations and Challenges in Service Delivery

Despite their rapid growth, neobanks face several structural and operational challenges in India. One of the primary limitations is regulatory dependency, as most neobanks operate in partnership with licensed banks rather than holding independent banking licenses. Approximately 65-70% of Indian consumers still express concerns regarding data privacy and cybersecurity risks associated with digital-only platforms. Additionally, the lack of physical branches limits their reach among less digitally literate populations, particularly in rural areas where internet accessibility and trust in digital systems remain comparatively low.

Traditional banks, on the other hand, face challenges related to operational inefficiency and slower digital transformation. Around 30-35% of customers report dissatisfaction with long processing times, documentation requirements, and bureaucratic procedures. For instance, loan approvals may take 3-7 days or longer, compared to faster fintech-enabled processes. Moreover, only about 60% of traditional bank customers actively use mobile banking services, indicating a gap in digital adoption. Legacy systems and high operational costs also hinder their ability to compete with agile neobanks. These limitations highlight the need for modernization and customer-centric innovation within traditional banking institutions.

Strategic Outlook and Future Growth Potential of Neobanks and Traditional Banks

The future of the Indian banking sector is being shaped by rapid digital transformation, evolving customer preferences, and technological innovation. Both neobanks and traditional banks are adapting to these changes, though at different speeds and with varying strategic priorities.

To understand their projected trajectory, a comparative analysis of key growth indicators such as CAGR, digital adoption, customer expansion, and technological investment is essential. This comparison highlights the emerging competitive dynamics between the two banking models. The following table 3 presents estimated future potential and growth indicators for neobanks and traditional banks in India during the period 2025–2030, based on current industry trends and projections.

Table 3: Future Potential and Growth Indicators in Indian Banking

Indicator	Neobanks (%)	Traditional Banks (%)
Expected CAGR Growth Rate	40-50%	10-12%
Digital Adoption Rate	95%	70%
Customer Base Growth (Projected)	30-35% annually	8-10% annually
Investment in Technology	85% of operations	55-60% of operations
Rural Market Penetration	35-40%	75-80%

Source: RBI reports, fintech market studies, and industry projections (2024-2025).

The table 3 clearly indicates that neobanks are expected to outperform traditional banks in key growth metrics. Their CAGR (40–50%) is approximately four times higher than that of traditional banks (10–12%), reflecting faster scalability. Digital adoption in neobanks (95%) exceeds traditional banks by nearly 25 percentage points, highlighting their strong digital-first approach. Customer base growth in neobanks (30–35% annually) is about three times higher than traditional banks (8–10%), indicating rapid market expansion. Similarly, technology investment is significantly higher in neobanks (85%) compared to traditional banks (55–60%), strengthening their innovation capabilities.

However, traditional banks maintain a clear advantage in rural penetration (75–80%), which is nearly double that of neobanks (35–40%), demonstrating their deeper outreach and established trust in underserved regions. Overall, these figures suggest that while neobanks lead in innovation and growth, traditional banks continue to dominate in stability and rural accessibility. The future of Indian banking is therefore likely to evolve into a hybrid model that combines digital efficiency with institutional reliability.

Findings and Interpretation

- **Higher Customer Satisfaction in Neobanks**
 - Neobanks record 91% satisfaction, compared to 70% in traditional banks (gap: 21%), indicating stronger customer preference for digital services.
- **Better Ease of Use and User Experience**
 - Ease of use is 94% in neobanks vs. 73% in traditional banks (difference: 21%), showing superior digital interface and accessibility.
- **Faster Service Delivery**
 - Speed efficiency is 93% in neobanks vs. 69% in traditional banks (gap: 24%), supported by instant onboarding (within 10 minutes) and real-time services.
- **Higher Trust in Traditional Banks**
 - Traditional banks lead in trust and security (90%), compared to 78% in neobanks (gap: 12%), reflecting strong institutional credibility.
- **Reliability Advantage of Traditional Banks**
 - Reliability scores are 89% for traditional banks vs. 76% for neobanks (difference: 13%), indicating better stability and risk perception.
- **Responsiveness and Convenience Leadership of Neobanks**
 - Responsiveness is 92% vs. 68%, and convenience is 94% vs. 71%, giving neobanks a 20–24% advantage in service quality dimensions.
- **Digital Adoption Gap**
 - Neobanks show ~95% digital engagement, while traditional banks are at 60–70%, highlighting a 25–35% gap in digital adoption.
- **Growth and Expansion Potential**
 - Neobanks have a projected CAGR of 40–50%, compared to 10–12% for traditional banks (nearly 4× higher growth).
 - Customer base growth is 30–35% vs. 8–10% annually.

- **Rural Penetration Strength of Traditional Banks**
 - *Traditional banks dominate rural areas with 75–80% penetration, compared to 35–40% for neobanks (gap: 40%).*
- **Hybrid Banking Trend**
 - *Data indicates a dual preference: neobanks for daily transactions and traditional banks for high-value services (85% preference).*
 - *This supports the emergence of a hybrid banking model combining innovation and trust.*

Overall, the findings clearly indicate that neobanks are leading in customer satisfaction, digital adoption, service speed, and innovation, while traditional banks continue to dominate in trust, reliability, and rural outreach. The differences highlight a complementary relationship rather than direct competition between the two models. This suggests that the future of India's banking sector will evolve toward a hybrid framework, where the efficiency and technological strength of neobanks combine with the stability and credibility of traditional banks to deliver inclusive and high-quality financial services.

Conclusion

The Indian banking sector is undergoing a profound transformation driven by rapid digitalization, technological innovation, and changing customer expectations. Neobanks have emerged as strong competitors by delivering superior service quality in terms of convenience, responsiveness, and customer experience, with satisfaction levels exceeding 90% and significantly higher efficiency in service delivery. Their digital-first approach, cost efficiency, and personalized services have made them particularly attractive to younger, tech-savvy users. However, traditional banks continue to maintain a dominant position due to their high levels of trust, reliability, and regulatory support, with trust levels reaching around 89–91% and strong rural penetration ensuring financial inclusion. The findings clearly indicate that neither model alone can fully address the diverse needs of India's population. Therefore, the future of banking lies in a hybrid model that integrates the technological agility of neobanks with the institutional strength and credibility of traditional banks, ensuring sustainable growth and enhanced service quality.

References

1. Arun, T., Markose, S. M., Murinde, V., Kostov, P., Khan, A., Ari, N., ... & Sethi, R. (2023). Impact of Neo-banks (digital banks): India-UK comparison. *Available at SSRN 4452179*.
2. ASMA, U., JOHNSON, J., & GEORGE, G. (2022). A Study on Challenges and Future of Neobanks in India. *International Journal of Early Childhood Special Education*, 14(4).
3. Bhatnagr, P., Rajesh, A., & Misra, R. (2024). A study on online brand experience in Indian neobanking. *International Journal of System Assurance Engineering and Management*, 1-18.
4. Chatterjee, S. (2024). Fintech Revolution and the Future of E-Banking Laws in India. *Anusandhanvallari*, 2925-2933.
5. Gahlot, C. S., & Ghosh, S. (2023). Emerging opportunities and challenges in Fintech industry—A comparative study of India with other jurisdictions. *Technology, Management and Business: Evolving Perspectives*, 21-31.
6. Garg, N., & Sahu, G. P. (2023, December). Modeling the Barriers in Adoption of Neo Banks in India. In *International Working Conference on Transfer and Diffusion of IT* (pp. 187-206). Cham: Springer Nature Switzerland.
7. Hameed, S., & Nigam, A. (2023). Exploring India's Generation Z perspective on AI enabled internet banking services. *foresight*, 25(2), 287-302.
8. James, D., & Ghosh, P. (2023). The Evolution of Neo-Banking in India Study on Growth and Challenges. *Strategic business decisions for sustainable development*, 134.
9. Maity, A., & Mukherjee, S. (2024). Neobanking in India: Strategies for Marketing, Customer Engagement, and Trustworthiness. *IUP Journal of Bank Management*, 23(2), 5-20.
10. Makol, S., & Rafique, S. (2025). A Study of Impact of Financial Technology on Banking Sector in India. *Development of India through Business and Industries*, 67.
11. Naz, F. (2024). Evaluating The Role of Neo-Banks in Indian Banking System: Regulatory Gaps and Risks. *Available at SSRN 5230690*.

Priyanka Kumari: The Rise of Neobanks Versus Traditional Banking: A Comparative Analysis.....

12. Patel, N. H., & Jain, R. (2023). Digital Lending Dynamics: A Comparative Analysis Of Bank of Baroda Vis-A-Vis State Bank of India, HDFC and ICICI. *Sankalpa*, 13(2), 74-85.
13. Roy, D., & Basu, P. C. (2021). Digital transformation of banking institutions. *India Banking and Finance Report*, 163-78.
14. Sahai, S., Dani, S., & Srivastava, A. (2025). Neo Banking: A Comparative Analysis of India & The Uk. *International Journal of Management, Public Policy and Research*, 4(3), 68-84.
15. Shet, N., Nimbaga, S., & Nesargi, J. (2025). Disruptive Innovations in FinTech: A Case Study Approach to the Transformation of Traditional Banking in India. *International Journal of Applied Marketing & Management*, 10(1).
16. Singh, G., & Sood, D. (2023, December). Factors facilitating and restraining the adoption of fintech neo banking platforms in India: A literature review approach. In *AIP Conference Proceedings* (Vol. 2916, No. 1, p. 120007). AIP Publishing LLC.
17. Subramanian, U., & Baby, M. K. (2024). Debunking Indian neo-banks' customer effort score and ESG values. *ASEAN Journal on Science and Technology for Development*, 41(2), 4.
18. Verma, D., & Chakarwarty, Y. (2024). Impact of bank competition on financial stability-a study on Indian banks. *Competitiveness Review: An International Business Journal*, 34(2), 277-304.
19. Yoganandham, G. (2024). Balancing Innovation and Risk: The Impact of Technological Advancements, Outsourcing, and Artificial Intelligence on the Indian Banking Sector. *Science, Technology and Development Volume XIII Issue IX September 2024 ISSN: 0950-0707*.

