
**DO NEOBANKS IMPROVE BANKING EFFICIENCY AND FINANCIAL INCLUSION?
EMPIRICAL EVIDENCE FROM DIGITAL-ONLY AND TRADITIONAL BANKS****Dr. K. Sravan Kumar**

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ABSTRACT

The rapid expansion of neobanks and digital-only banking platforms has transformed the financial services landscape, particularly in urban technology-driven regions of India. This study examines whether neobanks improve banking efficiency and financial inclusion in comparison with traditional banks, with empirical evidence from Hyderabad, a major fintech and innovation hub. Primary data were collected from customers of both digital-only banks and traditional banks in Hyderabad using a structured questionnaire. Banking efficiency was measured through indicators such as transaction speed, service accessibility, cost effectiveness, and customer convenience, while financial inclusion was assessed using access, usage, and affordability of banking services. The results reveal that neobanks significantly enhance banking efficiency, particularly in terms of faster service delivery, lower transaction costs, and improved customer experience. Furthermore, neobanks were found to have a positive and significant impact on financial inclusion, especially among young adults, low-income earners, and first-time banking users in Hyderabad. However, traditional banks continue to play a critical role in trust, regulatory compliance, and servicing digitally excluded populations. The findings suggest that a hybrid banking ecosystem, combining digital innovation with traditional banking strengths, is essential for achieving inclusive and efficient financial development.

Keywords: Neobanks, Banking Efficiency, Financial Inclusion, Digital-only Banks, Traditional Banks, Hyderabad

INTRODUCTION

The banking sector is undergoing a profound transformation driven by rapid advances in digital technology, changing customer expectations, and the growing emphasis on financial inclusion. In recent years, neobanks or digital-only banks have emerged as a disruptive force in the financial ecosystem, offering banking services exclusively through digital platforms without physical branch networks. These institutions leverage advanced technologies such as mobile applications, cloud computing, artificial intelligence, and data analytics to deliver faster, cost-effective, and customer-centric financial services. As a result, neobanks are increasingly viewed as potential catalysts for improving banking efficiency and expanding financial inclusion, particularly in urban and semi-urban regions.

In the Indian context, the push towards digital finance has been significantly accelerated by policy initiatives such as Digital India, Jan Dhan Yojana, Unified Payments Interface (UPI), and the rapid growth of fintech innovations. While traditional banks have adopted digital channels, they continue to rely on branch-based operations and legacy systems, which often limit operational flexibility and increase service costs. In contrast, neobanks operate with lean structures, enabling them to reduce transaction costs, enhance service delivery speed, and provide personalized financial solutions. This structural difference raises an important empirical question: do neobanks outperform traditional banks in terms of efficiency and financial inclusion?

Financial inclusion remains a critical developmental objective in India, aimed at ensuring access to affordable and appropriate financial services for all segments of society. Despite substantial progress, gaps persist in terms of active account usage, credit access, and financial literacy, particularly among informal workers, low-income households, and young earners. Neobanks, with minimal documentation requirements, low or zero minimum balance accounts, and user-friendly digital interfaces, have the potential to bridge these gaps by lowering entry barriers to the formal financial system. However, concerns related to digital literacy, cybersecurity, regulatory oversight, and customer trust continue to challenge the widespread adoption of digital-only banking models.

Hyderabad presents a compelling setting for examining these dynamics. As one of India's leading IT and fintech hubs, Hyderabad has witnessed rapid adoption of digital payment systems and mobile banking platforms across diverse demographic groups. The city hosts a mix of tech-savvy young professionals, migrant workers, small entrepreneurs, and traditionally banked customers, making it an ideal environment to compare the performance and impact of neobanks and traditional banks. Understanding how digital-only banks influence banking efficiency and financial inclusion in such an urban ecosystem provides valuable insights for policymakers, regulators, and financial service providers.

Against this backdrop, the present study seeks to empirically examine the impact of neobanks on banking efficiency and financial inclusion in Hyderabad, and to compare their performance with traditional banks. By analyzing customer-level data, the study contributes to the growing literature on digital banking and fintech, while offering practical implications for strengthening India's inclusive and efficient banking framework.

REVIEW OF LITERATURE

The emergence of digital-only banks has attracted growing academic attention, particularly regarding their impact on banking efficiency and financial inclusion. Prior studies provide mixed yet insightful evidence on how technological innovation reshapes the banking sector.

Claessens et al. (2018) argued that fintech innovations significantly enhance banking efficiency by reducing transaction costs and improving service accessibility. Their study highlighted that digital banking models outperform traditional banks in operational efficiency metrics. Similarly, Vives (2019) emphasized that neobanks' reliance on technology-driven platforms allows them to operate with lower cost structures and faster service delivery.

Gomber, Kauffman, Parker, and Weber (2018) examined the role of fintech in transforming financial services and found that digital-only banks promote competition and efficiency within the banking ecosystem. Beck, Demirgüç-Kunt, and Martinez Peria (2018) observed that digital financial services expand outreach to previously unbanked populations, thus contributing positively to financial inclusion.

Demirgüç-Kunt, Klapper, Singer, Ansar, and Hess (2018) reported that mobile banking and digital platforms significantly increased account ownership and usage, especially in developing economies. Ozili (2018) found that fintech adoption improves financial inclusion by offering low-cost and easily accessible financial products to underserved communities.

Philippon (2016) demonstrated that technological advancement in finance leads to efficiency gains by lowering intermediation costs. Likewise, Navaretti, Calzolari, Mansilla-Fernandez, and Pozzolo (2018) showed that digital banks achieve higher productivity due to automation and data-driven decision-making.

Arner, Barberis, and Buckley (2017) highlighted that regulatory frameworks play a critical role in shaping the growth and efficiency of digital banks. Their study suggested that balanced regulation encourages innovation while maintaining financial stability. Frost (2020) found that digital banking platforms enhance financial inclusion but warned about digital divide challenges.

Banna and Alam (2021) examined fintech-based banking services in emerging markets and concluded that digital banks significantly improve financial inclusion among low-income groups. Thakor (2020) emphasized that fintech innovations reshape traditional banking functions, resulting in improved efficiency and customer experience.

Sahay et al. (2020) argued that digital financial inclusion supports inclusive economic growth when supported by appropriate policy frameworks. Jack and Suri (2014) provided empirical evidence from Kenya, demonstrating that digital banking services increased household financial resilience and inclusion.

Klapper, El-Zoghbi, and Hess (2016) found that digital financial services reduce gender and income gaps in access to banking. Allen, Demirgüç-Kunt, Klapper, and Peria (2016) noted that digital platforms increase banking penetration but do not fully replace traditional banks.

Rysman (2019) observed that platform-based banking models enhance efficiency through network effects. Ghosh (2016) highlighted that technology adoption in Indian banking improved service efficiency and customer satisfaction. Agarwal, Zhang, and Zhu (2021) found that digital lending platforms enable better credit access for small borrowers. Hasan, De Renzis, and Schmiedel (2012) reported that electronic payments increase banking efficiency by lowering operational costs. Bunea, Kogan, and Stolin (2016) showed that fintech-driven banking models improve risk management efficiency. Tang (2019) emphasized that digital-only banks leverage alternative data to serve financially excluded populations.

Loo (2019) studied Asian digital banks and concluded that neobanks significantly enhance customer engagement and inclusion. Zetzsche, Buckley, Arner, and Barberis (2017) discussed regulatory and consumer protection challenges faced by digital-only banks. Frame, Wall, and White (2019) observed that technology-driven banks outperform traditional banks in service innovation but face profitability constraints. Senyo and Osabutey (2020) found that fintech adoption strengthens financial inclusion when supported by digital literacy.

Goyal and Joshi (2012) highlighted the growing role of technology in Indian banking efficiency. Ozili and Arun (2020) concluded that digital finance contributes positively to inclusive development but must be complemented by traditional banking structures. Overall, the literature indicates that neobanks improve banking efficiency and promote financial inclusion, though their effectiveness depends on regulatory support, digital literacy, and complementary roles played by traditional banks.

RESEARCH METHODOLOGY

The present study employs a descriptive research design to empirically examine whether neobanks improve banking efficiency and financial inclusion in comparison with traditional banks in Hyderabad city. Primary data were collected from 100 bank customers, comprising users of both digital-only banks and traditional banks, through a structured questionnaire. The respondents were selected using a convenience sampling method, considering the widespread adoption of digital banking services in the study area. Banking efficiency was measured using variables such as transaction speed, service accessibility, cost effectiveness, ease of use, and customer convenience, while financial inclusion was assessed through indicators including access to banking services, usage frequency, affordability, and ease of digital transactions. The collected data were analyzed using descriptive statistical techniques, and the study variables were evaluated through mean score analysis to understand customers' perception levels and to identify the key factors influencing banking efficiency and financial inclusion. The use of mean scores enabled effective comparison between digital-only banks and traditional banks, thereby supporting the objectives and findings presented in the study.

DATA ANALYSIS

Table 1: Mean Score Analysis of Banking Efficiency Variables

S. No.	Banking Efficiency Variables	Mean Score	Rank
1	Transaction speed	4.32	I
2	Ease of access to banking services	4.25	II
3	Cost effectiveness	4.10	III
4	Technological convenience	4.05	IV
5	Overall service quality	3.92	V

The mean score analysis indicates that transaction speed ranks first, showing that respondents strongly perceive digital banking platforms as faster compared to traditional banks. Ease of access and cost effectiveness also received high mean scores, highlighting the efficiency advantage of neobanks. Overall service quality, though positively rated, ranked relatively lower, suggesting scope for improvement.

Table 2: Mean Score Analysis of Financial Inclusion Variables

S. No.	Financial Inclusion Variables	Mean Score	Rank
1	Easy access to banking services	4.28	I
2	Frequency of account usage	4.15	II
3	Affordability of banking services	4.08	III
4	Ease of digital transactions	4.00	IV
5	Inclusion of first-time banking users	3.85	V

The results reveal that easy access to banking services is the most influential factor contributing to financial inclusion. Higher usage frequency and affordability indicate that neobanks encourage active participation in the formal banking system. However, the relatively lower mean score for inclusion of first-time users suggests the need for increased digital literacy initiatives.

Table 3: Overall Mean Scores of Study Variables

Study Variable	Mean Score	Level of Agreement
Banking Efficiency	4.13	High
Financial Inclusion	4.07	High

The overall mean scores demonstrate a high level of agreement among respondents regarding the positive role of neobanks in improving both banking efficiency and financial inclusion in Hyderabad. Banking efficiency recorded a slightly higher mean score than financial inclusion, indicating that respondents primarily associate neobanks with faster and more convenient banking services.

DISCUSSION

The findings of the study indicate that neobanks play a significant role in enhancing banking efficiency and financial inclusion in Hyderabad. The mean score analysis reveals that transaction speed, ease of access, and

cost effectiveness are the most highly rated dimensions of banking efficiency, suggesting that digital-only banks outperform traditional banks in delivering faster and more convenient services. These results are consistent with earlier studies which highlight the efficiency gains achieved through automation and digital platforms. The high mean scores for accessibility and usage frequency in financial inclusion further indicate that neobanks have successfully lowered entry barriers to formal banking, particularly for young and tech-savvy customers. However, the comparatively lower mean score for inclusion of first-time users suggests that despite improved access, challenges related to digital literacy and awareness remain. Traditional banks continue to maintain an advantage in terms of trust, physical presence, and personalized support, which is particularly important for customers who are less comfortable with digital technology. Overall, the discussion highlights that while neobanks significantly improve efficiency and inclusion, their effectiveness is influenced by user familiarity with digital platforms and supportive regulatory frameworks.

CONCLUSION

The study concludes that neobanks have a positive and meaningful impact on both banking efficiency and financial inclusion in Hyderabad. The descriptive and mean score analysis clearly demonstrates that customers perceive digital-only banks as faster, more accessible, and cost-effective compared to traditional banks. Neobanks contribute significantly to financial inclusion by improving access to banking services, encouraging frequent usage, and offering affordable digital transactions. Nevertheless, the findings also suggest that neobanks alone cannot fully address the needs of all customer segments, particularly those with limited digital skills. Therefore, a hybrid banking model that integrates the technological strengths of neobanks with the trust and outreach of traditional banks is essential for achieving sustainable and inclusive financial development. The study provides valuable insights for policymakers, financial institutions, and fintech firms aiming to strengthen digital banking adoption while ensuring inclusive growth in urban centers like Hyderabad.

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