

## A STUDY ON THE ADOPTION OF NEO BANKING SERVICES

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### ABSTRACT

*As digital technology has grown quickly, banking has moved many services to online and mobile channels, which has supported the rise of neobanks. Neobanks are digital-only banks that run through apps and websites, so customers manage their accounts online rather than visiting physical branches. In India, neobanks usually operate by partnering with licensed banks, and their activities fall under the regulatory oversight of the Reserve Bank of India (RBI). Generation Z is comfortable with digital tools and online services, which makes them a core group of users for neobank services. This study examines what leads Generation Z to adopt neobanks, using an extended version of the Unified Theory of Acceptance and Use of Technology (UTAUT) model. This study focuses on six main variables: performance expectancy, effort expectancy, awareness, perceived anxiety, personal innovativeness, and digital financial literacy. This study used a quantitative research design, and primary data were gathered with a structured questionnaire that used a 7-point Likert scale. We analyzed the data using Partial Least Squares–Structural Equation Modelling (PLS-SEM). These results suggest that Performance Expectancy is the main factor shaping Gen Z's intention to adopt neobanks. The results suggest that Awareness and Digital Financial Literacy are linked to higher adoption, while Perceived Anxiety is linked to a lower intention to adopt. In this study, Effort Expectancy and Personal Innovativeness did not show a meaningful association with the outcome being examined. The study finds that neobanks may encourage more Generation Z users by putting attention on practical value, clear brand awareness, basic digital finance education, and steps that build trust.*

**Keywords:** Neobanks, Generation Z, Digital Banking, Neobank Adoption

### 1. INTRODUCTION

Over the past few years there has been more than just a small change in how we do banking, and with this changing of the guard comes new demands from customers who want an alternative to the current norm. Neobanks have emerged as one of the biggest beneficiaries of this shift since they are essentially banks that conduct all of their business via apps or websites and have absolutely no branches. This is drastically different from what we currently have available to us, and younger generations seem to gravitate toward this new

approach to banking and managing their finances. A great example of this is India where neobanks are far from being a passing fad and it appears they will transform the way we conduct our financial lives physically and digitally forever. The growth of people conducting business online coupled with the influx of younger customers means that financial services aren't only services we use just to take care of our daily needs. They are being utilized in completely new ways every day (PwC India, 2022; India Times, 2022).

Basically, a neobank is a bank that's all online (or on your phone) and gives you the same stuff like savings accounts, credit cards, and investment accounts. The biggest difference between neobanks (which don't have any physical branches) and banks (which have lots of branches) is that neobanks use digital technology as their main source of doing business rather than building that branch network. In general, banks incur very high overhead costs due to maintaining so many branches, whereas neobanks have fewer overhead costs because they only rely on tech. With digital KYC (Know your customer), it's a lot easier to sign up for your account, see how you spend your money in real-time, get a clear picture of your current financial situation with personalized dashboards, and access a lot of other services that are tailored towards living our lives in the digital world (IBEF, 2023; PwC India, 2022).

Neobanks began as simple banks and only provided savings account interest across the globe. As the years went on, with growth mainly in Europe, UK, and APAC, neobanks grew significantly over 2019 and have since evolved into viable alternatives to traditional banks competing for clients looking for simplicity, low-cost, purely digital banking solutions. As such, it's not surprising that they have been able to deliver us the types of conveniences we're seeking out today (Foresight Law Offices, 2023).

## **1.1 Nonbanking in India: The Establishment and Growth**

India's rapidly expanding digital economy has given rise to neobanks or digital banks, which are relatively new to the Indian market. Currently, there are no purely digital banks licensed to operate independently in India. Instead, neobanks partner with banks that are already licensed by the Reserve Bank of India (the central bank of India) in order to provide banking services. In other words, the neobank will develop an app or website, and their partner will provide the banking services, such as accepting deposits and processing payments (JSA Advocates & Solicitors, 2023; Legal Service India, 2023).

Neobanks are considered financial services companies using technology, rather than banks according to Indian law. This means they cannot accept deposits or make loans to customers on their own, unless they have obtained a valid banking license. The regulations that govern the issuance of banking licenses are set out in the Banking Regulation Act of 1949 which gives the Reserve Bank of India exclusive control in the issuance of banking licenses. Therefore, neobanks operate using their partner banks' licenses; while ensuring they comply with their partner bank's compliance requirements.

Neobanks are booming in India, despite their unusual licenses. There were over twenty of them around mid-2020 and many had high user levels as well as funding from major VCs. The user numbers are crazy approximately 6 million as of 2021, potentially increasing to 60 million by 2027 10 times increase in a little over 6 years! This explosion correlates with the growing popularity of digital products, due to increasing numbers of smartphones and improved availability of internet access overall (IBEF, 2023).

India also has a very strong digital infrastructure that assists with this development, such as the Unified Payments Interface (UPI), Aadhaar-based e-KYC, and many other useful public digital systems. They have made signing up and completing everyday financial transactions very easy. UPI, in particular, has propelled digital payments forward, especially among younger people who are usually willing to use new digital banking tools quickly (Wikipedia, 2024; Kadence International, 2023).

## **1.2 RBI's Strategic Approach to Digital Banking and Neobanks**

Since the Reserve Bank of India (RBI) is the highest banking authority in the country; it has a vital role in determining how well digital banking performs in India. From what we've seen over the years, it seems that the RBI considers using digital innovation to help increase the number of people who participate in the financial services system, streamline financial transactions, and increase transparency within the financial system. You can see evidence of the RBI's commitment to promoting digital banking by looking at the many policies and guidelines they have issued over the past decade (Reserve Bank of India, 2023).

To provide some context, there has been a dramatic increase in the amount of money that people have sent via digital payments in India. According to RBI data, the total amount of digital transactions in India has increased from approximately ₹1,628 Crore during 2015-16 to over ₹13,462 crore by 2023-24. This is a

significant increase in digital payment transactions over just under 10 years. In line with this trend, the RBI issued a discussion paper in 2022 that proposed a regulatory framework for digital banking to establish clear guidelines regarding licensing and supervision, which could eventually create opportunities for opening neobanks (NITI Aayog, 2022; JSA Advocates & Solicitors, 2023).

Neobanks do not yet have their own banking licenses but work with licensed banks under RBI guidelines through partnerships or outsourcing. Licensed banks are totally responsible for managing risks using the rules that RBI has in place to protect consumers who use services from third-party digital platforms (like neobanks).

The RBI has also stepped up its efforts to create security around digital payments and eliminate regulatory uncertainties. They require 2FA for card-not-present transactions in order to eliminate fraud and provide trust and confidence to consumers who engage with digital banking, which includes the use of neobanks (Economic Times, 2024; Times of India, 2024).

It's way easier to onboard customers now. The Reserve Bank of India (RBI) created a new digital form of ID called Video-Based Customer Identification Process back in November (which was the first kind of anything like this) to reduce the amount of time and money you spend on verifying your customer and they estimate that this will allow for speedy onboarding – up to 90% faster than using old-school methods like checking out a customer's ID at a bank branch or similar. With that said, there are now many more people (especially younger folks) able to access the formal banking sector via totally digital means.

While most neobanks are not regulated in the same way as traditional banks, the RBI is noticing that there is a growing need for regulatory controls between innovation and the stability of the current financial system to create consumer protections and so they are looking at a possible Dedicated Digital Banking License as they continue to work on creating regulatory frameworks aligned with the modern financial ecosystem. Over 20 neobank platforms are operating legally today and millions of dollars are being transferred monthly through partnerships with regulated, licensed banks. This indicates the need for some kind of streamlined regulatory process that encourages innovation while also protecting the financial system.

### **1.3 Generation Z and Neobank Adoption**

Gen Z refers specifically to people born between the late 1990s and early 2010s; they grew up having access to smartphones, rapid internet speeds, and practically every app on the planet. When it comes to choosing financial service providers, this demographic prefers convenience as well as personalized digital-first experiences. A lot of studies show that Gen Z members around the world care about easy mobile access and a smooth online experience when deciding which financial services to use. Above all, they adopt new fintech trends faster than any other generation (Giesecke Devrient, 2023).

An example of this trend is India where over 66% of Gen Z and millennial users say they prefer using neobank software over regular banking options for everyday money activities. The emphasis placed on digital features and ease of use is much more significant to them than the length of time a bank has been in business, which definitely shows that younger generations are changing how we do banking overall.

India is a place where the digital world is buzzing Tons of young people are using the internet, they are using UPI payments everywhere you look, and with mobile phones being really cheap now days - neobanks are taking off with Gen Z They are already super comfortable using all the new technologies available these days and they're the ones who are willing to be the first to use new banking apps. The fact that they're trying out these banking apps before all other generations is not only helping to grow the number of users of these products, but it is also accelerating innovation within the digital banking space (Kadence International, 2023; IBEF, 2023).

To understand why Gen Z is interested in neobanks, this research will use the UTAUT model (Unified Theory of Acceptance and Use of Technology). UTAUT is a well-known theory that explains how and why people accept new technology. It focuses on four main factors: performance expectancy (how useful the technology is), effort expectancy (how easy the technology is to use), social influence (the impact of friends, family, or society on the decision), and facilitating conditions (the available resources and support). Since neobanks are entirely tech-based financial platforms, the UTAUT model suits Gen Z behavior well, as Gen Z is very tech-savvy. By using the UTAUT model, this research aims to pinpoint the specific factors that affect Gen Z's intention and willingness to use neobank services.

## **2. LITERATURE REVIEW**

**Anazikou, E. (2025)** study explores global banking transformations driven by neobanks. It illustrates neobanks' distinction through their digital tech, low expenses, and customer-first approach. This research combines different ways to build a theory. We looked at what's already written about online banking and new digital banks in Europe and America. We looked at Monzo Bank in the UK, checking how it did from 2025. We tracked customer growth, money put in, loans given out, how much money they made per customer, and how much they lost on bad loans. Neobanks are really good at getting new customers quickly and growing because of their digital setup and efficient operations, which is making a real connection with people.

**Aseng, A. C., Mandagi, D. W., & Pandeiro, L. B. (2025)** examined what shapes Gen Z consumers' intent to adopt neobanks using the UTAUT model (performance expectancy, effort expectancy, and social influence) and also considered other neobank features. curiosity and reward. Researchers used a quantitative survey of 359 Gen-Z business students at universities in North Sulawesi. They validated a structured questionnaire, identifying four independent variables, one mediator (perceived credibility), and one outcome: intention to adopt neobanks. They then tested the links among these factors with Structural Equation Modeling (SEM). The SEM results show that curiosity and perceived credibility directly increase intention to adopt neobanks. Performance expectancy and social influence do not directly increase adoption intention, but they do increase perceived credibility. Perceived credibility mediates the impact of performance expectancy and social influence on people's intention to adopt and use neobanks.

**Brown, J., Casey, K. M., & McMurtrey, M. (2025)** explains how neobanks, also known as challenger banks, have developed within the wider fintech sector. The study explains neobanks' rise, their customer benefits like speed and convenience, and the threats they pose to traditional banks' profits. This study relies only on secondary sources, such as academic journals, industry and fintech reports, banks' websites, and earlier studies on fintech and neo banking. This study used a descriptive, exploratory method and a qualitative review of past research to trace fintech's history, note neobanks' operating advantages, and assess risks in their business models. The authors argue that neobanks have changed how banks deliver products by moving service delivery to digital channels (for example, through apps and online platforms). For example, a mobile app, while lowering operating costs. This can cut costs and make things easier for

customers. Financial technology innovations let banks deliver products faster and give customers more options for managing their financial portfolios. The authors' results suggest that neobanks share many of the same challenges as traditional banks, such as regulation, cybersecurity, dependence on supportive monetary policy, and doubts about longterm profitability. Neobanks challenge banks, yet lasting success needs sustainable models and sound risk control.

**Das S. and Tripathi S.K. (2025)** compares neo- and traditional banks, their local/global impacts, and neo-bank efficiency drivers. This study examines how digital-only banks reshape global and Indian banking. We used a three-step intermediation framework to compare neobanks and traditional banks, covering both new and legacy models. A study in three steps. We used Data Envelopment Analysis (DEA) to measure bank efficiency. DEWA checked whether efficiency scores stayed steady over time. Tobit regression tested efficiency drivers: neobanks versus incumbents. We analyzed financial statements and public disclosures from financial institutions for Q1 2021 to Q4 2023. The sample included five Indonesian neo-banks and five traditional banks. Across the study period, traditional banks were generally more efficient than neobanks. PT Bank Tabungan Negara Tbk and PT Bank Rakyat Indonesia Tbk were the most efficient, supported by long histories, mature systems, and customer trust that lifts return on deposits and loans and allows bigger funding and lending volumes. Neobanks were least efficient; PT Bank Jago Tbk led them, likely due to limited history and customers. DEA window results suggest both bank types kept steady efficiency over time. A Tobit regression indicates that neobanks operate less efficiently than traditional banks.

**Kc, F.F., and Nishad, T. M. (2025)** examines how young people in Kerala adopt neobanks, using TAM to test how perceived usefulness, ease of use, trust, and demographics (age, gender, education, occupation) relate to behavioral intention and actual use. The study will collect quantitative data through an online survey of 210 young adults in Kerala aged 17 to 35. They will extend the TAM with trust and demographic factors, run Mann-Whitney U and KruskalWallis H tests in SPSS, and use PLS-SEM to assess links among key variables and test the hypotheses. The results suggest that behavioural intention is strongly linked to actual neobank use. Perceived usefulness and perceived ease of use best predict that intention and, in turn, acceptance of neobanks. For young users, trust barely affects neobank use intent but strongly shapes

usefulness. Among demographic factors, only gender is related to whether people adopt neobanks; age, education, and occupation show no clear link to neobank use.

**Prayudya, D. R., Ikhwan, I., Nugroho, T., & Ramdiania, R. G. N. (2025)** examined how efficiently neo banks and traditional banks operate and what factors drive their inefficiencies. This study aimed to compare the operational efficiency of digital-only neo banks with that of traditional banks. The study used a quantitative method with secondary data from five Indonesian neo banks and five traditional banks, covering Q1 2021 to Q4 2023. Using an intermediary view of banking, where banks turn deposits into loans, we ran a three-phase analysis. Phase 1 applied DEA to score bank efficiency; Phase 2 used DEWA to track stability across years; Phase 3 ran Tobit regression to test drivers and compare the two bank groups. Traditional banks were more efficient than neo banks over the period reviewed. DEWA results show BTN and BRI are the top two banks for overall efficiency. In contrast, PT Bank Jago Tbk (Bank Jago) is a neobank and ranks lowest for efficiency. Bank efficiency stayed about the same over the whole study period. A Tobit regression analysis found that neobanks tend to be less efficient than traditional banks, mainly because customers trust them less, they attract fewer deposits and loans, and they face a longer learning curve. Neobanks can be relatively efficient because they rely on low-cost, tech-driven account services. That efficiency may fall when they lack an established physical presence or consistent channels for delivering services.

**Singh, D., Malik, G., & Kaur, A. (2025)** looked at what encourages or stops consumers from adopting neo-banking services, using Behavioral Reasoning Theory (BRT). The study examined how consumers' different motives shape their attitudes toward neo-banks and their intention to adopt them. This study focused on five factors: accessibility, cost savings, security, self-efficacy, and trust. Online surveys from 546 digital banking customers were analyzed in a mixed-methods study using PLS-SEM and fsQCA. PLS-SEM tested links among enablers, barriers, attitudes, and intentions for neo-banking adoption, while fsQCA mapped asymmetric factor combinations that lead to adoption. The PLS-SEM results show that easy access and lower costs are key factors shaping consumers' intent to adopt neo-banking services. The study found perceived security shapes customers' willingness to adopt neo-banking. Self-efficacy and trust moderated how reasons and attitude shaped intent to adopt neo-banking services. The fsQCA results supported the PLS-SEM findings and identified four configurations linked to high neo-banking adoption.



**Aßmann, L. (2024)** examines how Europe's Gen Z is fueling neobank growth and how much they trust digital finance. FinTech is changing banking, but we still know little about how Gen Z's attitudes and trust in neobanks shape adoption. The study used qualitative methods to examine the phenomenon in depth. We gathered data from semi-structured interviews with industry experts experienced in neo banking, FinTech innovation, and digital banking strategy. It gave the researcher expert insight on growth, trust building, and Gen Z's role in industry success. We used a qualitative approach to capture local perspectives and feelings that numbers alone miss. Gen Z's ease with digital tools and fast adoption of new tech is boosting neobanks' growth across Europe. Gen Z wants neobanks that are clear, quick, and global, with digital tools built around users, so banks need to keep improving what they offer. Trust in organizations needs clear communication, easy use, reliable platforms. These factors build trust in the brand and can boost customer loyalty. The findings can steer neobanks courting Gen Z, keep legacy banks relevant, and guide policy on access and innovation.

**Bhatnagar, P., and Rajesh, A. (2024)** wanted to check out a model based on behavior theories (like UTAUT-3) to see what drives people in India to adopt, use, and recommend neo banking apps. They built this model by blending UTAUT-3 with ideas about perceived risks. They came up with hypotheses on how things connect, then tested them with PLS-SEM stats. They surveyed 680 folks from Delhi NCR. The results showed that people's intention (BI) to use, adopt, and suggest neobanks really boosts actual adoption. Key factors turned out to be performance expectancy (PE), effort expectancy (EE), privacy risk feelings (PYR), and performance risk worries (PPR).

**Curran, S. (2024)** looks at how neobanks influence adoption across age groups and what this means for traditional banks. The study looks at how traditional banks leaving the market has shifted consumer buying choices, what stops older adults from adopting neo-banks, and how they view technology safety, regulation, and trust. This study used a quantitative survey to measure perceptions of neo banks and the barriers to using them, comparing results across age groups. We analyzed secondary data from neo banks and traditional banks over a set period, using DEA, DEWA, and Tobit regression to assess and compare their long-term operating efficiency. Using both quantitative and qualitative methods gives a clear view of consumer behaviour and institutional performance. Neobanks operate in a fragmented market, with adoption patterns that vary widely. Adults 18 and older choose neobanks for flexible, easy digital services,

and because they see traditional banks as outdated. Many consumers aged 50 and above avoid neo banks due to limited digital skills, usability problems, loyalty to their current banks, and worries about data security, fraud, and regulatory compliance. Efficiency studies suggest traditional banks are still more efficient than neo banks because they have longstanding customer trust, bring in deposits more easily, and run more established operations. Neobanks face pressure from complex tech and strict compliance rules.

**Matraku, G. (2024)** explored how students' financial literacy and nationality shaped their satisfaction with neobank services. The study's second aim was to compare satisfaction levels between German and international students to see whether cultural differences and the need for international banking services explain any gap between the two groups. We used a survey of university students from several fields; most held advanced degrees in Economics, Finance, or Management. We ran statistical tests to see how strongly each demographic variable (e.g., age or gender) was related to the outcome. We tested whether age, gender, nationality, and financial literacy influenced satisfaction with neobank services, then compared German and international students. International students reported greater satisfaction with neobank services than German students, which may reflect cultural differences. Differences in banking demands across countries and the need for cross-border financial services influenced satisfaction in both groups. Financial literacy was expected to raise satisfaction, but no statistical association appeared, suggesting other factors at work. Demographic factors (for example, age, gender, and income) also shape the results. Age and gender showed only a weak tie to neobank service satisfaction.

**Arun, T., Markose, S., Murinde, V., Kostov, P., Khan, A., Ari, N., ... & Sethi, R. (2023)** study looked at how rising demand for digital financial services fueled the growth of neo-banks in India and the UK. This study compared neobanks in India and the UK, looking at their operations and tech use.g.AI and ML add customer value. The study used a descriptive, comparative design using secondary data. Data were drawn from academic papers, industry and regulatory reports, neo-banks' official websites, and publications from the Reserve Bank of India (RBI), the UK financial regulator, and other regulators. Compares neo-banking in India and the UK: regulation, entry routes, risks, and tech uptake. Qualitative analysis will compare India–UK trends, issues, and policies. In India and the UK, neobanks are changing banking by putting customers first and relying on tech-led services. In India, neo-banks need licensed bank partners for deposits.UK neo-banks face lighter rules than India's, giving them more room to operate

and stronger backing from UK regulators. Indian and UK neo-banks are adding customers fast and should keep growing, yet cyber gaps, low margins, and volatile investor sentiment threaten them. Regulatory sandboxes can spur innovation, but India and the UK vary in scope and results. Indian and UK neo-banks are likely to last only if they have strong regulation, keep improving their tech, and run a sustainable business model.

**Garg, N., & Sahu, G. P. (2023)** studies the main barriers that stop Indian consumers from accepting neo-banking products and services, and how these barriers relate to each other. Reviewing studies and interviewing experts identified ten barriers to Neo Banking adoption in India. The researchers used Fuzzy DEMATEL to measure cause-and-effect links among the identified barriers and sort them into cause-and-effect groups. Fuzzy values came from experts' linguistic ratings to manage uncertainty in subjective judgments. The study used Fuzzy DEMATEL to sort barriers to Neo Banking adoption into cause-and-effect groups, then computed prominence and threshold values to pinpoint the key barrier. The study finds that limited Digital Inclusion is the main barrier to Neo Bank adoption in India. This barrier strongly affects technological awareness, trust, and accessibility, yet those factors have little effect on it. Digital inclusion is the main barrier: its low threshold and strong causal effect mean it should be addressed first.

**James, D., & Ghosh, P. (2023)** study shows that neo banks are becoming more common in India, and that their digital-only infrastructure sets them apart from branch-based banks. This study looks at how AI can raise customer satisfaction and streamline how banks deliver services. This descriptive study was based on primary data. We used secondary data from peerreviewed articles, online bank datasets, RBI statistics, and earlier studies on digital banking. This analysis finds that neo banks offer similar services to traditional banks but have a different cost structure and use technology in different ways. Neo banks in India are likely to keep growing as internet access and smartphone use expand and customers expect better digital services. Neo banks let customers access services faster and with fewer steps than traditional banks with long in-person processes. With lower operating costs than traditional banks, neobanks can offer lower fees, better pricing, and higher interest for customers.

**Singh, G., & Sood, D. (2023)** examines how COVID-19 financial disruption changed young consumers' banking, pushing a move toward digital, paperless, cashless services as neo-banks grew in influence. This

study will review and analyse secondary sources such as research papers, journals, reports, banking publications, and reputable websites on digital banking, neobanks, and financial inclusion to identify trends in consumer behaviour, technology uptake, and changing banking models. This method helps explain how technology mediates interactions. Mobile and online banking and similar tech platforms shifted young consumers' banking preferences during and after lockdown. During COVID-19 lockdowns, more people shifted to digital banking, supported by AI tools and online platforms. Neo-banks are gaining appeal over traditional banks by offering technology-enabled, consumer-focused banking through digital platforms. The results suggest consumers increasingly prefer DIY banking because mobile apps make it fast, easy to use, and more personalized. AI and digital platforms can improve financial inclusion by extending basic financial services to unbanked and underbanked groups.

**Barodawala, Y. A. (2022)** examines the rise of neo-banks within digital banking in India. This analysis examines neo-banking in India, covering efficiency, demand, growth trends, pros and cons versus traditional and challenger banks, and its current state and future potential. The study uses a descriptive and analytical design to assess these issues using secondary data from published papers, banking reports, neo-banking websites, RBI publications, articles, and other relevant online sources. This study compares neo-banks, traditional banks, and challenger banks for similarities and differences. This study compares the strategies of Indian neo-banks with those in the global neo-banking market, looking at target customers, product innovation, process efficiency, and partnerships with other firms. Data were collected and systematically analyzed to infer how digital banking in India shapes neo-bank growth and performance. Neobanks have grown quickly because they are fully digital, low-cost, easy to use, and quick to adapt to customer needs. Neo-banks can serve tech-savvy customers who are used to digital payments by offering strong, technology-driven banking services. Neo-banks offer convenience, real-time access to transaction records, and personalized financial products that traditional banks often do not provide. Neo-banks have benefits, but they still face barriers such as regulation, no branches, reliance on partner banks, and trust concerns among some customers. When comparing neo-banks in India with those abroad, their growth rates differ widely, and global markets generally offer customers a broader range of lending products and services than India does.

## **2.1 Research Objectives**

- To examine what drives Gen Z to adopt neobanks: expected performance, awareness, anxiety, innovativeness, ease of use, and digital financial literacy.
- To examine how Generation Z's views of technology shape their decision to adopt neobanks, using the UTAUT framework.

## **2.2 Theoretical Foundation**

This study draws on UTAUT to explain how people adopt and use new technology. Because neobanks are fully digital, the UTAUT model fits for studying Gen Z's intention to use neobank services. Performance Expectancy is the belief that neobanks save time and improve banking services. When people see neobanks as useful, they are more likely to adopt them. Effort Expectancy is the ease of using neobank apps. Simple, user-friendly interfaces boost adoption. Alongside UTAUT variables, the study also considers other key factors. Awareness shows how familiar users are with neobank services and features. Awareness increases adoption. Perceived anxiety is worry about digital payments, security, and privacy, and it can lower people's intention to adopt them. Digital financial literacy means knowing and confidently using online finance services. People with higher literacy tend to feel more at ease using neobanks. Personal innovativeness is how willing someone is to try new digital tech, which can lead to early adoption. Together, these factors shape Behavioural Intention to Adopt Neobanks, which is the study's main outcome variable.

## **3. PROPOSED RESEARCH MODEL, HYPOTHESIS DEVELOPMENT & METHODOLOGY**

### **3.1 Effort Expectancy**

Effort Expectancy (EE) defines how effortless it is to use a specific technology (Venkatesh et al., 2003). With the development of neo banking services, Gen Z consumers anticipate that apps used for banking purposes will allow for an easy-to-use, streamlined account registration process, access to an optimized user experience when performing transactions, and a clear and understandable process for transferring funds between accounts. Prior Studies have shown a positive link between effort expectancy and behavioural intention to adopt technology (Rahi et al., 2019; Gerlach and Lutz, 2019; Napitupulu & HR, 2025). Accordingly following hypothesis is proposed:

**H1:** EE has a positive effect on Behavioural Intention (BI) to adopt neobanks.

### **3.2 Performance Expectancy and Behavioural Intention**

Performance expectancy represents the perception that using neo banking will improve the individual's ability to perform financial tasks and assist them in achieving financial goals (**Venkatesh et al., 2003**). Within the realm of neo banking, performance expectancy reflects views of Gen Z individuals regarding the speed of transactions, the ease with which they can perform online transactions, and the convenience of being able to perform banking services from anywhere in the world digitally. Prior Studies have shown a positive link between performance expectancy and behavioural intention to adopt technology (**Bhatnagar & Rajesh, 2024; Aseng et al., 2025; Kc and Nishad, 2025**). Overall, it has been demonstrated by multiple research studies that performance expectancy is consistently a key predictor of neo banking Adoption Intent among youth (**Garg & Sahu, 2023**).

**H2:** Performance Expectancy (PE) has a positive relationship with Behavioural Intention (BI) to adopt/use neobank services.

### **3.3 Perceived Anxiety and Behavioural Intention**

Young adults' worries, fears, and feelings of emotional distress regarding the negative aspects of adopting new digital banking technologies, such as neobanks (**Thanigan et al., 2021**), are what is being referred to as perceived anxiety. For Gen Z, it is primarily because of their concern over how a neobank will impact their finances, the potential for their personal data to be hacked, or the loss of confidence in well-established banking behaviours. With the rapid pace of technological advancement in the financial industry, along with uncertainty surrounding the security of their finances (**Grupe & Nitschke, 2013**), many users question whether their skills will be sufficient for future transactions. Based on prior research that indicates anxiety reduces a consumer's intention to adopt a new technology (**Wu & Wang, 2005; de Sena Abrahão, 2016**), we have included perceived anxiety in our study framework as a way d when managing their transfer of funds between app-based applications and are therefore more likely to adopt neo banking services ( **Lo Prete (2022;; Lyons & Kass-Hanna, 2021;; Huang et al. (2019)** Digital Financial Literacy helps Generation Z overcome the many complexities associated with neobanks, thereby lessening the potential of fraud to occur and enabling Generation Z to enjoy the benefits that digital banks offer (**Godlen & Cordie, 2022**).of increasing our understanding of attitudes towards and behaviour towards the use of neobanks.

**H3:** Perceived Anxiety (PA) will have a negative impact on Behavioural Intention (BI) to utilize neobank services.

### **3.4 Awareness and Behavioural Intention**

The necessity of being aware of how to use digital innovations such as neobanks is the first step toward adoption. An individual must know what a neobank can do for them (e.g., features available with the service, types of accounts that can be opened with a neobank, fees associated with a neobank, security measures used by neobanks) before using the service (**Islam & Grönlund 2012**). The literature indicates that awareness is an essential factor in developing trust and increasing the use of technology (**Baabdullah et al., 2021; Stewart & Jürjens, 2018**), and it is further documented that awareness is a significant contributor to individuals' intent to use mobile wallets, mobile accounts, and digital banking accounts by providing users with confidence in the value of the service and allowing them to make decisions that are clear (**Malaquias & Hwang, 2016; Shaikh & Karjaluoto, 2015**). By creating a knowledge base for neobank users, awareness has the potential to reduce the imbalance of information and therefore help promote the likelihood of an individual adopting a neobank and reduce an individual's perception of risk of using a neobank by increasing the perceived usefulness of the service and reducing the perceived risks of using a neobank (**Aboelmaged & Gebba, 2013; Stewart & Jürjens, 2018**).

**H4:** Awareness (AW) has a positive effect on the likelihood of Behavioural Intention (BI) to use/adopt neobank services.

### **3.5 Personal Innovativeness**

An individual's propensity towards personal innovation is described through one's ability to embrace and accept new technologies or ideas before the general public. Based on this definition, personal innovation will likely be the major influencer that shapes the acceptance intent of Generation Z for neobank services. Due to neobanks providing users with account creation through mobile apps, instantaneous money transfers, AI-powered budget tools, and seamless digital payments, users with a high propensity for personal innovation are far more likely to engage with neobanks than those with low levels of personal innovation who maintain traditional relationships with financial institutions (**Alalwan et al, 2018**). In fact, existing research has shown a direct correlation between one's propensity for personal innovation and your likelihood of adopting new digital/financial products and services (**Alalwan et al, 2018; Alaklabi & Kang, 2021; Chen & Li, 2022**).

Because of the support collected in this review for a neobank adoption study with Generation Z, we believe that personal innovation will positively influence users' intent to accept neobank services.

**H5:** Personal Innovation (PI) has a positive impact on Behavioural Intention (BI) to adopt/use neobank services.

### **3.6 Digital Financial Literacy and Behavioural Intention**

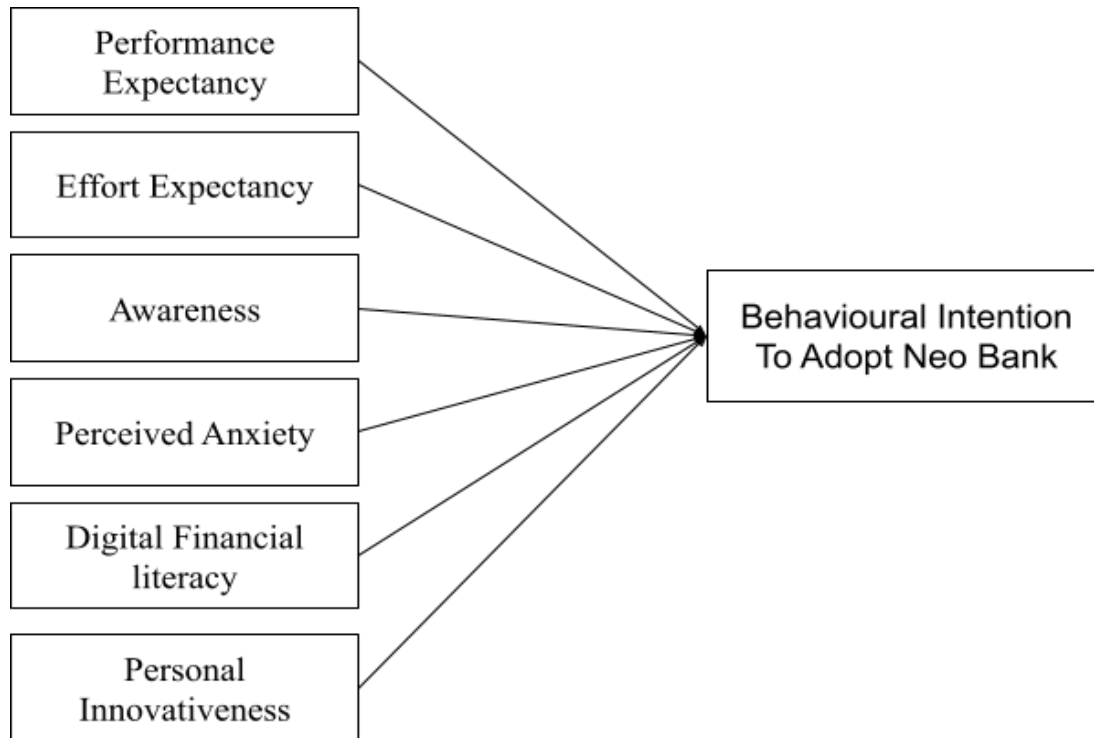
The term Digital Financial Literacy refers to the combination of two financial-related skills: one is basic financial literacy relating to managing finances; the second is digital literacy related to using the platforms that facilitate financial transactions and identifying, reporting and avoiding fraudulent transactions (Choung et al., 2023). According to research, Generation Z members who possess Digital Financial Literacy have considerably greater ease when using all aspects of neobanks, when making judgements about the validity/correctness of online bank information.

**H6:** Digital Financial Literacy (DFL) significantly impacts Behavioural Intent (BI) to adopt/use neobanks.

### **3.7 Proposed model**

The model we have proposed for this research is shown in Figure 1.





*Figure1: Source: Created by Author*

### 3.8 Methodology

The research adopts a quantitative approach, and the measurement scales for all constructs were adapted from established studies. Specifically, measurement items for performance expectancy (PE) and effort expectancy (EE) were drawn from Venkatesh et al. (2003, 2012), behavioural intention (BI) from Chen and Chen (2009) and Zou et al. (2022), personal innovativeness (PI) from Alalwan et al. (2018), digital financial literacy (DFL) from Ravikumar et al. (2022), awareness (AW) from Tronnier et al. (2022), and perceived anxiety (PA) from Paredes et al. (2021). The complete list of measurement items is provided in the Appendix.

This quantitative study tests what drives Gen Z to use neobanks. Gen Z respondents completed a structured questionnaire. The study applies an extended UTAUT model with Performance Expectancy, Effort Expectancy, Awareness, Perceived Anxiety, Personal Innovativeness, and Digital Financial Literacy. The data were analysed with PLS-SEM to test complex links among variables. The design identifies key factors shaping intent to adopt neobanks.

The study draws on both primary and secondary data. We collected primary data from Gen Z participants using a structured Likert-scale questionnaire. Online responses assessed awareness, views, and intent to adopt neobanks. Secondary data came from research papers, academic journals, books, RBI and government reports, industry reports, and trusted websites on neo banking, digital banking, fintech, and technology adoption. I

used sources from the RBI, NITI Aayog, IBEF, PwC, and peer-reviewed journals to review neo banking's background, growth, regulation, and key trends. Using both data sources informed the framework, shaped hypotheses, and supported the analysis and interpretation of results.

The study uses convenience sampling, a non-probability method. We chose respondents who were easy to reach and willing to take the survey. We shared the questionnaire online using Google Forms, social media, and messaging apps. Convenience sampling works for this study since Gen Z users are online often and willing to respond to digital surveys. This method helps collect data quickly with limited time and resources.

Primary data were collected using a structured questionnaire. The sample size is 127. The survey used closed-ended items on a 7-point Likert scale from 1 (Strongly Disagree) to 7 (Strongly Agree). Questions used established UTAUT and neobank adoption scales. The questionnaire was moved to a Google Form for easy access and faster responses from Gen Z respondents. Collect data firsthand from sources. We surveyed Gen Z who know or use neobanks. This clarified their views, attitudes, and intended actions. We used convenience sampling to survey accessible Gen Z users, mainly students and young professionals. Secondary data came from research papers, journals, RBI reports, government publications, and trusted websites to build the theoretical base and support the study.

## **4. DATA ANALYSIS & RESULTS**

The proposed research model was empirically tested using **Partial Least Squares–Structural Equation Modelling (PLS-SEM)**. This technique is appropriate due to its suitability for prediction-oriented research, complex models, and non-normal data distributions. The analysis was carried out in two stages: **assessment of the measurement model** followed by **evaluation of the structural model**.

### **4.1 Measurement Model Assessment**

The measurement model was assessed to establish **reliability, convergent validity, and discriminant validity** of the constructs included in the study, namely Awareness (AW), Behavioural Intention (BI), Digital Financial Literacy (DFL), Effort Expectancy (EE), Performance Expectancy (PE), Personal Innovativeness (PI), and Perceived Anxiety (PA).

#### ***4.1.1 Internal Consistency Reliability & Convergent Validity***

Cronbach's Alpha was given to evaluate the degree of internal consistency reliability. The results of the Cronbach's alpha values for the constructs have all exceeded the threshold of 0.70, indicating a very high

degree of internal consistency (Table 1). The range of values for construct reliability is 0.797 for PE, and the highest is 0.896 for PA. These results confirm that each of the measurement items reliably captured its respective construct. Convergent validity was evaluated using the Average Variance Extracted (AVE). The AVE for all constructs exceeded the minimum standard for acceptable levels of convergent validity as all of the AVE values were greater than 0.50. This showed that the indicators were explaining more than half of the variance of their respective latent constructs. In this case, the AVE ranged from a low of 0.538 for PE to the highest of 0.824 for EE and indicates satisfactory convergent validity.

|            | <b>Cronbach's alpha</b> | <b>Average variance extracted (AVE)</b> |
|------------|-------------------------|-----------------------------------------|
| <b>AW</b>  | 0.859                   | 0.642                                   |
| <b>BI</b>  | 0.857                   | 0.778                                   |
| <b>DFL</b> | 0.878                   | 0.733                                   |
| <b>EE</b>  | 0.894                   | 0.824                                   |
| <b>PE</b>  | 0.797                   | 0.538                                   |
| <b>PI</b>  | 0.826                   | 0.655                                   |
| <b>PA</b>  | 0.896                   | 0.764                                   |

Table 1. Composite reliability and convergent validity  
Source(s): Authors owns creation

## **4.2 Discriminant Validity**

### **4.2.1 Fornell–Larcker Criterion**

The results of this test are indicated in Table 2, where we can see that the average variance extracted (AVE) for each construct (diagonal values) exceeds the respective correlations between constructs (off-diagonal

values). This means that each construct shares more variance with its own indicators than it does with other constructs; therefore, discriminant validity exists for the constructs.

|            | <b>AW</b> | <b>BI</b> | <b>DFL</b> | <b>EE</b> | <b>PE</b> | <b>PI</b> | <b>PA</b> |
|------------|-----------|-----------|------------|-----------|-----------|-----------|-----------|
| <b>AW</b>  | 0.801     |           |            |           |           |           |           |
| <b>BI</b>  | 0.505     | 0.882     |            |           |           |           |           |
| <b>DFL</b> | 0.502     | 0.462     | 0.856      |           |           |           |           |
| <b>EE</b>  | 0.451     | 0.353     | 0.417      | 0.908     |           |           |           |
| <b>PE</b>  | 0.480     | 0.637     | 0.418      | 0.334     | 0.734     |           |           |
| <b>PI</b>  | 0.581     | 0.460     | 0.626      | 0.348     | 0.471     | 0.809     |           |
| <b>PA</b>  | 0.591     | 0.406     | 0.431      | 0.340     | 0.651     | 0.489     | 0.874     |

Table 2. Fornell–Larcker test

Source(s): Authors owns creation

#### **4.2.2 HTMT Ratio**

Table 3 shows the HTMT ratios for each construct pair. All reported HTMT values were under 0.85, which is the conservative threshold for confirming the discriminant validity of the measurement models and supports the notion that the constructs are empirically distinct from each other, therefore, they measure separate theoretical concepts.

|            | <b>AW</b> | <b>BI</b> | <b>DFL</b> | <b>EE</b> | <b>PE</b> | <b>PI</b> | <b>PA</b> |
|------------|-----------|-----------|------------|-----------|-----------|-----------|-----------|
| <b>AW</b>  |           |           |            |           |           |           |           |
| <b>BI</b>  | 0.574     |           |            |           |           |           |           |
| <b>DFL</b> | 0.567     | 0.528     |            |           |           |           |           |
| <b>EE</b>  | 0.515     | 0.399     | 0.473      |           |           |           |           |
| <b>PE</b>  | 0.506     | 0.553     | 0.455      | 0.384     |           |           |           |
| <b>PI</b>  | 0.676     | 0.534     | 0.730      | 0.392     | 0.499     |           |           |
| <b>PA</b>  | 0.655     | 0.457     | 0.485      | 0.372     | 0.832     | 0.554     |           |

Table 3. HTMT ratio

Source(s): Authors owns creation

### **4.3 Coefficient of Determination ( $R^2$ )**

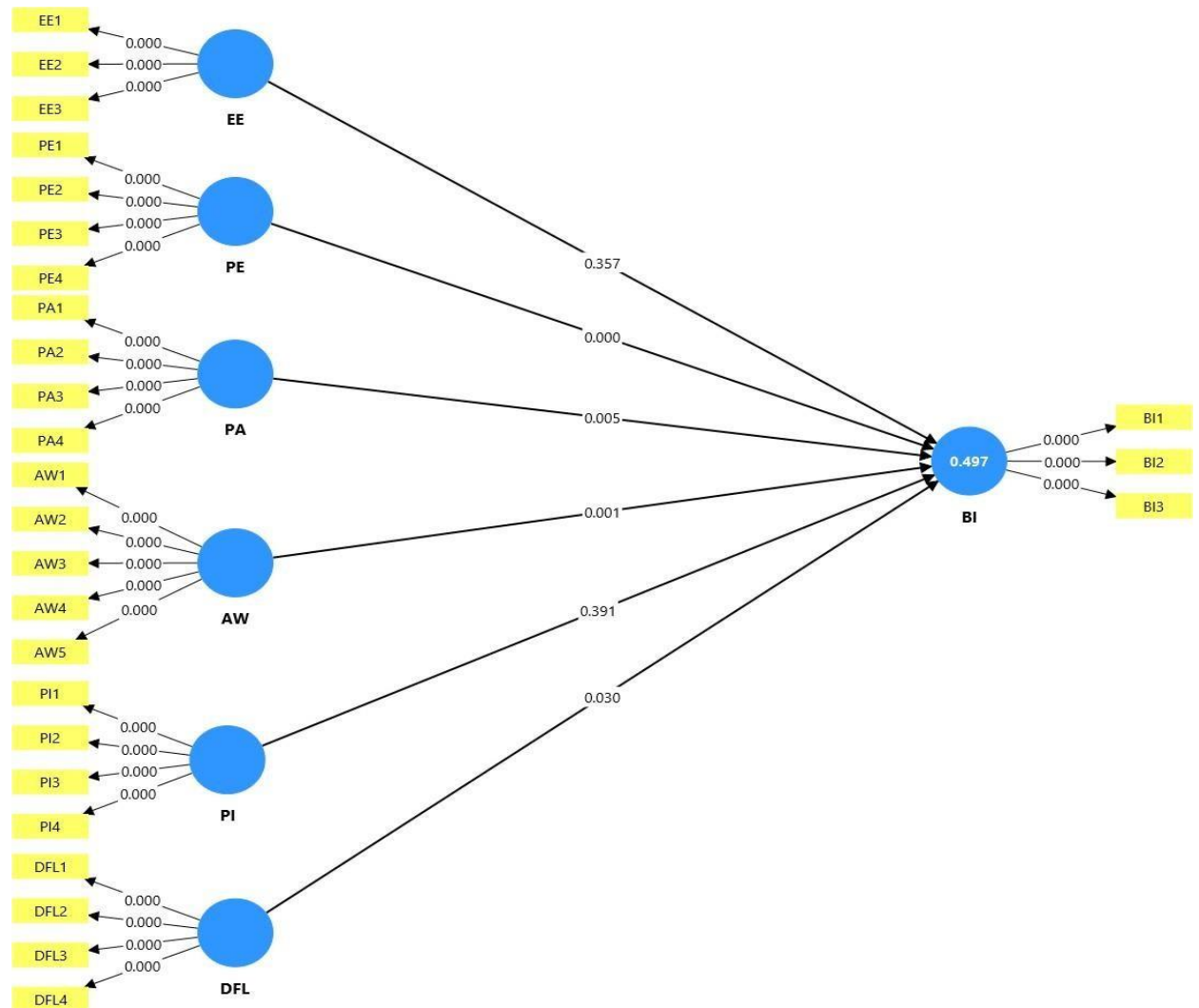
The explanatory strength of this model was measured using  $R^2$  and adjusted  $R^2$ ; these values are shown in Table 4. In reference to Table 8, the explanatory power for Behavioural Intention (BI) is found to be 0.497, which means approximately 49.7% of the variance in Behavioural Intent toward neobank adoption can be explained by the six predictive variables. Based upon how much variance is explained by the model's predictive variables, we find this is of moderate/substantial explanatory strength and is acceptable in the field of behavioural research and technology adoption.

|           | <b>R-square</b> | <b>R-square adjusted</b> |
|-----------|-----------------|--------------------------|
| <b>BI</b> | 0.497           | 0.487                    |

Table 4. Explained variance ( $R^2$ )

Source(s): Authors owns creation

#### 4.4 Hypotheses Testing



**Figure2: Source: Created by Author (Bootstrapping Graphical output)**

The PLS-SEM structural model illustrated in Figure 2 contains bootstrapped path coefficients and respective significance levels for the relationships of Effort Expectancy (EE), Performance Expectancy (PE), Perceived Anxiety (PA), Awareness (AW), Personal Innovativeness (PI), Digital Financial Literacy (DFL) and Behavioural Intention (BI) towards neobank adoption for Generation Z.

The endogenous construct of Behavioural Intention (BI) reports an  $R^2$  statistic of 0.497, which suggests that 49.7% of the variance in BI can be explained collectively by EE, PE, PA, AW, PI and DFL. Thus, BI exhibits

moderate-to-strong explanatory power, which aligns with previous research examining both technology adoption and behaviours related to technology.

#### 4.5 Hypotheses Table

| <b>Hypotheses</b>                                | <b><math>\beta</math></b> | <b>t-value</b> | <b>p-value</b> | <b>Explained variance (%)</b> | <b>Supported</b> |
|--------------------------------------------------|---------------------------|----------------|----------------|-------------------------------|------------------|
| <b>H1: Effort Expectancy (EE) → BI</b>           | 0.053                     | 0.920          | 0.357          | 0.4                           | <b>NO</b>        |
| <b>H2: Performance Expectancy (PE) → BI</b>      | 0.549                     | 8.827          | 0.000          | 32.1                          | <b>YES</b>       |
| <b>H3: Perceived Anxiety (PA) → BI</b>           | -0.193                    | 2.803          | 0.005          | 3.5                           | <b>YES</b>       |
| <b>H4: Awareness (AW) → BI</b>                   | 0.225                     | 3.347          | 0.001          | 5.0                           | <b>YES</b>       |
| <b>H5: Personal Innovativeness (PI) → BI</b>     | 0.055                     | 0.858          | 0.391          | 0.3                           | <b>NO</b>        |
| <b>H6: Digital Financial Literacy (DFL) → BI</b> | 0.146                     | 2.167          | 0.030          | 2.3                           | <b>YES</b>       |

Table 5. Hypothesis Table

Source(s): Author creation

**Behavioural intentions** (dependent variable) of adopting neobanks for Generation Z are confirmed by the direct effects of each of the six determinants of technology acceptance. **Performance Expectancy** (PE) of neobanks exhibits the largest, strongest, and significant positive effects on the dependent variable; thus, demonstrating that **Performance Expectancy** is the most important determinant in determining the intention to adopt neobanks. **Perceived Anxiety** (PA) of neobanks also demonstrated a moderate and significant negative effect on the dependent variable; thus, demonstrating that the greater the level of anxiety towards neobanks, the lower the intention to adopt neobanks. **Awareness** (AW) of neobanks also demonstrated a moderate, and statistically significant positive effect upon the dependent variable; thus, demonstrating that the greater the level of awareness of neobanks, the higher the intention to adopt neobanks. **Digital Financial Literacy** (DFL) of neobanks also exhibited a moderate and statistically significant positive effect upon the dependent variable; thus, demonstrating the greater the level of digital and financial literacy, the greater the likelihood of using neobanks.

**Effort Expectancy** (EE) does not have a statistically significant effect upon the dependent variable ( $p > 0.05$ ); therefore, **Effort Expectancy** is not a consideration in the adoption decision-making process of Gen Z consumers. Finally, **Personal Innovativeness** (PI) of neobanks exhibited no statistically significant effect upon the dependent variable ( $p > 0.05$ ). Thus, the evidence indicates that the adoption decision of neobanks is not strongly influenced by their level of innovativeness.

## 5. CONCLUSION

This study finds that neobanks match Generation Z's expectations and fit well with their everyday digital habits. As users who grew up with digital tools, many people in Gen Z expect money management to be fast, simple, and clear, with a strong sense of personal control. Neobanks often meet these expectations by offering app-based services that let users track activity in real time, make changes quickly, and manage accounts with fewer steps. The results suggest that performance expectancy is the main factor shaping neobank adoption.



When neobanks clearly show that they make everyday banking tasks easier, Gen Z users are more likely to start using them. Greater awareness and digital financial literacy can support adoption by helping people feel more confident and less unsure about using these tools. Even so, perceived anxiety is still a major barrier . Ongoing concerns about cybersecurity, data privacy, and financial risk still make some Gen Z users hesitant to fully trust neobank platforms.This points to the need to communicate security measures and regulatory protections more clearly and consistently.The study also suggests that, for Gen Z, ease of use and personal innovativeness are not key factors anymore, since most people in this age group already feel at home with digital apps. This suggests that, as people adopt new technology, they care more about whether it is useful and trustworthy than whether it is simply new.In practical terms, these results suggest that :In academic terms, neobanks should prioritise core product features and day-to-day service speed. This means improving what customers can do in the app, reducing errors and downtime, and making support faster and more consistent. Financial institutions should invest in digital financial education because many people now manage money through apps, online banking, and digital payment tools. Providing clear, practical education can help customers understand fees, interest, fraud risks, and basic budgeting in the digital setting. It can also support better decision-making, reduce avoidable mistakes, and build trust between institutions and the communities they serve. Regulators such as the RBI should keep strengthening the rules for digital banking to support trust and user safety.

## **APPENDIX**

### **Indicators:**

| <b>VARIABLE</b>             | <b>CODE</b> | <b>DESCRIPTION</b>                                                   | <b>REFERENCE</b>                                 |
|-----------------------------|-------------|----------------------------------------------------------------------|--------------------------------------------------|
| Performance Expectancy (PE) | PE1         | Neo banks make my everyday money tasks much easier and more helpful. | (Venkatesh et al., 2003; Venkatesh et al., 2012) |
|                             | PE2         | Neo banks help me handle my key financial needs smoothly.            |                                                  |
|                             | PE3         | With Neo banks, I can finish payments and transfers way faster.      |                                                  |
|                             | PE4         | Neo banks speed up and streamline all my money transactions.         |                                                  |

|                                  |      |                                                                           |                                                  |
|----------------------------------|------|---------------------------------------------------------------------------|--------------------------------------------------|
| Effort Expectancy (EE)           | EE1  | Picking up Neo banking skills would be pretty straightforward for me.     | (Venkatesh et al., 2003; Venkatesh et al., 2012) |
|                                  | EE2  | Neo banks feel simple and user-friendly overall.                          |                                                  |
|                                  | EE3  | I'd quickly get good at using Neo bank features.                          |                                                  |
|                                  | EE4  | Neo bank operations are straightforward and easy to grasp.                |                                                  |
| Digital Financial Literacy (DFL) | DFL1 | I understand Neo bank apps' features and how they work for daily banking. | Ravikumar et al. (2022)                          |
|                                  | DFL2 | I know the risks and safety steps for Neo bank use, like data protection. |                                                  |
|                                  | DFL3 | I'm comfortable fixing common Neo bank glitches, like failed transfers.   |                                                  |
|                                  | DFL4 | I get Neo banking terms like accounts, transfers, fees, and overdrafts.   |                                                  |
| Awareness (AW)                   | AW1  | I know what Neo banks are and how their digital services operate.         | (Tronnier et al., 2022)                          |
|                                  | AW2  | I'm familiar with Neo banks' main perks, like instant transfers and apps. |                                                  |
|                                  | AW3  | I see why Neo banks beat old-school banking in speed and convenience.     |                                                  |
|                                  | AW4  | I recognize privacy and security risks that come with Neo bank platforms. |                                                  |
|                                  | AW5  | I have enough info on Neo banks to decide if they fit my banking needs.   |                                                  |
| Perceived Anxiety (PA)           | PA1  | I worry Neo banks will take over traditional banking soon.                | (Paredes et al., 2021)                           |

|                              |     |                                                                        |                                       |
|------------------------------|-----|------------------------------------------------------------------------|---------------------------------------|
|                              | PA2 | Not knowing Neo banks might make banking tough when I need it most.    |                                       |
|                              | PA3 | Fast Neo bank tech changes feel overwhelming for money decisions.      |                                       |
|                              | PA4 | I'm concerned emergencies could hit without Neo bank protection ready. |                                       |
| Personal Innovativeness (PI) | PI1 | Hearing about a new Neo bank feature? I'd check it out right away.     | (Alalwan et al., 2018)                |
|                              | PI2 | I'm often first among friends to test new Neo bank tools and apps.     |                                       |
|                              | PI3 | I enjoy trying fresh Neo bank tech like instant loans or app features. |                                       |
|                              | PI4 | No second thoughts—I dive into new Neo banking innovations.            |                                       |
| Behavioural Intention (BI)   | BI1 | I plan to stick with Neo bank apps instead of quitting them.           | (Chen & Chen, 2009; Zou et al., 2022) |
|                              | BI2 | Going forward, I'll rely on Neo banks often for all my banking stuff.  |                                       |
|                              | BI3 | I'd tell friends and family to give Neo banks a shot.                  |                                       |

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