

# A Perspective Study on Whether Neobank's Innovations Cater to Gen Z's Financial Habits

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## Abstract

Neo banks also known as “challenger banks”, are digital-only banks that have entered the banking sector posing a challenge to traditional banks, with their technologically integrated and innovative services. Their digitally advanced banking facilities mainly appeal to the tech-savvy Generation Z (Gen Z). The study focuses on understating if neo banks' modern services resonate and satisfy the financial habits of GenZ. Their generation has unique financial habits and is one of the main target audiences of neo banks, they also make up a good percentage of the global population and are emerging to be important industry stakeholders, making it necessary for neo banks to analyze them, to understand how to satisfy their needs and make them loyal customers and also fill in the gaps that pose as challenges in penetrating the GenZ. The research is based on secondary data obtained from journals and articles, the thorough literature analysis has helped understand the different innovations of neo banks and also the financial habits of GenZ, respectively. The findings indicate that the operations of neo banks appeal to GenZ however, there are a few factors like parental influence, trust deficit, unawareness, dominance of traditional banks, etc. that hinder GenZ from being potential customers of neo banks. These findings help neo banks to adapt to GenZ's financial habits and work effectively towards acquiring them as customers. Therefore, we understand that Neo banks are well-positioned to serve the GenZ, but need to get over few major hurdles to attract and sustain them as customers.

**Keywords:** Neo banks, GenZ, Innovative services, Financial Habits, Digital-only Banks, GenZ financial behaviour, Gamification, Personalized banking

## Introduction

The banking sector in India is constantly evolving and transforming, like the entry of blockchain banking, digital banking, and even the emergence of neo banks, as Heraclitus said, 'Change is the only constant', in this industry. In recent times, banks have started giving a lot of importance to consumer experience and convenience, and that's where the concept of neo banks began gaining more attention.

Neo banks are banks without a physical form, meaning that they exist and operate online only, thus we can call it Internet-only banks. A few of the top neo banks in India are Jupiter, Freo, ZikZuk, etc. based on the list published in (Personal Finance Made Easy With Freo: A Comprehensive Guide, 2023).

However, in India, neo banks are not directly regulated by the RBI, as they do not recognize neo banks as institutions capable of offering banking services. Thus, neo banks have partnered with traditional banks to operate in the country, this is a setback for such banks as they cannot provide all the services traditional banks do, due to lack of a license.

Generation Zoomers (Gen Z) are those people who were born between 1997 and 2012, they were born into the era of the internet and are known for their ability to master technology quickly. Thus, the main target audience for neo banks is Gen Z, because of the ease with which they navigate through technology and because they are a generation that values experience over possession. The style of providing services and the customer experience traditional banks provide, has never been very convenient, that's where neo banks come in, providing banking services in the most affordable and accommodating manner, which is greatly appreciated by Gen Z.

Neo banks represent a transformative force in the banking sector and GenZ is growing to be a very crucial customer base in the banking sector, thus, understanding their banking preferences, financial habits, and behaviors is important as this would help both neo banks and traditional banks to cater to their needs and make them loyal customers.

### Literature Review

1. In their study, (Sardar & Anjaria, n.d.) studied whether people prefer neo banks over traditional banks concerning the services provided. They also intended to study if Neo banks would replace traditional banks in the future. As an outcome, they found that although customers, especially the future generations (Genz), prefer neo over traditional banks for their services, traditional banks are unlikely to be replaced entirely. Thus, both neo and traditional banks can co-exist.
2. The paper (Bansal & Garg, n.d.) indicates that neo banking is becoming increasingly relevant in the country now, despite the disadvantages it faces (lack of regulatory body, low customer base, etc.) they are expected to experience rapid growth in the future, due to their cutting-edge technology which legacy banks lack. This growth is said to disrupt the entire banking sector.
3. (V & B, 2023) concluded that Neo banking has leverage over traditional banking systems as a majority of customers do not prefer visiting branches physically, and a major portion of people believe that neo banks are safe. Although neo banks are booming, the study specifies that for this growth to be facilitated more awareness has to be given to customers, and forming a separate regulatory body under the RBI will help in gaining the trust of the people.
4. In their paper, (Monis & Pai, 2023) they discuss how the world is moving towards digitalization, the concept of neo banking is gaining popularity in recent years, and that this system of banking is going to be a game changer. The study mentions that people would be keen on neo banks as they avail banking services from anywhere at any time.
5. Based on her study (Anuradha, n.d.) she indicates that Fintech and Neo Banking have the power to change banking and financial services in India. It can make services cheaper, better, and available to more people. But this also comes with a lot of challenges. By using technology wisely and managing risks, a better financial system can be built that will benefit more people and provide low-cost services.
6. Based on the survey and its analysis, (Mazzatto, 2022) the study theorized that if Financial Institutions want to cater to GenZ they have to implement gamification, and this will help enhance satisfaction and loyalty. They also have to ensure to maintain social relations as GenZ's spending and investing habits are inspired by successful people's financial habits, thus if a successful person has invested in a particular company, it is quite likely that GenZ would be inspired to do the same.
7. Their research (Abu Daqar et al., 2020) showed that the main motivation for GenZ to give up on traditional banks and switch to other Financial Technology providers includes ease of access and use,

quality of services provided, and the ability to avail banking services 24/7. It also indicated that promotions like discounts, rewards, coupons, etc. are driving forces.

8. Research of (Uzelac & Lucic, 2020) was done to study the saving habits of the GenZ and it was found out that they are more focused on saving. They as a lifestyle practice saving and are aware of its importance. However, the study showed that parents have a major influence on the saving habits of GenZ, meaning that if banks want to penetrate this generation, they should first convince their parents about the credibility of services provided. Banks can also use the help of social media to capture the attention of GenZ.
9. (Pintér et al., 2021) concluded that GenZ prefers cashless/contactless transactions. They are careful with money and tolerate moderate risks, most of them still rely on traditional banks due to parental influence and also a lack of knowledge of new financial services. Thus, banks (fintechs and neo banks) have to come up with new strategies to connect with them effectively as GenZ prefers, fast, secure, and easy technologically driven solutions.
10. Based on the primary and secondary data collected for the study, (Agrawal & Yesugade, 2022) it was established that majority of the people are not aware of neo-banks. Although, the services provided by neo banks were rated the highest in terms of convenience but had a very low rating when it came to safety, meaning that people are very comfortable with the services provided, like the ease in facilitating transactions, and the remote/online nature of the banks, but find it questionable when it comes to safety. Thus, neo banks have to put in more effort in gaining the trust of people.

### Research Methodology

The research is based on secondary data obtained from sources like journals and other publications, addressing the emergence of neo banks, their edge over traditional banks, the services they provide, the attitude of GenZ towards Neo banks, saving, investing, and their financial habits.

A total of twenty papers were reviewed for the purpose of the research, however the most relevant ten papers are discussed in this study. The papers were selected on the basis of their relevance and information on the topic. Preference was given to recently published papers and peer-reviewed articles.

### Need of the study:

It is observed, that out of all the available literature, a mere handful of them explore the relation between how the innovations and services of neo banks align with the financial habits of GenZ. Most researches focus on 'Neo banks' alone or on 'GenZ and digital banking', but this particular connection is not studied. It is necessary to review this aspect as this generation makes up about thirty percent of the global population, apart from that, they are also the most technologically driven and tech-savvy bunch, which indicates that they are the right target for neo banks. Thus, studying how neo banks can satisfy the zoomers is important to evaluate the survival of neo banks in the market.

### Objectives of the study:

1. To study the various innovative services provided by Neo Banks
2. To study the Financial Habits of GenZ
3. To analyze whether the Innovations of neo banks align with the financial habits of GenZ

### Innovative Services Provided by Neo Banks

Neo Banks provides a plethora of innovative features in terms of banking services and the kind of user interface that they provide. Although traditional bankers have also started providing online banking services, neo bankers have incorporated certain features giving them an edge over traditional bankers. These features include:

1. **Low Cost:** Neo banks provide banking services at a very nominal cost or zero cost. Considering neo banks do not have any physical branches their operating costs are very low therefore they are able to provide higher interest rates at low service charges. This is a key attraction for people of all demographics, especially Gen Z who are low on income as they are just starting their careers or are still studying.
2. **24/7 Operation:** Unlike traditional banks that have set working hours for conducting their business, neo banks function 24/7. Nowadays, with the rise in online banking, even traditional banks function 24/7 (only virtually), but customer support may not be available at all times. Neo banks use AI-powered chatbots and virtual assistants to ensure client service anytime, anywhere.
3. **Improving Financial Literacy:** Neo banks, through their applications, attempt to improve the financial literacy of its users by offering educational articles, videos, and other engaging content that help users learn about saving, investing, etc. at their own pace. This helps students and people belonging to lower demographics (Gen Z) learn about money management while availing of banking services.
4. **Gamification:** The most interesting concept that neo banks introduced is gamification, which makes banking fun and engaging and this feature captures the interest of the zoomers. With the help of gamification, users are given an opportunity to earn rewards and unlock levels of achievements, it also helps cultivate the habit of saving for instance (Lai & Langley, 2023) indicates how TMRW by United Overseas Bank, introduced on its app 'City of TMRW' which is a virtual city, the more the user saves, they will be able to unlock levels and enhance their virtual city. This kind of fun interface allows users to inculcate smart spending in their lifestyle.
5. **Convenient Budgeting:** Neo banks have brought about a paradigm shift in the banking sector, with their low cost and ability to facilitate transactions at anytime, anywhere. Additionally, their easy-to-understand and engaging interface allows users to have a more convenient banking experience. Neo banks use data visualization tools (bar graphs, pie charts, histograms, etc.) to help the users understand their expenses and this also serves as a means for them to visualize their budgets and achieve their financial goals.

These are the components included by neo banks to penetrate the tech-savvy generation. The digital-only approach of neo banks mainly caters to the digital-native generation, the GenZ.

### Financial Habits of GenZ

Financial habits refer to how a person manages their finances on a daily basis, this includes how they spend, invest, track their expenses, budgeting, pay bills on time, and avoid risk in terms of money and its management. GenZ's Financial Habits are:

1. **Saving:** GenZ values the habit of saving. In this study (Maru, 2016) they establish that GenZ are savers and inculcate saving in their lifestyle to a large extent.

2. **Financial Literacy:** Although GenZ has very good knowledge about technology as they were born into it, their knowledge about finance, that is, their financial literacy is moderate. Therefore, as suggested by (Pintér et al., 2021), banks need to find a way to educate them and only then will they be able to make the most of the innovative banking services.
3. **Spending:** GenZ are very careful when it comes to spending, they are not reckless purchasers and usually plan out their purchases. Although most GenZ are keen on YOLO (“You only live once”) and FOMO (“Fear of missing out”) lifestyle, they are cautious while spending. In this paper, (Perić et al., 2020) the author concludes that GenZ craves financial stability and their spending patterns support that desire.
4. **Value-Seeking Behaviour:** This behavior indicates the practice of GenZ to choose those options that give them maximum economic/ monetary benefit. For instance, while buying a product they would look for the application/store that would give them maximum discount. (Abu Daqar et al., 2020) in their research summarized that GenZ is driven by promotions like discounts, rewards, coupons, etc., implying that they are careful with money.
5. **Parental Influence:** (Uzelac & Lucic, 2020) stated in their study that GenZ are influenced by their parents when it comes to choosing a bank, probably because of their low financial literacy they tend to follow their parents, who are ‘experienced’ with money matters. Therefore, financial habits are passed down from parents to children.
6. **Investing:** Although GenZ follows their parents when it comes to choosing a bank and availing banking services when it comes to investing, they are most likely to follow suit of an ‘influencer’. (Mazzatto, 2022) stated how GenZ would follow the investing patterns of a successful person. (Toumazatos, September 2023) also states how GenZ are likely to trust their investing decisions with influencers of their same age range, based on their successful investments and financial achievements.

Thus, we understand that GenZ aspires to achieve financial stability and is not reckless or irresponsible in monetary matters, they are very careful when it comes to spending, and this is probably why they value the saving way of life. We can also see that they tend to follow their parent's advice and ‘financial influencers’ in making decisions regarding banking services and investing, respectively. They have a decent proficiency in budgeting as they tend to plan their purchases and save money accordingly. The main challenge for GenZ lies in building their financial literacy, therefore educational and financial institutions have to put effort into helping them in this regard, as only if they are aware of the kind of services they can avail in the banking sector will they be able to utilize them, thus benefitting both parties.

### Contrasting GenZ’s Financial Habits with Neo Bank services:

Now, we have a clear idea of the kind of innovative services offered by neo banks and also the financial habits of GenZ, let us try and understand how these services align with the habits, and where neo banks have to improve to be able to cater to GenZ:

1. **Saving vs. Low-cost services:** Neo banks offer low-cost services to their customers and this is one of the main reasons why GenZ would prefer neo banks over traditional banks. They are savers and have a budget-conscious attitude, which means they try and find the cheapest alternative, they would value low-cost or zero-cost services.
2. **24/7 Operations vs. Convenience:** GenZ regards highly convenience, this demographic cherishes experiences over anything, thus when neo banks provide 24/7 it allows flexibility and accessibility thereby making it the best option.



3. **Low Financial Literacy vs. Attempt to develop money management skills:** Despite being highly tech-savvy, and having access to a lot of information GenZ still lacks financial literacy, this is where neo banks could play a major role as they attempt to improve their money management skills by providing educational and engaging content, to teach GenZ about investing, budgeting, debt management, etc.
4. **Tech Savviness vs. Technological Integration:** GenZ is highly proficient with technology and prefers to get everything with the click of a single button, like online shopping, thus the technological approach to banking is sure to attract them. Apart from this, the user interface and customer support make it very convenient to use neo banks.
5. **Spending vs. Convenient Budgeting:** As stated before, GenZ are not reckless spenders, they analyze the need for purchase before buying it, thus the convenient budgeting offered by neo banks like the data visualization tools, etc. helps users to understand their expense and visualize their budgets, supporting their safe spending habits.
6. **Value Seeking Behaviour vs. Reward Programs:** The introduction of gamification has led neo-banks to implement a lot of reward programs that benefit and attract customers. GenZ who is driven by such programs due to their value-seeking behavior would end up being loyal customers of neo banks due to these features.

These are all those innovations of neo banks that align with the unique financial habits and preferences of GenZ, these would be the key factors that stand out to GenZ, encouraging them to choose neo banks over traditional banks.

### Challenges Neo banks face in Attracting GenZ Customers

Above, we explored those determinants for choosing neo banks over traditional banks. However, certain factors would pose a challenge to neo banks in penetrating this demographic. GenZ is very careful when it comes to monetary matters and as we have explored earlier they tend to follow their parents' advice with it comes to handling money, availing banking services, etc. Most of the parents of GenZ belong to Generation X, which is the generation born between 1965 and 1979, this generation expresses extreme brand loyalty despite being comfortable with digital banking, as mentioned in the article (Olya, 2023), thus implying that they are highly loyal to the traditional banking systems that have already earned their trust over the years, thus, getting them to change to a new concept like Neo banks would be extremely difficult. This proves negative to neo banks as if the parents are not comfortable with these financial institutions, then it is not easy to get GenZ to be potential customers. Parents are likely to advise GenZ to stick to traditional banks that have won their trust over time, and this is a hurdle that neo banks need to overcome in attracting GenZ as customers.

Adding to this, GenZ has a deficiency in financial knowledge, in other words, their financial literacy is moderate, this is a significant hurdle as GenZ are not aware of the different kinds of banking services and products available to them, this ignorance leads to them losing out on the innovative banking services that mostly satisfies all of their financial habits and neo banks lose their target market. This is also because of the superiority of traditional banks that neo banks are unable to emerge well in the industry. Previous research like (Sardar & Anjaria, n.d.), found that although customers, especially the future generations (GenZ), prefer neo over traditional banks for their services, traditional banks are unlikely to be replaced entirely. This poses a threat to neo banks as traditional banks are also constantly evolving and innovating, they have embraced digital banking and are brands that have already gained the trust of customers and

have built a loyal user base. Thus, neo banks have to work towards creating a separate identity on the whole, to be able to strike a difference from traditional banks and appeal to customers.

Like established earlier GenZ are very careful with their money. Their saving, value-seeking behavior, and bargain-hunting attitude prove this. Therefore, it may be a task for neo banks to get GenZ to be their customers, it is a lot more difficult than it seems like we have previously understood that GenZ is influenced by their parents in money matters and would follow their recommendations because they wouldn't risk their finances, thus, neo banks have to earn the trust of both the parents and the people in this demographic. To add to this trust deficit, neo banks do not have an operating banking license, according to (Ramaswamy et al., 2021) the main limitation of the neo banking system is that they are not licensed banks, and for them to grow and for people to trust them RBI has to provide licenses to neo banks and allow them to function as stand-alone entities.

Therefore, these are the major hurdles that neo banks have to overcome to attract and retain GenZ as their customers.

### Suggestions

The study suggests neo banks spread awareness amongst GenZ and their parents regarding its technologically advanced and sustainable services and products. They have to come up with effective marketing strategies that will attract both the younger and the older generation. Apart from this, they also need to work towards building trust among people and need to put efforts into creating a unique value proposition that goes beyond what traditional banks have to offer. Here are a few strategies to overcome these challenges:

1. **Effective marketing:** Neo banks have to come up with efficient and persuasive marketing strategies that involve influential people as their brand ambassadors, as established earlier, GenZ tends to follow the investing patterns of successful people. Additionally, they should also ensure that these campaigns focus on their parents too (GenX), as GenZ tends to follow their parents in money matters. They could also focus on marketing their USPs that particularly cater to GenZ.
2. **Increased Transparency:** Neo banks have to be more transparent about their working, and the safety policies they adopted to protect the data and money of their customers. Such transparency will help gain the trust of prospective customers.
3. **Client feedback/review:** Neo banks could share experiences or testimonials of customers; this helps people to believe in their credibility.
4. **Advocate for regulatory inclusion:** A lot of the trust deficit could be mitigated if RBI would provide proper stand-alone licenses to neo banks, such inclusion would also help neo banks to not be dependent on traditional banks and provide more services thereby overcoming the dominance of traditional banks. Thus, neo banks have to engage with regulatory bodies and establish their commitment to conform to international and domestic standards of customer service.
5. **Promotional Strategies:** Neo banks have to come up with rewards for first-time users, referral bonuses, etc., such incentives would attract more customers to sign up, especially GenZ, as they have a value/deal-seeking behavior.

### Conclusion

Thus, we understand that the innovative and convenient services provided by neo banks align with the financial habits of GenZ. The digital-only approach of neo banks along with their low-cost services,

gamification components, and budgeting tools are particularly appealing to the technologically driven GenZ. Their preference for convenience, experience, value, and engagement are satisfied by neo banks. However, neo banks must still figure out how to navigate the hurdles related to trust, regulation, and financial literacy that prevent GenZ from being potential customers. Additionally, they also have to work on mitigating the data-security concerns of people and spread awareness about their existence and their services to people of this demographic and their parents to effectively acquire and retain GenZ customers. Therefore, the digitally adept GenZ, which is going to make up almost 27% of the global workforce by 2025, (The Future Of Work Depends On Supporting Gen Z, 2022) ,are very important players in the market. If neo banks can tackle the above-discussed obstacles, and win over GenZ, they have the potential to create a paradigm change and dominate the banking sector in the years to come.

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