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Customer Perception and Service Quality - A Comparative Study Among Traditional and Neo Banks

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Abstract: The digital revolution in the banking sector has accelerated the rise of neo banks—branchless, digital-only financial institutions—challenging the dominance of traditional banks. This study provides a comparative analysis of consumer perception and service quality between neo banks and traditional banks in India, drawing on a sample of 150 respondents. Utilizing a quantitative research approach and ANOVA (F-test) analysis, the findings reveal that while neo banks hold a statistically significant advantage in overall consumer perception (p = 0.04), there are no significant differences between the two bank types across primary service quality dimensions such as reliability, responsiveness, assurance, empathy, tangibles, convenience, and innovation. Notably, neo banks excel in perceived convenience and innovation, whereas traditional banks rank highest in assurance. Despite these strengths, both models exhibit low scores in empathy, highlighting a sector-wide need for improvement in personalized service. The research underscores that trust and perception are nuanced and multidimensional; although digital convenience propels neo banks, regulatory credibility and in-person assurance remain strengths of traditional banks. The study identifies gaps in regional representation, digital security perception, and absence of longitudinal or qualitative insights as limitations. The results emphasize the importance of strategic enhancements in convenience, empathy, and digital trust building to achieve sustainable customer satisfaction in the evolving banking landscape.

Keywords: *Traditional Banks, Consumer Perception, Service Quality, Digital Banking, Convenience, Innovation, Trust, Assurance, Empathy, Reliability, Responsiveness, Digital Security,Comparative Analysis, India, Quantitative Research, ANOVA, Customer Satisfaction, Branchless Banking and Fintech.*

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I. INTRODUCTION

This template modified in MS Word 2007 and saved as the banking industry has undergone a revolutionary transformation in the digital age, with the emergence of neo banks fundamentally challenging the traditional banking paradigm. Neo banks, also known as digital-only or challenger banks, operate exclusively through digital platforms without physical branch networks, offering streamlined financial services through mobile applications and web interfaces. This digital-first approach has attracted millions of customers globally, with neo banks like Revolut, N26, and Chime experiencing exponential growth in recent years.

However, despite their technological advantages and user-friendly interfaces, neo banks face a critical challenge in establishing customer trust and positive perceptions compared to their traditional counterparts. Traditional banks, with their century-old legacies, physical presence, and established regulatory frameworks, have long been perceived as bastions of financial security and reliability. The tangible nature of brick-and-mortar branches, face-to-face interactions with banking professionals, and decades of brand recognition have cultivated deep-rooted trust among consumers.

A significant perception gap exists between neo banks and traditional banks regarding customer trust and confidence. While neo banks deliver superior digital experiences, lower fees, and innovative features, several factors influence customer perceptions differently across these banking models. The absence of physical branches in neo banks creates varying levels of comfort among customers who value face-to-face banking relationships and immediate access to human support. Additionally, neo banks often operate under different regulatory frameworks or partner with traditional banks for licensing, which can influence customer understanding of deposit protection and regulatory oversight.

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Traditional banks leverage decades or centuries of market presence and established brand recognition, whereas neo banks represent relatively new entities with limited operational history during economic fluctuations or financial crises. Furthermore, despite implementing advanced cybersecurity measures, customer perceptions of digital-only banks' vulnerability to cyber threats may differ from those regarding established institutions.

These perception differences significantly influence customer acquisition, retention, and the overall adoption of neo banking services. Understanding how customers perceive and trust neo banks compared to traditional banks remains crucial for the future of digital banking and financial inclusion. A comparative analysis of customer perceptions will provide valuable insights into the factors that influence banking choices in the digital era and help identify strategies for neo banks to build stronger customer relationships while highlighting areas where traditional banks must innovate to remain competitive.

II. LITERATURE REVIEW

“Digital finance is revolutionising the financial sector in significant ways. Its role in shaping the future of banks and financial services is a topic of widespread interest in the policy and academic literature. (Kandpal, V., Ozili, P.K., Jeyanthi, P.M., Ranjan, D. and Chandra, D. 2025)

The banking sector has undergone a significant transformation with the emergence of neo-banking, a fully digital form of banking that operates without any physical branches. As the financial ecosystem increasingly emphasizes customer experience, neo-banks are strategically positioned to bridge the service and satisfaction gap left by traditional banks (Sharma & Patil, 2023).

Neo-banks are designed to deliver a superior front-end experience through advanced digital solutions. These banks focus on personalization, instant service delivery, and simplified user interfaces to attract and retain customers, particularly among tech-savvy youth and small businesses. Unlike conventional banks, which offer a hybrid model of physical and digital services, neo-banks operate exclusively online, positioning themselves as agile and customer-centric (Sharma & Patil, 2023).

However, customer trust remains a significant concern. The absence of physical infrastructure and limited direct regulatory oversight (since most neo-banks operate in partnership with traditional banks) has created skepticism among users. Many customers are wary of security threats and cyber fraud, leading to a preference for traditional banks that offer in-person support and regulatory familiarity (Sharma & Patil, 2023). These trust issues are exacerbated by the fact that neo-banks in India do not yet have independent banking licenses, relying instead on partner institutions to provide core financial services

The COVID-19 pandemic served as a catalyst for digital banking, with 68% of customers in India shifting to online and mobile banking. This behavioral shift highlighted the potential of neo-banks to gain customer acceptance by offering contactless, user-friendly financial services (Soumady, 2022). The increased dependency on digital platforms during lockdowns provided a unique opportunity for neo-banks to demonstrate reliability and enhance customer trust.

Neo-banks are also leveraging technologies such as artificial intelligence, big data, and machine learning to deliver intuitive, personalized services. These technologies enable better financial management, real-time insights, and predictive analysis, contributing to higher levels of customer satisfaction and trust (Sharma & Patil, 2023). Moreover, neo-banks typically charge lower fees, offer quicker onboarding through paperless KYC, and provide innovative products tailored to specific customer segments like MSMEs, youth, and women entrepreneurs.

Neo banks, a recent advancement in financial technology (FinTech), offer banking services entirely through digital platforms, without the presence of physical branches (R. Rajitha & B. Sivakumar, 2019). These digital-only banks leverage secure, cloud-based and mobile technology to enhance customer experience, emphasizing personalization and accessibility (Kavya Shabua & Dr. R. Vasanthagopal, 2021). The evolution of Neo banking is seen as a natural progression in the digital banking era, addressing user demands for convenience and security (Luigi Wewege, Jeo Lee & Michael C. Thomsett, 2020).

Neo banks aim to overcome the limitations posed by conventional payment banks and offer a broader spectrum of financial solutions through web and mobile interfaces, including instant messaging integration (Artyom Silvanovich, 2022). Despite these advantages, they are not without challenges—significant among them are the high costs associated with application development and cyber fraud protection systems (Artyom Silvanovich, 2022).

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Existing literature highlights that customer perception of neo banks is predominantly positive, driven by their digital innovation, convenience, and user-centricity. Empirical studies by Hossain & Rahman (2020) reveal that customers perceive neo banks as more efficient, innovative, and customer-friendly than traditional banks due to streamlined processes, transparency, and personalized services. Similarly, Vyas (2021) emphasizes that neo banks disrupt traditional banking through digital-first models that prioritize accessibility and tailored financial products, reshaping customer expectations.

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However, trust remains a critical differentiator. While neo banks leverage advanced security features (e.g., biometrics, encryption) to protect data (Larisa et al., 2019), their lack of physical branches and regulatory ambiguities erode consumer confidence. Dokania (2020) notes that in India, neo banks operate as "business correspondents" of licensed banks, creating perceptions of reduced autonomy and reliability. Regulatory challenges are further underscored by Anjaria & Sardar (2023), whose survey found 66% of respondents cited compliance issues as neo banks' primary trust barrier.

Comparative analyses indicate a trust-perception paradox. Traditional banks retain an advantage in stability and regulatory legitimacy (Lunn, 2021), while neo banks excel in user experience and innovation (Vyas, 2021). Anjaria & Sardar (2023) observe that neo banks' superior service features—easy account opening, budgeting tools, and rewards programs—boost satisfaction, yet only 17% of customers fully trust them over traditional banks. This gap is amplified in cash-dependent segments, where neo banks struggle to replicate physical services (Dokania, 2020).

Geographically, studies like Dokania (2020) and Anjaria & Sardar (2023) identify regional nuances in India, where neo banks bridge financial inclusion gaps for underbanked groups but face unique trust hurdles due to cash reliance and regulatory evolution.

Despite these advantages, trust in neo-banks is still developing. Regulatory ambiguity and lack of legal recourse in case of service failures further hinder mass adoption. Comparatively, traditional banks, with their long-standing presence and RBI regulation, continue to command higher levels of customer trust, particularly among older and rural populations.

The banking sector has long been the backbone of both developed and developing economies, and any transformation—particularly technological—within this sector has a profound effect on economic growth (Revathi P, 2019). The introduction of online banking, which delivers automated banking products and services to customers via electronic channels, marked a pivotal shift in service delivery models. The liberalization of the Indian economy in the 1990s further accelerated internet banking communication. However, infrastructure challenges, such as poor connectivity, continue to breed skepticism regarding online banking adoption in India (Arpita Khare, Anshuman Khare & Shveta Singh, 2010).

III. STATEMENT OF THE PROBLEM

The review of existing literature reveals that neo banks have emerged as pivotal disruptors in the financial services industry, offering digital-first solutions that emphasize convenience, speed, and personalization. These institutions have leveraged advanced technologies like AI, machine learning, and big data to reshape user experiences and expand financial accessibility, especially among tech-savvy and underserved populations. However, despite their technological strengths and innovative service models, neo banks continue to face significant challenges in gaining widespread customer trust. Concerns related to security, regulatory ambiguity, and the absence of physical infrastructure persist as major barriers to adoption. Comparative studies underscore a trust-performance gap, where neo banks outperform traditional banks on service delivery but lag in perceived safety and legitimacy. Additionally, regional and demographic nuances in India highlight that while neo banks can promote financial inclusion, their effectiveness is often constrained by infrastructure limitations and a lack of regulatory clarity.

Building upon the insights and limitations identified in prior studies, the present research aims to explore the nuanced dimensions of customer trust and perception in the context of neo banks as compared to traditional banking systems. It critically examines how users evaluate service quality, convenience, and digital security in both models, and investigates the underlying factors that contribute to trust and satisfaction within digital-only platforms. Recognizing the diversity of customer experiences, the study also considers the influence of demographic variables—such as age, education level, and digital literacy—on banking preferences and adoption behavior. By integrating these dimensions, the research seeks to generate evidence-based insights that not only deepen the understanding of consumer behavior in digital banking but also inform strategies to enhance trust and strengthen customer engagement in emerging neo banking models.

➤ *Research Questions:*

The following research questions are formulated to guide a comparative examination of consumer perception and service quality between traditional and Neo banks. They aim to identify significant differences and underlying factors influencing customer attitudes, thereby supporting targeted improvements in banking service delivery.

- In what ways do consumer perception and perceived service quality interact to affect the overall satisfaction with traditional and Neo banks?
- What specific service attributes or bank features contribute most to a positive or negative customer experience in each type of bank?

➤ *Objectives of the Study:*

- To study consumer perception among traditional and Neo Banks
- To analyse Service quality among traditional and Neo Banks

➤ *Hypothesis*

- H(01): There is no significant difference in the consumer perception among traditional and Neo Banks
- H(02): Service quality dimensions among traditional and Neo Banks do not differ significantly
- H(11) : There is significant difference in the consumer perception among traditional and Neo Banks
- H(12): Service quality dimensions among traditional and Neo Banks do differ significantly

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IV. RESEARCH METHODOLOGY

This study adopts a **quantitative research design** to compare customer perceptions of service quality between traditional banks and neo banks. The research utilizes a **sample of 150 respondents**, comprising 81 participants who are customers of traditional banks and 69 respondents from neo banks.

Primary data were collected using a structured questionnaire, in which perceptions of various service quality dimensions were measured using a **5-point Likert scale** (ranging from 1 = Strongly Disagree to 5 = Strongly Agree). The Likert scores, observed to span the range of 3.2 to 3.6, permit analysis of mean differences in perceptions between the two groups.

To determine whether the differences in mean scores across service dimensions between the traditional and neo banking groups are statistically significant, the study employs the **Analysis of Variance (ANOVA) using the F-test**. The level of statistical significance is set at **$\alpha = 0.05$**, enabling a 95% confidence in the findings. This approach allows for robust comparison of mean ratings and helps identify which service attributes differ significantly between customer groups. Data analysis was performed using appropriate statistical software to ensure accuracy and reliability of results.

V. DATA ANALYSIS

Table 1 Consumer Perception: Traditional Vs Neo Banks

Bank_Type	N	Mean	F_Ratio	P_Value
Traditional	81	3.358	0.651	0.04
Neo	69	3.3623	0.651	0.04

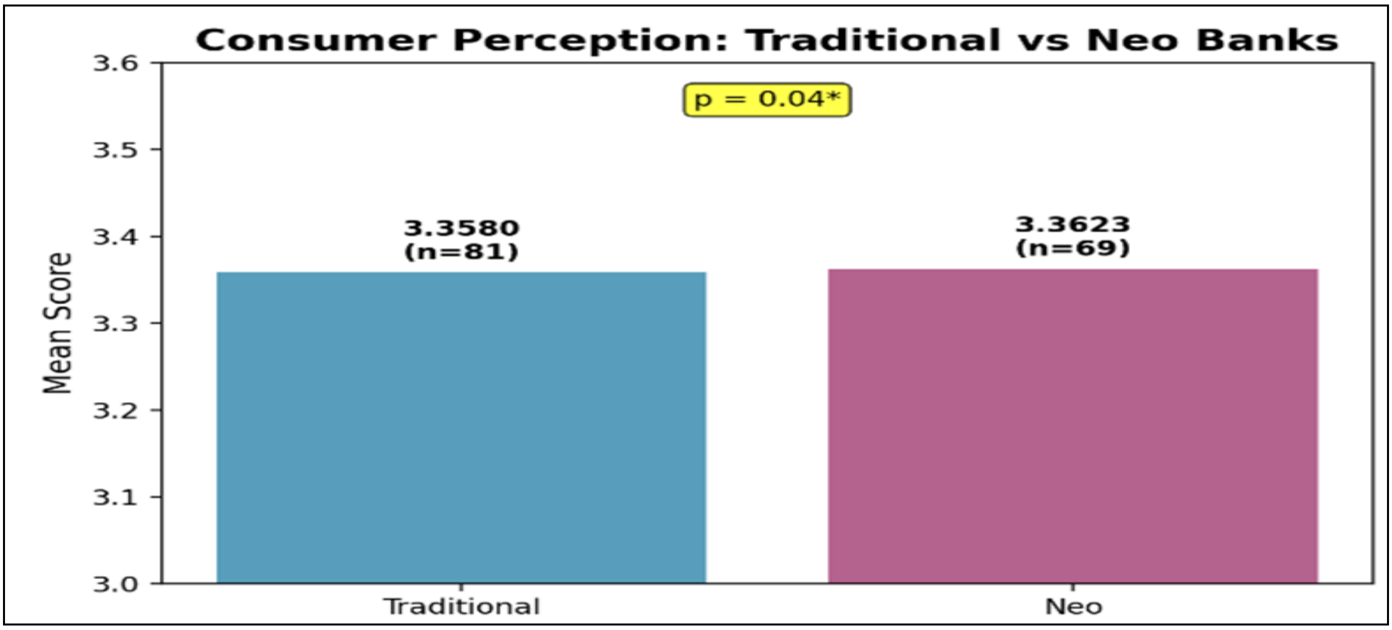

Fig 1 Consumer Perception: Traditional vs Neo Banks

➢ *Consumer Perception Analysis*

- Traditional Banks: Mean = 3.3580 (n=81)
- Neo Banks: Mean = 3.3623 (n=69)
- Statistical Result: F-ratio = 0.651, p-value = 0.04* (SIGNIFICANT)
- Interpretation: Neo banks have statistically significantly higher consumer perception scores

Table 2 Consumer Perception Analysis

Dimension	Traditional_Mean	Neo_Mean	Difference	F_Ratio	P_Value	Significant
Reliability	3.38	3.49	0.11	1.647	0.201	No
Responsiveness	3.41	3.33	-0.08	0.703	0.403	No
Assurance	3.54	3.51	-0.03	1.157	0.284	No
Empathy	3.21	3.22	0.01	0.3	0.585	No
Tangibles	3.35	3.36	0.01	0.379	0.539	No
Convenience	3.38	3.52	0.14	0.124	0.725	No
Innovation	3.3	3.37	0.07	1.037	0.31	No

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➤ *Statistical Significance*

- Consumer Perception: Statistically significant difference (p = 0.04)
- Service Quality Dimensions: No statistically significant differences (all p > 0.05)
- This suggests that while overall perception favors Neo Banks, specific service quality aspects are relatively comparable between the two bank types.

➤ *Performance Rankings*

- Highest Scoring Dimension Overall: Assurance (Traditional: 3.54)
- Lowest Scoring Dimension Overall: Empathy (Traditional: 3.21, Neo: 3.22)
- Neo Banks' Strongest Area: Convenience (3.52)
- Traditional Banks' Strongest Area: Assurance (3.54)

➤ *Business Implications*

- Neo Banks Advantage: Higher overall consumer perception and stronger performance in convenience and innovation
- Traditional Banks Advantage: Superior responsiveness and assurance levels
- Competitive Parity: Most service quality dimensions show no significant differences
- Strategic Focus Areas:
- Neo Banks: Improve responsiveness and assurance
- Traditional Banks: Enhance convenience and innovation capabilities

➤ *Service Quality Dimensions Analysis*

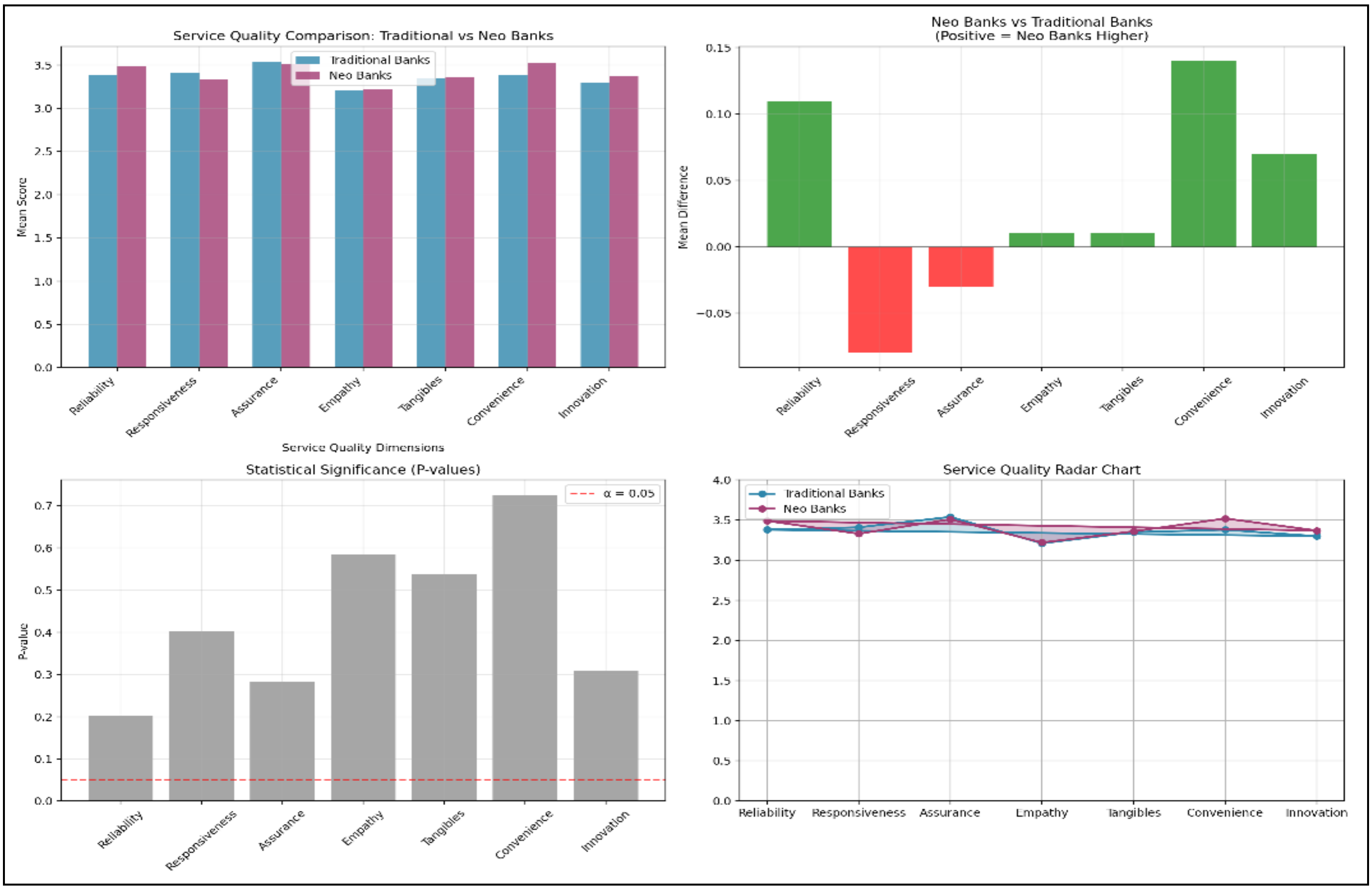

Fig 2 Service Quality Dimensions Analysis

➤ *Dimensions Where Neo Banks Score Higher:*

- Convenience: +0.140 difference (Traditional: 3.38, Neo: 3.52, p=0.725)
- Reliability: +0.110 difference (Traditional: 3.38, Neo: 3.49, p=0.201)
- Innovation: +0.070 difference (Traditional: 3.30, Neo: 3.37, p=0.310)
- Tangibles: +0.010 difference (Traditional: 3.35, Neo: 3.36, p=0.539)
- Empathy: +0.010 difference (Traditional: 3.21, Neo: 3.22, p=0.585)

➤ *Dimensions Where Traditional Banks Score Higher:*

- Responsiveness: -0.080 difference (Traditional: 3.41, Neo: 3.33, p=0.403)
- Assurance: -0.030 difference (Traditional: 3.54, Neo: 3.51, p=0.284)

VI. SUGGESTIONS

➢ *For Neo Banks:*

- *Enhance Responsiveness:*
Invest in quicker customer support and more robust problem-resolution systems to meet consumer expectations for timely assistance.

- *Build Assurance:*
Strengthen areas related to customer trust and confidence, such as transparent communication, clear digital security policies, and proactive education about service reliability.

- *Leverage Digital Strengths:*
Continue to innovate in convenience, but complement it with stronger human touchpoints for complex or sensitive issues.

- *Improve Responsiveness:*
Strengthen real-time support, customer service speed, and problem resolution to match or surpass traditional banks.

- *Build Assurance:*
Focus on clearly communicating security measures, data privacy, and corporate strength to bolster trust, especially for users new to digital banking.

- *Balance Innovation with Human Touch:*
While maintaining convenience and innovation, invest in customer education and provide seamless escalation paths for complex queries requiring human intervention.

➢ *For Traditional Banks:*

- *Improve Convenience:*
Expand and streamline digital channels, mobile banking, and self-service features to match or exceed the accessibility of neo banks.

- *Foster Innovation:*
Adopt new technologies, personalized digital services, and adaptive processes to evolve with customer expectations and compete effectively.

- *Sustain Assurance and Responsiveness:*
Maintain and communicate existing strengths while training staff to offer empathetic, solution-oriented customer service.

- *Enhance Convenience:*
Invest in expanding digital channels and streamlining self-service options to match consumer expectations for instant and easy banking.

- *Accelerate Innovation:*
Adopt and promote new digital features to appeal to users attracted by neo banks' offerings.

- *Maintain Assurance and Responsiveness:*
Continue training staff, communicating competence, and delivering reliable in-branch and digital support, ensuring these remain core strengths.

- *Enhance Convenience:*
Invest in expanding digital channels and streamlining self-service options to match consumer expectations for instant and easy banking.

- *Accelerate Innovation:*
Adopt and promote new digital features to appeal to users attracted by neo banks' offerings.

- *Maintain Assurance and Responsiveness:*
Continue training staff, communicating competence, and delivering reliable in-branch and digital support, ensuring these remain core strengths.

➢ *For Both Bank Types:*

- *Focus on Empathy:*
Initiate staff development programs aimed at improving personalized attention and understanding of customer needs.

- *Monitor and Adapt:*
Regularly assess customer perceptions through surveys and feedback to identify shifts in expectations and respond proactively.

- *Integrate Best Practices:*
Both sectors can benefit from adopting each other's strengths—traditional banks can become more agile and digital-friendly, while neo banks can work to foster long-term trust and reliability.

- *Prioritize Empathy:*
Since Empathy scores lowest for both segments, implement continuous training focused on personalized, customer-centric service and emotional intelligence.

- *Continuous Monitoring:*
Regularly gather feedback to detect shifting consumer expectations and adapt strategies accordingly.

- *Hybrid Best Practices:*
Neo banks should incorporate traditional banks' strengths in trust and assurance, while traditional banks should learn from the agility and customer-centric innovations of neo banks.

VII. SUMMARY

While neo banks currently enjoy a small but statistically significant perception advantage, traditional banks retain strengths in assurance and responsiveness. Service quality across both segments is broadly similar, so targeted improvements in convenience, innovation, and empathy can further enhance customer satisfaction and competitive positioning.

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Neo banks enjoy a slight but significant advantage in overall perception, thanks to strengths in convenience and innovation, while traditional banks are valued for their assurance and responsiveness. Service quality is largely on par across both sectors, so targeted improvements—especially in empathy, digital convenience, and trust-building—will further enhance the customer experience and competitive position for all providers.

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