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FROM CHALLENGER BANKS TO INCLUSIVE FINANCE: LESSONS FROM THE UK NEOBANKING EXPERIENCE FOR FINANCIAL INCLUSION IN INDIA

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ABSTRACT

The rapid rise of neobanks has reshaped banking systems in several advanced economies by lowering access barriers, reducing costs, and extending formal financial services to previously excluded populations. This study examines the United Kingdom as a benchmark case to analyse how neobanks addressed long-standing accessibility challenges related to branch dependence, onboarding delays, and cash access constraints, and how these interventions translated into measurable financial inclusion outcomes over time. Using a purely secondary-data–based comparative research design, the paper draws on evidence from the World Bank Global Findex, the Financial Conduct Authority, the Bank of England, the Reserve Bank of India, and multilateral institutions. The analysis demonstrates that the UK's neobanking transition unfolded over nearly a decade, supported by regulatory innovations, shared ATM networks, and mobile-first account access, leading to a marked decline in unbanked adults and a shift in consumer banking behaviour. The paper then contrasts this experience with India's state-led digital financial inclusion model, highlighting similarities, divergences, and projected timelines for neobank-led transformation. By situating neobanks within broader inclusion architectures, the study contributes to comparative banking and financial inclusion literature and offers policy-relevant insights for emerging economies.

KEYWORDS: Neobanks, Financial inclusion, Banking accessibility, Digital banking

1. INTRODUCTION

Despite substantial advances in financial technology, financial exclusion remains a persistent global

challenge. Large segments of populations across both developed and developing economies continue to face barriers in accessing formal banking services due to high costs, rigid documentation requirements, geographic constraints, and reliance on physical branch infrastructure. In response, neobanks, also referred to as challenger banks, have emerged as digital-first institutions that seek to redefine how banking services are delivered and accessed.

In advanced economies, the United Kingdom has been widely recognised as a leading laboratory for neobanking innovation. Prior to the emergence of neobanks, the UK banking system was characterised by high market concentration, declining branch density, and limited competition in retail banking. These structural features disproportionately affected young adults, migrants, low-income households, and self-employed workers, many of whom faced difficulties in opening and maintaining basic bank accounts. The introduction of neobanks such as Monzo, Starling Bank, and Revolut marked a shift towards mobile-first banking models that prioritised ease of access, transparency, and affordability.
At the same time, emerging economies such as India have pursued financial inclusion through a markedly different pathway. Rather than relying primarily on market-driven challenger banks, India has adopted a state-enabled digital public infrastructure approach, anchored in large-scale initiatives such as the Pradhan Mantri Jan Dhan Yojana, Aadhaar-based electronic know-your-customer systems, and the Unified Payments Interface. While these initiatives have significantly expanded account ownership, questions remain regarding depth of usage, quality of access, and the potential role of neobank-like models in reaching the remaining underbanked population.

This study seeks to contribute to the growing literature on neobanking and financial inclusion by undertaking a comparative analysis of the UK and India. Specifically, it addresses three objectives. First, it examines the structural and accessibility challenges in the UK banking system prior to the rise of neobanks. Second, it analyses how neobanks improved accessibility through digital onboarding, mobile-first services, and continued cash access via shared ATM networks, and how long this transformation took to materialise. Third, it compares the UK experience with India's ongoing digital banking transition to assess what lessons, if any, can be drawn for accelerating inclusive banking outcomes in emerging economies.

Methodologically, the study relies exclusively on secondary data drawn from authoritative sources, including central banks, financial regulators, international financial institutions, and industry reports. By adopting a secondary-data–based comparative framework, the paper avoids firm-level case bias and instead focuses on system-level transformation and inclusion outcomes. The findings are intended to inform academic debates on digital banking as well as policy discussions on the design of inclusive financial systems.

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2. CONCEPTUAL BACKGROUND

2.1 Neobanks and challenger banks

Neobanks are commonly defined as digital-first or fully digital banking institutions that operate without extensive physical branch networks and deliver services primarily through mobile and web-based platforms (BIS, 2018; OECD, 2020). In the UK context, the term *challenger banks* is often used to describe both licensed digital banks and smaller technology-driven banks that compete directly with incumbent retail banks (FCA, 2019). While neobanks and challenger banks are not conceptually identical, they share core characteristics, including low-cost operating models, customer-centric design, and rapid onboarding processes.

Unlike traditional banks, which rely heavily on physical branches and legacy IT systems, neobanks leverage cloud-based infrastructure and application programming interfaces to offer real-time account access and integrated financial services (McKinsey, 2021). These structural differences have important implications for accessibility and inclusion, particularly for population groups that are disadvantaged by documentation requirements, minimum balance norms, or geographic distance from bank branches (World Bank, 2022).

From a financial inclusion perspective, neobanks are significant because they challenge exclusionary practices embedded in conventional banking, such as credit-history–based customer screening and fee-heavy current accounts (BIS, 2018).

Dimension	Neobanks	Traditional Banks	Key Sources
Delivery model	Digital-only or digital-first	Branch-centric with digital add-ons	BIS (2018); OECD (2020)
Physical branches	None or extremely limited	Extensive branch networks	BIS (2018)
Cost structure	Low operating costs; minimal fees	High fixed costs; account maintenance fees	McKinsey (2021)
Onboarding	App-based, near-instant	Documentation-heavy, in-person often required	FCA (2019)
Target segments	Young adults, migrants, gig workers, SMEs	Broad but risk-averse	World Bank (2022)

Table I summarises the key differences between neobanks and traditional banks, highlighting why neobanks are often positioned as inclusion-enhancing institutions.

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2.2 Financial inclusion and accessibility

Financial inclusion is typically conceptualised as the extent to which individuals and businesses have access to useful and affordable financial products and services that meet their needs, delivered in a responsible and sustainable manner (World Bank, 2014). Contemporary literature further disaggregates inclusion into three interrelated dimensions: access, usage, and quality (Demirgüç-Kunt et al., 2018).

The access dimension refers to the ability to open and maintain a formal financial account, which is influenced by factors such as documentation requirements, proximity to service points, and cost barriers. Usage captures the frequency and regularity with which financial services are employed, including payments, savings, and credit. Quality relates to affordability, transparency, reliability, and the suitability of products for users' needs (OECD, 2020).

Accessibility plays a central role in linking these dimensions. Even where account ownership is high, limited physical or digital access can constrain effective usage and reduce inclusion outcomes. In traditional banking systems, accessibility has been closely tied to branch density and ATM availability. However, the growth of digital finance has expanded accessibility through mobile channels, provided that users retain reliable means of cash withdrawal and deposit (BIS, 2020).

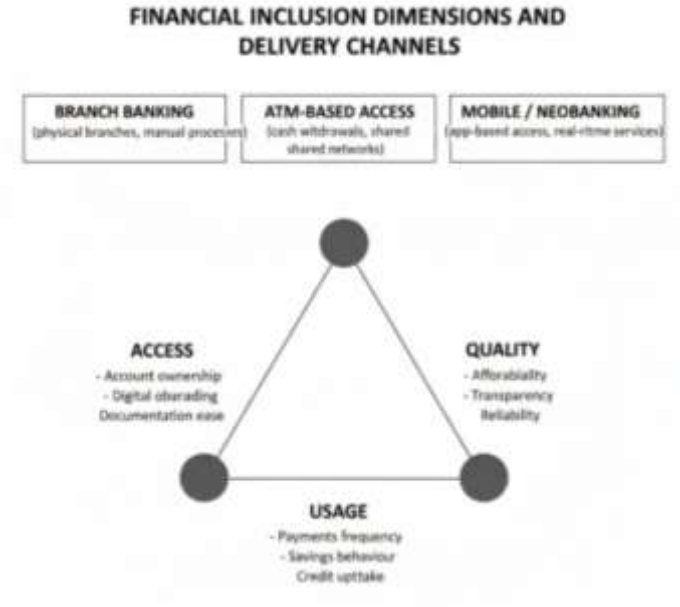

Figure 1 illustrates how different delivery channels map onto the access, usage, and quality dimensions of financial inclusion. This conceptual framing underpins the subsequent empirical analysis by linking neobanking features to measurable inclusion outcomes. It also provides a basis for comparing the

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UK's market-led neobanking model with India's infrastructure-led digital inclusion strategy.

In the UK, declining branch networks raised concerns about "banking deserts" and exclusion, particularly in rural and low-income urban areas (FCA, 2017). Neobanks responded by combining mobile-first account access with integration into shared ATM networks, thereby decoupling cash access from branch presence.

3. RESEARCH METHODOLOGY

3.1 Research design

This study adopts a qualitative comparative research design based exclusively on secondary data. A comparative case study approach is employed to examine the role of neobanks in improving banking accessibility and financial inclusion in the United Kingdom and to contrast this experience with India's evolving digital banking landscape. The UK is selected as the primary case due to its early adoption of neobanking models and supportive regulatory environment, while India serves as a comparative case representing an emerging economy with a state-led digital financial inclusion strategy (BIS, 2020; World Bank, 2022).

The research design is exploratory and explanatory in nature. It seeks to explain how institutional, regulatory, and technological factors interacted over time to shape accessibility outcomes rather than to test causal hypotheses. Such an approach is well suited to secondary-data–based financial inclusion research, where longitudinal and cross-country datasets provide system-level insights (Demirgüç-Kunt et al., 2018).

3.2 Data sources

The analysis draws on multiple authoritative secondary data sources to ensure robustness and triangulation. These include international financial inclusion databases, central bank statistics, regulatory surveys, and policy reports. The World Bank Global Findex database is used to track changes in account ownership and usage over time, while regulatory publications from the Financial Conduct Authority and the Bank of England provide insights into market structure, consumer behaviour, and regulatory developments in the UK. For India, data from the Reserve Bank of India, the Ministry of Finance, and the National Payments Corporation of India are utilised to examine digital banking expansion and inclusion outcomes.

To enhance comparability, the study prioritises datasets that are regularly updated, methodologically transparent, and widely cited in academic and policy literature (OECD, 2020; BIS, 2022).

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Institution	Dataset / Report	Coverage	Years
World Bank	Global Findex Database	Global	2011–2021
Bank of England	Banking Statistics	UK	2000–2023
FCA	Financial Lives Survey	UK	2017–2022
RBI	Financial Inclusion Reports	India	2011–2023
BIS	Sound Practices on Fintech	Global	2018–2022

Table II summarises the key data sources employed in the study, along with their coverage and relevance.

3.3 Analytical approach and limitations

The analytical approach combines two complementary methods. First, a before–after analysis is conducted to compare banking accessibility and inclusion indicators in the UK prior to and following the widespread adoption of neobanks. This allows for an assessment of structural change over time. Second, a cross-country institutional comparison is undertaken to contrast the UK's market-led neobanking model with India's infrastructure-driven approach to financial inclusion.

While secondary data enable broad system-level analysis, the study acknowledges certain limitations. Differences in data collection methods across countries may affect direct comparability, and reported indicators may lag behind real-time market developments. In addition, secondary datasets may not fully capture qualitative aspects of user experience or informal financial practices (World Bank, 2022). Nevertheless, given the study's focus on policy-relevant trends and institutional transformation, secondary data remain appropriate and sufficient for the research objectives.

4. The UK Banking Landscape Prior to Neobanks

4.1 Structure of the traditional banking system

Prior to the emergence of neobanks in the early 2010s, the UK retail banking system was characterised by a high degree of market concentration and reliance on branch-based service delivery. A small number of incumbent banks dominated current account provision, and competition in retail banking remained limited despite regulatory reforms following the global financial crisis (Bank of England, 2013; FCA, 2015). Banking services were largely structured around physical branches, with digital channels playing a supplementary role rather than serving as primary access points.

This structural configuration had important implications for accessibility. While the UK exhibited relatively high levels of overall account ownership compared to many countries, access was uneven across population groups and regions. Branch density, measured as the number of bank branches per

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100,000 adults, was significantly higher in urban and affluent areas than in rural or economically deprived regions (Bank of England, 2012).

Indicator	Value	Affected Groups	Source
Adults without bank account	~6% of adults	Low-income households	World Bank (2011)
Bank branches per 100,000 adults	~25	Rural and low-density areas	Bank of England
Average current account fees	£150–£200 per year	Low-balance customers	UK Finance
Account opening time	5–10 working days	Migrants, youth	FCA

Table III presents key indicators of banking access in the UK during the pre-neobank period, providing a baseline for subsequent analysis.

4.2 Accessibility and exclusion challenges

Despite widespread formal banking, a non-trivial proportion of the UK population remained unbanked or underbanked in the years preceding the rise of neobanks. According to the World Bank Global Findex, approximately 6 per cent of UK adults did not hold a bank account around 2010, with exclusion concentrated among low-income households, migrants, and younger individuals (World Bank, 2011). Even among account holders, high fees, complex product structures, and slow onboarding processes limited effective access and usage.

At the same time, the UK experienced a sustained decline in bank branch numbers, driven by cost pressures and the consolidation strategies of incumbent banks. Between 2000 and 2015, the number of bank branches fell sharply, raising concerns about the emergence of "banking deserts" and reduced access to face-to-face services (UK Finance, 2016; FCA, 2017).

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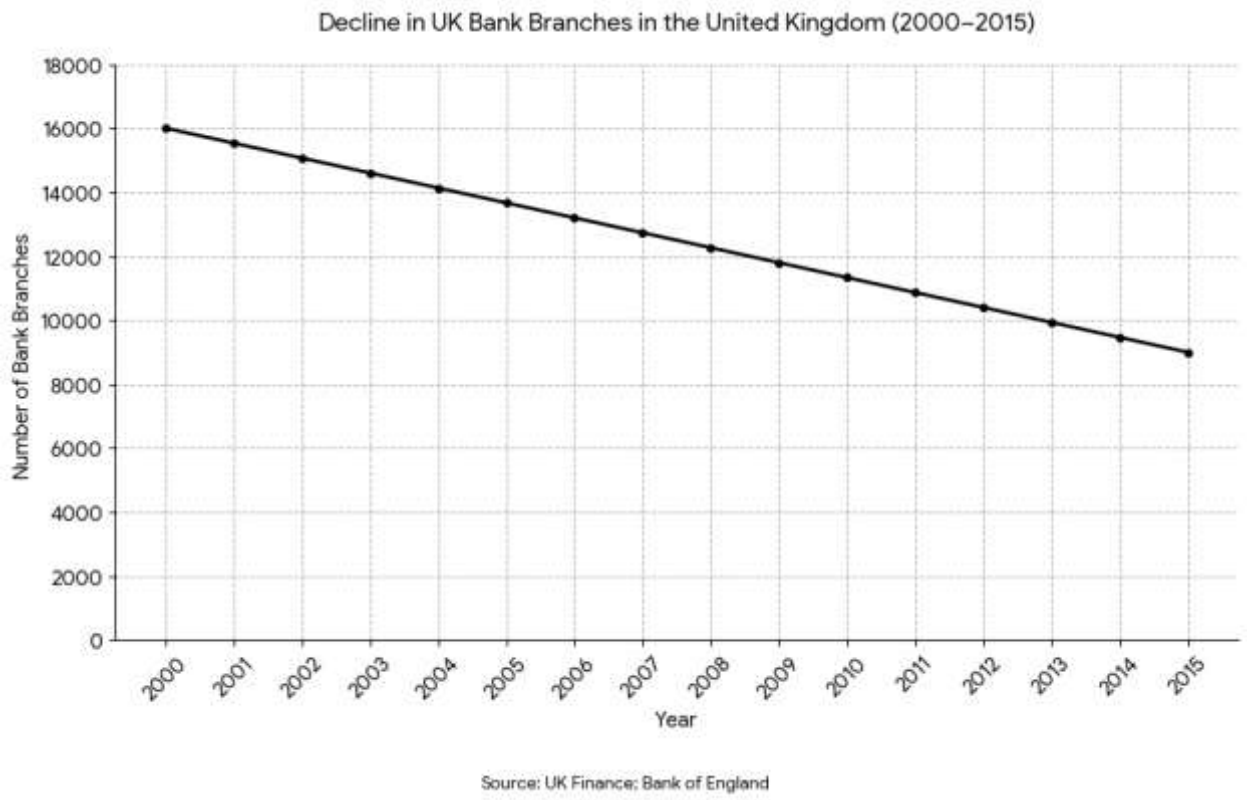

Figure 2 illustrates the scale of branch closures over this period and highlights the growing gap between traditional service delivery models and evolving consumer needs.

These developments created a paradox in the UK banking system. While digital technologies were advancing, the institutional structure of retail banking continued to privilege branch-based access, thereby excluding or inconveniencing segments of the population that either could not easily access branches or were discouraged by high costs and administrative burdens. This accessibility gap provided the conditions under which neobanks could emerge as viable alternatives, offering simpler, lower-cost, and more flexible banking solutions.

5. EMERGENCE OF NEOBANKS IN THE UK

5.1 Regulatory and policy environment

The emergence of neobanks in the UK was closely linked to a series of regulatory and policy interventions aimed at increasing competition and innovation in retail banking. Following the global financial crisis, UK policymakers and regulators identified excessive market concentration and low consumer switching as structural weaknesses in the banking sector (HM Treasury, 2012; Bank of England, 2013). In response, reforms were introduced to lower barriers to entry for new banks and to support technology-driven financial innovation.

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A pivotal development was the introduction of proportional licensing and the establishment of the Financial Conduct Authority's regulatory sandbox. Proportional licensing reduced capital and compliance burdens for new entrants during their initial growth phase, while the sandbox allowed fintech firms to test innovative products under regulatory supervision (FCA, 2014; BIS, 2018). These measures significantly reduced the time and cost required to launch new digital banks.

Another critical enabler was the implementation of Open Banking under the revised Payment Services Directive (PSD2), which came into effect in 2018. Open Banking mandated data portability and secure application programming interface access, enabling consumers to share their financial data with third-party providers (OECD, 2020). This reform enhanced transparency, facilitated account switching, and allowed neobanks to build services around user data.

Initiative	Year	Objective	Impact
FCA Regulatory Sandbox	2014	Reduce entry barriers	Enabled Monzo, Starling
Proportional licensing	2013	Encourage challengers	Faster authorisation
Open Banking	2018	Data portability	Enhanced switching

Table IV summarises the key regulatory initiatives that supported the entry and scaling of neobanks in the UK.

5.2 Timeline of neobank development

The development of neobanks in the UK can be broadly divided into three phases. The first phase, spanning approximately 2010 to 2014, was characterised by regulatory experimentation and early-stage fintech activity. During this period, digital banking concepts were tested, but consumer adoption remained limited due to low awareness and regulatory uncertainty (FCA, 2015).

The second phase, from around 2015 to 2017, marked the entry of fully licensed challenger banks such as Monzo and Starling Bank into the retail market. These institutions focused on current accounts with simple pricing structures, real-time notifications, and mobile-first interfaces. Early adopters were primarily younger, urban, and digitally literate consumers.

The third phase, beginning in 2018, saw the transition of neobanks from niche players to mainstream financial institutions. This period coincided with the rollout of Open Banking and a rapid increase in smartphone usage for financial services. Neobank customer numbers grew sharply, and their services expanded to include overdrafts, savings, and small business accounts (FCA, 2021).

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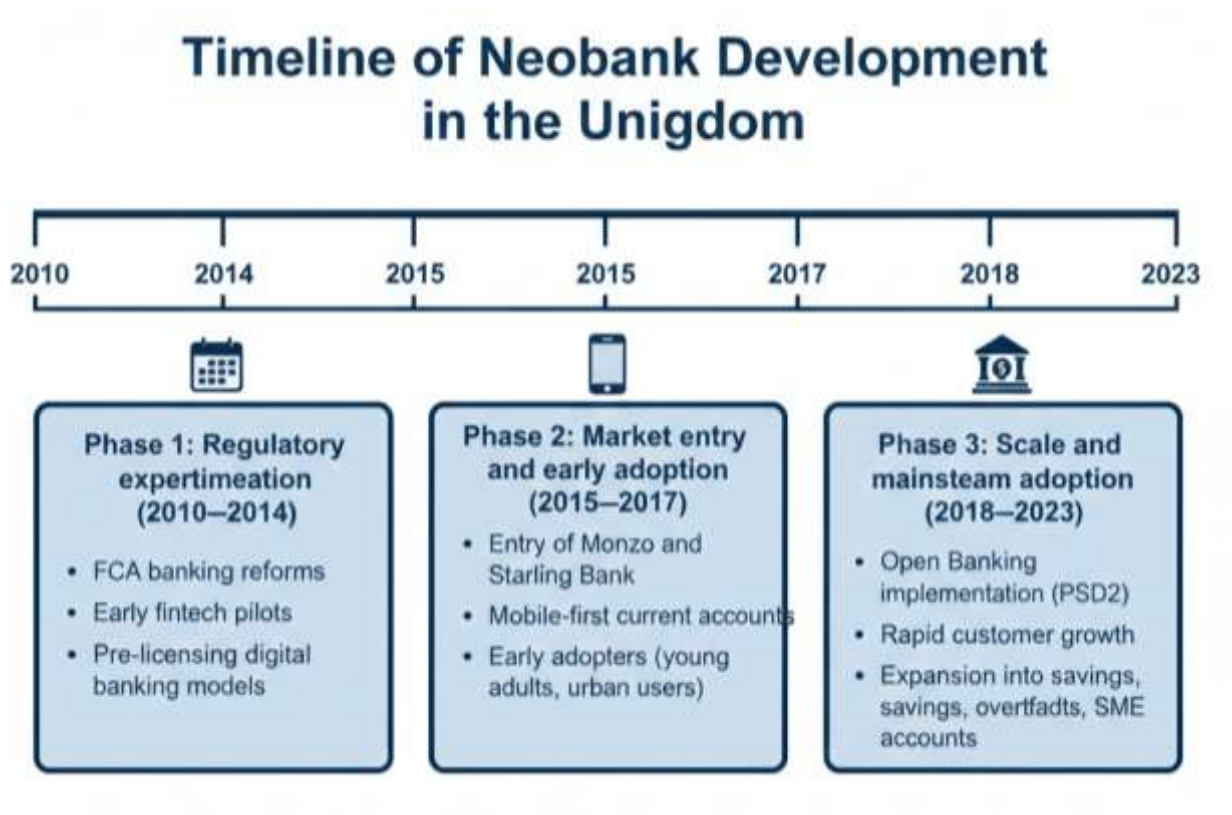

Figure 3 presents a timeline of key milestones in the UK neobanking ecosystem, highlighting the gradual but sustained nature of this transformation.

Overall, the UK experience demonstrates that neobanking-driven transformation is not instantaneous. Instead, it reflects a cumulative process in which regulatory support, technological readiness, and consumer trust interact over time to reshape banking access and inclusion.

6. Accessibility Mechanisms Introduced by UK Neobanks

6.1 Digital onboarding and identity verification

One of the most significant contributions of UK neobanks to banking accessibility was the simplification of account opening and identity verification processes. Traditional banks typically required in-person visits, extensive documentation, and multi-day processing, which disproportionately affected migrants, young adults, and individuals with non-standard employment histories (FCA, 2017). In contrast, neobanks introduced app-based onboarding that allowed users to open accounts within minutes using smartphone-based identity verification and electronic know-your-customer procedures.

Regulatory acceptance of digital KYC, combined with advancements in biometric verification and

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document scanning, enabled neobanks to reduce onboarding friction without compromising compliance standards (BIS, 2018). This shift lowered entry barriers and expanded access to formal banking, particularly for first-time account holders and individuals previously discouraged by procedural complexity.

6.2 Everyday banking access through mobile-first design

Beyond onboarding, UK neobanks transformed everyday banking access by repositioning the mobile application as the primary service interface. Customers could monitor balances, receive real-time transaction alerts, make payments, and manage budgets continuously, without reliance on branch visits or limited-service hours. Such features enhanced both the usability and perceived quality of banking services, key components of effective financial inclusion (OECD, 2020).

Mobile-first design also enabled neobanks to respond rapidly to user needs, introducing features such as instant card freezing, spending categorisation, and integrated savings tools. These functionalities were particularly valuable for users managing irregular incomes, including gig economy workers and freelancers.

Feature	Monzo	Starling	Revolut	Inclusion Impact
Zero-balance account	Yes	Yes	Yes	Low-income access
Instant onboarding	Yes	Yes	Yes	Migrants, youth
Fee-free ATM use (UK)	Yes	Yes	Limited	Cash access
Budgeting tools	Yes	Yes	Yes	Financial literacy

Table V compares key accessibility features offered by major UK neobanks and highlights their relevance for inclusion.

6.3 Cash access and ATM integration

Despite their branchless nature, UK neobanks recognised the continued importance of cash access, particularly for low-income users and small businesses. Rather than eliminating cash, neobanks integrated their accounts with the UK's shared ATM infrastructure, notably the LINK network, which provides nationwide access to tens of thousands of cash points (UK Payments Council, 2019).

Through these partnerships, neobank customers could withdraw cash without fees from most ATMs, thereby maintaining functional equivalence with traditional bank accounts. This approach decoupled cash access from branch ownership and mitigated exclusion risks associated with branch closures.

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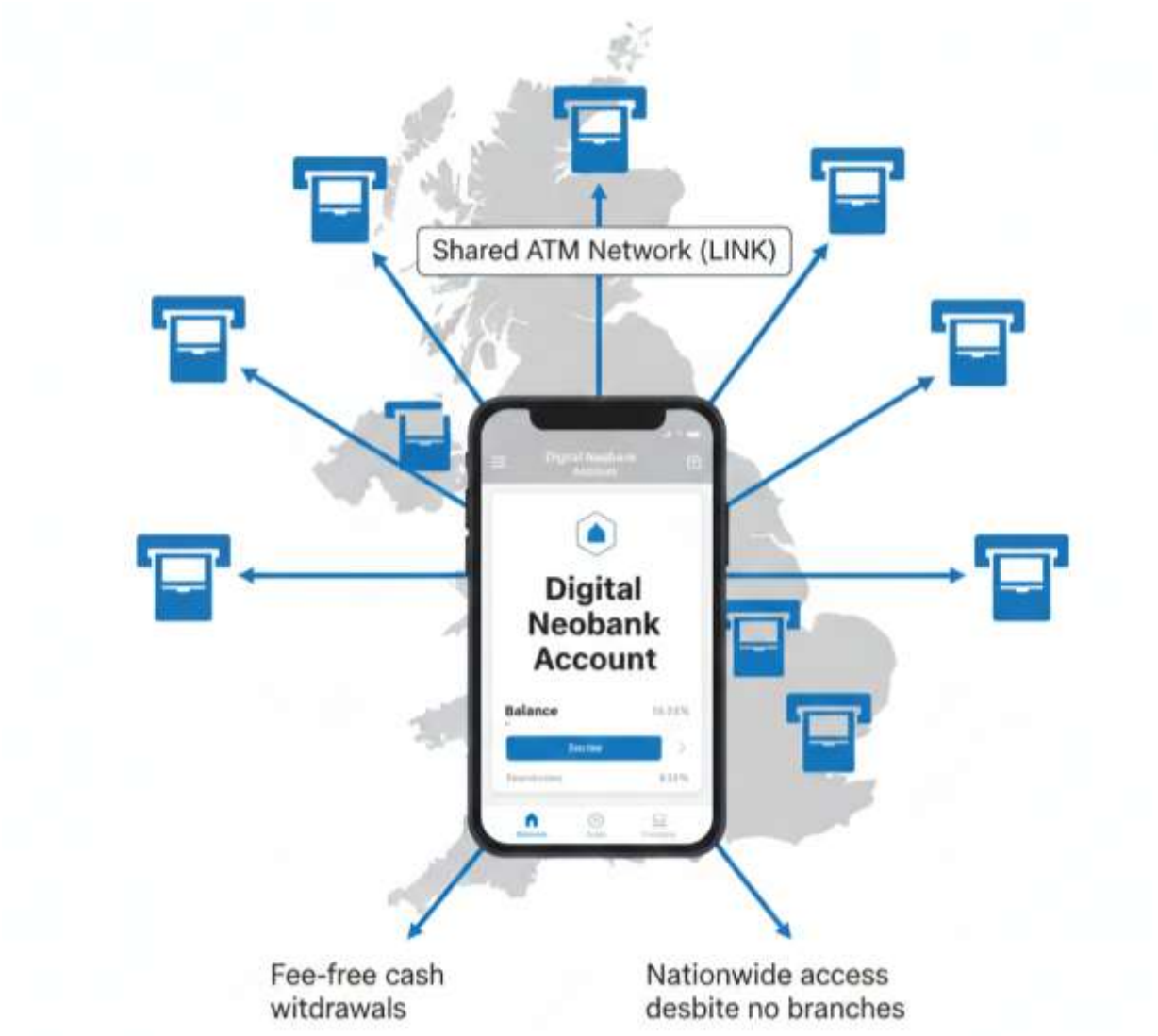

Figure 4 illustrates how digital neobank accounts were linked to physical cash access points, preserving accessibility in a predominantly digital banking model.

6.4 Inclusion of underserved population groups

The combined effect of simplified onboarding, mobile-first access, and continued cash availability enabled UK neobanks to reach population segments historically underserved by incumbent banks. Evidence from regulatory surveys indicates that a significant share of neobank users were young adults, migrants, and individuals with irregular income patterns (FCA, 2021). For these groups, neobanks offered not only access to accounts but also tools that supported better financial management.

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Importantly, accessibility gains were not limited to urban centres. By reducing dependence on physical branches, neobanks extended functional banking access to regions affected by branch closures, provided that mobile connectivity and ATM access were available. This multifaceted approach to accessibility underpins the inclusion outcomes analysed in the subsequent section.

7. Outcomes and Impact of Neobanks in the UK

7.1 Changes in consumer banking behaviour

The diffusion of neobanks in the UK led to observable changes in consumer banking behaviour, particularly in how individuals interacted with financial institutions. Regulatory surveys indicate a steady shift away from branch-dependent interactions towards mobile-based engagement, with consumers increasingly managing accounts, payments, and budgeting through smartphone applications (FCA, 2021). This behavioural shift was not limited to younger users; over time, adoption expanded across age groups as digital interfaces became more intuitive and widely trusted.

One notable outcome was an increase in account switching activity. Historically, the UK retail banking market exhibited low switching rates due to inertia and perceived complexity (HM Treasury, 2012). The entry of neobanks, coupled with Open Banking–enabled portability, reduced switching costs and empowered consumers to change providers more easily. As a result, switching rates increased significantly during the period of neobank expansion, signalling enhanced competitive pressure on incumbent banks.

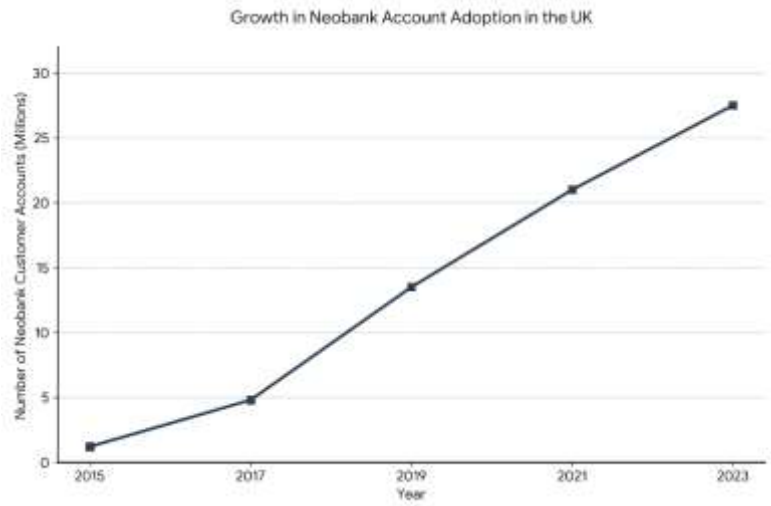

Figure 5 illustrates the growth in neobank account adoption and reflects the broader behavioural transition towards digital-first banking.

7.2 Financial inclusion outcomes

Beyond behavioural change, the expansion of neobanks in the UK was associated with measurable

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improvements in financial inclusion indicators. Data from the World Bank Global Findex and the Financial Conduct Authority show a decline in the proportion of unbanked adults from around 6 per cent in the early 2010s to approximately 2 per cent by 2021 (World Bank, 2021; FCA, 2022). While multiple factors contributed to this trend, the availability of low-cost, easy-to-open digital accounts played a significant role in reducing exclusion among marginalised groups.

In addition, the quality dimension of inclusion improved as neobank users benefited from transparent pricing, real-time information, and tools that supported active financial management. The reduction in reliance on high-cost alternative financial services, such as cheque-cashing outlets, has been highlighted in regulatory assessments as a positive inclusion outcome (FCA, 2021).

Indicator	Pre-Neobank (2010)	Post-Neobank (2021)	Change
Unbanked adults	~6%	~2%	–4 pp
Digital banking users	~30%	>80%	+50 pp
Account switching rate	~3%	~12%	+9 pp

Table VI presents a comparison of key inclusion indicators before and after the mainstreaming of neobanks in the UK.

7.3 Duration and pace of transformation

The UK experience underscores that neobank-led transformation is gradual rather than instantaneous. From early regulatory experimentation to widespread consumer adoption, the process spanned nearly a decade. Initial pilots and limited-scale deployments in the early 2010s were followed by a period of rapid growth after 2015, culminating in mainstream adoption after 2018 when regulatory, technological, and consumer readiness converged.

This extended timeline highlights the importance of sustained policy support, infrastructure development, and trust-building in achieving inclusive outcomes. While digital innovation accelerated access, its impact was cumulative and dependent on complementary elements such as shared cash infrastructure and consumer protection frameworks. These temporal dynamics are central to understanding how lessons from the UK might translate to other contexts, including India.

8. Banking and Financial Inclusion in India

8.1 Pre-digital banking conditions

Prior to the large-scale digital financial inclusion initiatives of the mid-2010s, India's banking system was marked by significant access constraints, particularly for rural populations, informal sector

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workers, and low-income households. Despite the expansion of bank branch networks following nationalisation and priority sector mandates, geographic dispersion, high transaction costs, and stringent documentation requirements limited effective inclusion (RBI, 2014; World Bank, 2017). Cash dominated everyday transactions, and a substantial share of households relied on informal savings and credit mechanisms.

According to the World Bank Global Findex, only about 53 per cent of Indian adults held a formal bank account in 2014, with pronounced gaps along income, gender, and rural–urban lines (Demirgüç-Kunt et al., 2015). Even among account holders, usage remained low, as many accounts were dormant due to distance from branches, minimum balance requirements, and lack of trust in formal institutions. These structural limitations underscored the need for an alternative approach to financial inclusion that went beyond branch expansion.

8.2 India's digital financial inclusion framework

In response to persistent exclusion, India adopted a state-led digital financial inclusion strategy centred on the creation of interoperable digital public infrastructure. The Pradhan Mantri Jan Dhan Yojana (PMJDY), launched in 2014, aimed to provide universal access to basic bank accounts with zero-balance features. This initiative was complemented by Aadhaar-based electronic know-your-customer systems, which significantly reduced onboarding costs and documentation barriers (RBI, 2019).

A key pillar of this framework is the Unified Payments Interface, which enabled instant, low-cost, and interoperable digital payments across banks and fintech platforms. The rapid adoption of UPI transformed payment behaviour, reducing reliance on cash and lowering transaction frictions for households and small businesses (NPCI, 2022).

Indicator	Pre-2014	Post-2021	Source
Adults with bank account	53%	78%	World Bank
Bank branches per 100,000	~12	~16	RBI
Digital payments volume	Minimal	>80 billion annually	RBI, NPCI

Table VII summarises changes in key financial inclusion indicators in India before and after the digital push, illustrating substantial gains in account ownership and digital usage.

The integration of these initiatives created what has been described as the "JAM trinity" of Jan Dhan accounts, Aadhaar identity, and mobile connectivity, forming the backbone of India's digital financial ecosystem (Government of India, 2020).

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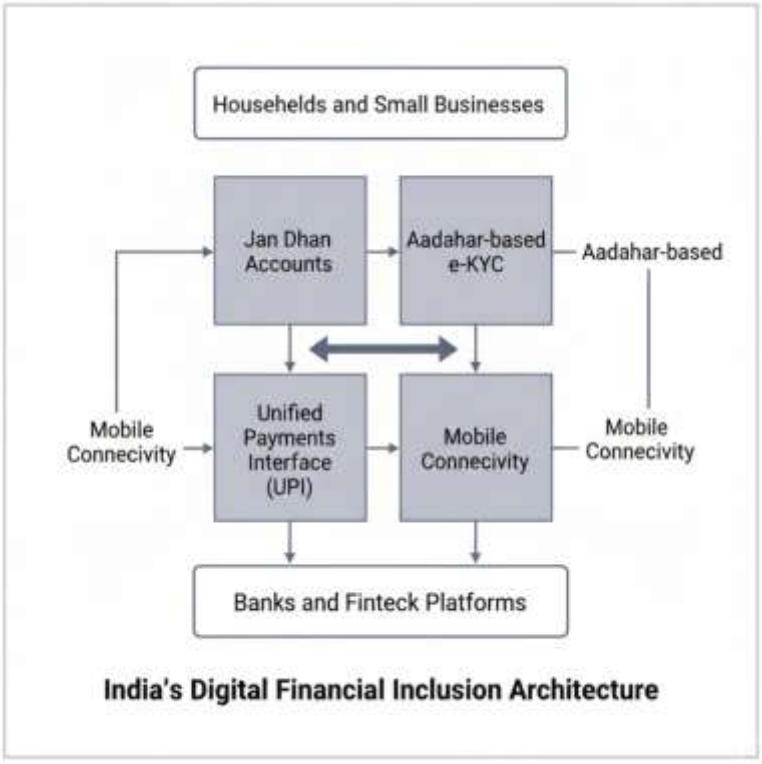

India's Digital Financial Inclusion Architecture

Figure 6 provides a system-level representation of this architecture and its role in expanding access at scale.

8.3 Implications for accessibility

India's approach differs fundamentally from the UK model in that it prioritises infrastructure-led inclusion over market-led competition. Accessibility has been enhanced through a combination of digital channels and extensive physical cash-in and cash-out networks, including ATMs and business correspondent outlets. While this model has achieved rapid scale, challenges remain in terms of digital literacy, service quality, and the sustainability of accounts among marginalised users (RBI, 2022).

These dynamics set the stage for examining the role of neobank-like models within India's regulatory and institutional context.

9. Neobanking and Digital Banking Models in India

9.1 Key actors and institutional arrangements

Unlike the United Kingdom, India does not currently permit fully independent, licensed neobanks to operate without a regulated banking partner. As a result, India's neobanking ecosystem has evolved through partnership-based models in which fintech platforms provide the customer interface while regulated banks or non-banking financial companies hold deposits and manage compliance (RBI,

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2021). These arrangements allow fintech firms to innovate in user experience and service delivery while operating within existing regulatory safeguards.

Key actors in this ecosystem include digital banking platforms such as Jupiter, Fi, and Niyo, which partner with scheduled commercial banks to offer savings accounts, payment services, and, in some cases, credit products. In parallel, payments banks and small finance banks play a complementary role by targeting underserved segments with simplified products and technology-driven outreach.

Platform	Partner Bank	Services	Target Group
Niyo	DCB, SBM	Accounts, forex	Migrants
Jupiter	Federal Bank	Savings, payments	Urban youth
Fi	Federal Bank	Digital banking	Salaried

Table VIII presents an overview of selected neobank-like platforms operating in India, their partner institutions, and target segments.

9.2 Accessibility mechanisms in the Indian context

Indian neobank-like platforms have leveraged the country's digital public infrastructure to enhance accessibility. Smartphone-based onboarding using Aadhaar e-KYC enables rapid account opening, while zero-balance accounts reduce cost barriers for low-income users. Interoperable payment systems such as UPI allow seamless transactions across banks and platforms, enhancing usage and convenience (NPCI, 2022).

At the same time, cash access remains critical, particularly in rural and semi-urban areas. India has addressed this requirement through a dense network of business correspondents, micro-ATMs, and traditional ATMs, enabling cash-in and cash-out services even in regions with limited branch presence (NABARD, 2021).

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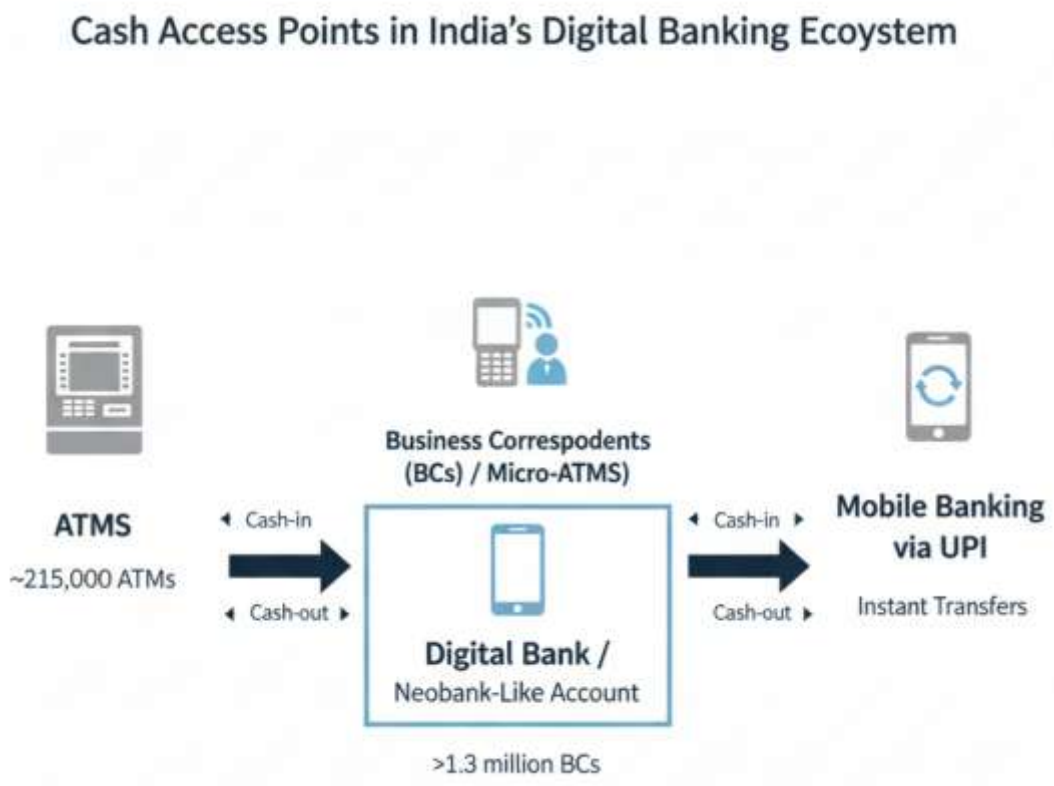

Figure 7 illustrates the relative scale and role of these access points in supporting digital banking adoption.

9.3 Constraints and ongoing challenges

Despite significant progress, several challenges constrain the expansion of neobank-led inclusion in India. Regulatory restrictions limit fintech firms' ability to operate as deposit-taking institutions, which can affect product depth and customer trust. Digital literacy gaps and uneven access to reliable internet connectivity also pose barriers to sustained usage, particularly among older and less educated populations (RBI, 2022).

Furthermore, while account ownership has increased substantially, ensuring active and meaningful usage remains an ongoing policy concern. These constraints highlight the importance of contextualising lessons from the UK within India's distinct institutional and socio-economic environment.

10. Comparative Analysis of the UK and India

10.1 Institutional and regulatory differences

The United Kingdom and India represent two distinct institutional pathways towards banking

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inclusion. In the UK, neobanks emerged within a market-led framework supported by regulatory facilitation aimed at increasing competition and consumer choice. Regulators focused on lowering entry barriers for new banks, enabling proportional licensing, and mandating data portability through Open Banking (FCA, 2019; BIS, 2020). This approach allowed independent digital banks to compete directly with incumbents.

In contrast, India's approach has been predominantly state-led, with the regulator prioritising system stability and universal access through digital public infrastructure. Rather than issuing full banking licences to neobanks, Indian regulators have encouraged innovation through partnerships between fintech firms and licensed banks, alongside specialised institutions such as payments banks and small finance banks (RBI, 2021). These institutional differences shape how accessibility and inclusion are pursued in each context.

10.2 Accessibility pathways

The pathways through which accessibility has been enhanced also differ markedly between the two countries. In the UK, neobanks largely replaced the functional role of branches with mobile applications, while preserving cash access through shared ATM networks. This branch-replacement strategy reduced fixed costs and expanded access for digitally connected users without eliminating cash-based services.

In India, accessibility has been achieved through a branch-augmentation strategy. Digital channels such as mobile banking and UPI coexist with extensive physical access points, including business correspondents and micro-ATMs. This hybrid model reflects the continued importance of cash and assisted digital services in a diverse and geographically dispersed population.

Dimension	UK	India	Implications
Regulatory stance	Market-led	State-led	Faster scale in India
Cash access	ATM networks	BC + ATMs	Hybrid advantage
Inclusion speed	Gradual (10 yrs)	Rapid (5–7 yrs)	Sustainability risk

Table IX compares key dimensions of neobanking and financial inclusion in the UK and India, highlighting institutional contrasts and their implications.

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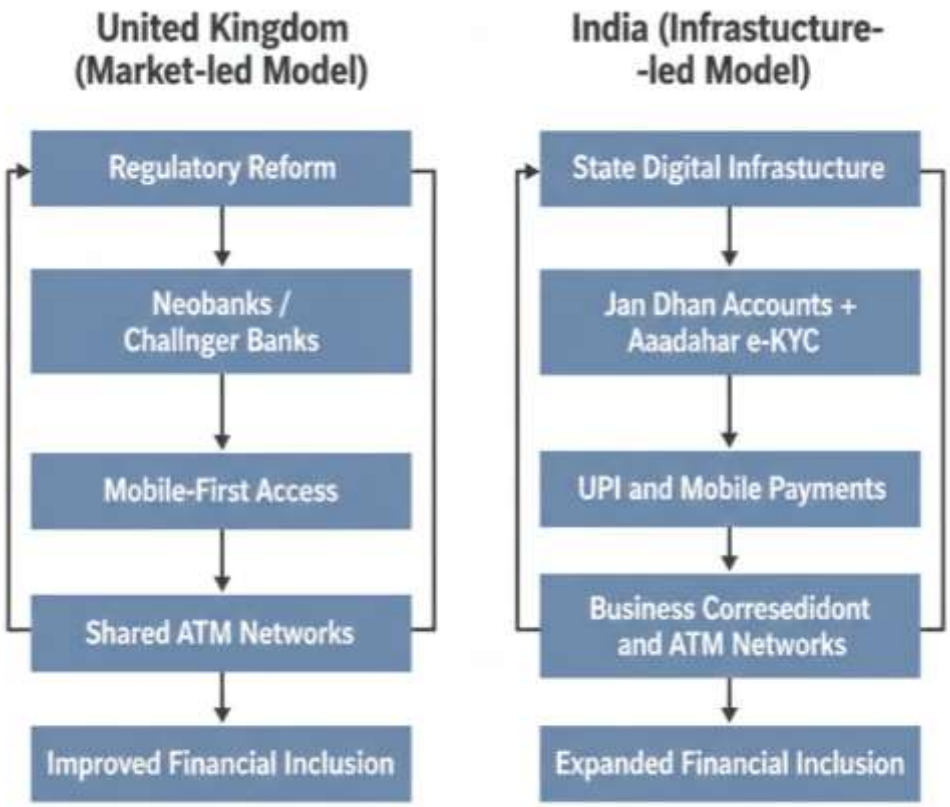

Comparative Pathways to Financial Inclusion

Figure 8 synthesises these differences by illustrating the distinct inclusion pathways followed by the two countries, from competition-driven innovation in the UK to infrastructure-enabled scale in India.

10.3 Speed and scale of financial inclusion

The speed and scale of inclusion outcomes further differentiate the two experiences. The UK's neobanking transition unfolded gradually over nearly a decade, reflecting the time required for regulatory adaptation, consumer trust-building, and behavioural change. In India, by contrast, large-scale digital initiatives enabled rapid expansion of account ownership and payment usage within a shorter timeframe.

However, rapid scale does not necessarily translate into uniform quality of inclusion. While India has achieved near-universal account ownership, challenges related to account dormancy, digital capability, and service depth persist (World Bank, 2021). These observations underscore the importance of balancing speed with sustainability in designing inclusive banking systems.

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11. Implications for India's Banking Transition

The comparative analysis of the UK and India suggests that while the two countries have followed different institutional pathways, the UK neobanking experience offers several relevant insights for India's ongoing banking transition. One key implication relates to the role of competition. In the UK, the entry of neobanks increased competitive pressure on incumbent banks, leading to improvements in service quality, pricing transparency, and customer experience across the sector (FCA, 2021). In India, where competition is shaped more by public sector banks and regulated fintech partnerships, fostering a controlled yet competitive environment could enhance innovation without undermining financial stability.

A second implication concerns the sequencing and duration of transformation. The UK experience indicates that neobank-led inclusion is a cumulative process that typically spans close to a decade, from early experimentation to mainstream adoption. India's digital public infrastructure has already compressed parts of this timeline by enabling rapid onboarding and payment adoption. However, achieving deep and sustained inclusion, particularly in terms of active usage and financial capability, is likely to require continued policy support over several years.

Phase	UK	India
Early pilots	2010–2014	2014–2016
Scale-up	2015–2019	2017–2021
Mainstreaming	2020 onwards	2022 onwards

Table X presents an indicative comparison of the phases and timelines of banking transformation in the UK and India.

Another important implication relates to cash accessibility. The UK case demonstrates that even in highly digitised banking systems, maintaining reliable cash access through shared infrastructure is essential for inclusion. India's extensive network of business correspondents and micro-ATMs positions it well in this regard, but ongoing investment is necessary to ensure service quality and reliability, especially in remote areas (RBI, 2022).

Finally, the UK experience underscores the importance of regulatory experimentation. Mechanisms such as regulatory sandboxes and proportional licensing enabled innovation while preserving consumer protection. Adapting similar approaches within India's regulatory framework, potentially through expanded sandboxing or tiered licensing for digital-first banks, could support the evolution of

neobank-like models tailored to India's context.

12. Policy Implications

The findings of this study carry several policy-relevant implications for regulators and policymakers seeking to leverage neobanking and digital finance for inclusive growth. First, the UK experience highlights the value of regulatory frameworks that actively encourage entry and innovation while maintaining prudential oversight. Proportional licensing and regulatory sandbox mechanisms lowered barriers for challenger banks without compromising systemic stability (BIS, 2018). For India, extending and institutionalising such mechanisms could support innovation beyond existing partnership-based models.

Second, consumer-centric regulation emerges as a critical enabler of inclusion. In the UK, policies aimed at improving transparency, simplifying account switching, and protecting consumers from hidden fees enhanced trust in digital banking services (FCA, 2021). Strengthening consumer protection in digital finance, particularly around data privacy, grievance redressal, and product suitability, is equally important in the Indian context as digital adoption deepens.

Third, the role of shared infrastructure in preserving accessibility warrants particular attention. The UK's reliance on shared ATM networks ensured that branchless neobanks did not undermine cash access for vulnerable users. India's extensive business correspondent and micro-ATM networks serve a similar function but require sustained investment, monitoring, and incentives to maintain service quality and coverage, especially in low-density and remote regions (NABARD, 2021).

Finally, policy coherence across institutions is essential. The UK's neobanking transition benefited from coordination between financial regulators, competition authorities, and government departments. In India, aligning the objectives of the Reserve Bank of India, fintech regulators, and digital infrastructure providers can help ensure that innovation contributes to meaningful inclusion rather than superficial account expansion.

13. CONCLUSION

This study examined the role of neobanks in transforming banking accessibility and advancing financial inclusion, using the United Kingdom as a benchmark case and India as a comparative context. Drawing exclusively on secondary data, the analysis demonstrated that the UK's neobanking transition addressed long-standing accessibility challenges arising from branch dependence, high costs, and complex onboarding procedures. Through mobile-first service delivery, simplified digital onboarding, and continued cash access via shared ATM networks, neobanks contributed to measurable improvements in inclusion outcomes over a period of nearly a decade.

The comparative analysis revealed that India has pursued a distinct yet highly effective pathway to inclusion through state-led digital public infrastructure. While India has achieved rapid gains in account ownership and digital payment usage, the depth and quality of inclusion remain uneven. The UK experience suggests that competition-driven innovation, sustained regulatory support, and consumer-centric design can complement infrastructure-led approaches to strengthen inclusion outcomes.

From a policy perspective, the findings underscore the importance of balancing innovation with stability, speed with sustainability, and digital expansion with continued cash accessibility. For emerging economies, the study highlights that neobanks should be viewed not as standalone solutions but as integral components of broader financial inclusion ecosystems.

The paper contributes to the literature on digital banking and financial inclusion by providing a structured, secondary-data–based comparative framework that links institutional design, accessibility mechanisms, and inclusion outcomes. Future research could build on this work by incorporating mixed-method approaches, user-level data, or firm-level performance metrics to further unpack the causal pathways through which neobanks influence inclusive finance.

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