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BEHAVIOURAL INTENTIONS TOWARD NEO-BANKING ADOPTION IN SRI LANKA: ANALYZING INSTITUTIONAL PERSPECTIVE

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ABSTRACT

Neo banking represents a transformative shift in the global banking industry, offering digital-first services without the need for physical branches. Similarly, in the Sri Lankan context, although there is a rise in tech-savvy digital customer groups and competition from non-banking institutions offering innovative financial products and services, fully digital banking platforms, such as neo-banks, are still relatively new concepts that remain unexplored. In addition, with the Sri Lankan government introducing laws to transition towards a cashless economy through the Digital Framework 2030, the adoption of neo banking becomes essential for building a fully integrated cashless ecosystem. This results in the need to study the implications of the adoption of neo-banking in Sri Lanka. Accordingly, this research aims to identify the current situation of the Sri Lankan banking industry to introduce neo-banking from an institutional perspective. This study adopted an interpretivism research philosophy, employing a qualitative approach. The objective of the study was achieved by conducting in-depth interviews with key personnel within the top management of domestic commercial banks and fintech companies on the topic of digitalization, selected through purposive sampling. The data were analyzed using a thematic analysis approach using NVIVO software. The study finds that while digital transformation in Sri Lankan banks is advancing, its success hinges on aligning technology with customer needs, fostering fintech partnerships, and overcoming barriers such as regulatory constraints, uneven technological readiness, and gaps in digital literacy. This study emphasizes that embracing digitalization is essential for financial institutions to remain competitive in an increasingly digital-first economy. To this end, the study highlights the need for banks and policymakers to identify and address barriers and enablers to neo-banking.

Keywords: Cashless Economy, Digitalization, Fintech, Neo-Banking, Sri

Lankan Banking Industry

1. Introduction

Traditionally, bank operations revolved around accepting deposits while giving loans. Later, they expanded into providing non-bank financial products under the supervision of central banks (Heffernan,2005). Towards the latter part of the 1990s, the banking industry saw the need to establish infrastructure to provide services via online platforms, upon the trend of evolving consumer preferences (Pennathur, 2001). Over 65% of customers now prefer digital banking channels. Due to this trend, banks team up with fintech companies to stay ahead of the curve (Rey, 2024). As a result, traditional banking systems have been transformed into customer-centric models, giving rise to innovative concepts like neo-banking, which operates entirely online without physical branches (Monis & Pai, 2023).

In Sri Lanka, the banking sector serves as a critical liquidity provider (Central Bank, 2025), comprising 24 Licensed Commercial Banks (LCBs) and 6 Licensed Specialized Banks (LSBs) (CBSL, 2025). A report by the World Bank Group states that 89% of Sri Lankan adults have a bank account by 2021, indicating that Sri Lanka's banking sector is well established and accessible (Asli et al., 2021). Among the banking customers in Sri Lanka, Gen Z, Millennials, and Gen X are the most prominent users. With Gen Z emerging as the most tech-savvy customer segment, Gen X and Millennials remain the primary income earners, contributing the most to the labor force and making them the most engaged customer segments in the market (Department of Census and Statistics, 2023) . Interesting trends in digitalization of banking activities were observed during the COVID-19 lockdowns, where internet banking volumes spiked by, and fintech app registrations increased by 200 (Shadforth & Jayasooriya, 2023). Confirming these trends, the CBSL Payment Bulletin (2023) highlights that internet-based payments have risen 38 times in terms of transaction volume and 24 times in transaction value as of 2023, compared to 2013 (CBSL Payment Bulletin, 2023).

In a background where customers transform towards a more digital landscape, Sri Lanka has historically been a pioneer in adopting significant fintech innovations. Notably, the country was among the early adopters of the Real-Time Gross Settlement (RTGS) system in 2003 in South Asia (Bech & Hobijn, 2006). Despite this strong foundation, although discussions surrounding neo-banking have been ongoing in Sri Lanka for over a decade, the initiation of relevant programs has seen significant delays (FITIS, 2022). As stated by the Former General

Manager/CEO of National Savings Bank, Mr. H.M. Hennayake Bandara, banks inevitably need to transform into a fully digital model sooner or later (Bandara, 2016). In a context where neo-banking is emerging as a necessity for the country, the government has taken steps to introduce laws to transition towards a cashless economy through the Digital Framework 2030, including GovPay and Digital ID initiatives (Daily FT, 2025). . With these types of initiatives, potentially reducing barriers, the opportunities towards implementing neo banking can widen significantly. Neo banking is even more crucial for Sri Lanka in transforming into a cashless economy with secure and efficient digital payments. According to the LankaPay CEO, Mr. Channa De Silva, there is a need for Sri Lanka to channel the idle cash into the formal financial system through digital payments, as 76% of the cash held by the public does not contribute to the economy. Currently, continued reliance on cash transactions imposes a considerable economic burden, estimated at approximately 1.5% of the country's annual GDP, an amount almost equivalent to the government's expenditure on education, which stands at around 2% of GDP. By promoting a digital economy, Sri Lanka will optimize financial efficiency and also significantly reduce manual labor, eliminating inefficiencies and corrupt practices (Fernando, 2025).

Several studies have been done related to the digitalization of banking services. As an example, Lakmal (2024) found that the majority of customers prefer digital banking, indicating a significant shift towards online banking. Elderly customers also expect the services received from their digital banking service provider to be relevant and customized to them, and they are willing to engage and learn more about digital banking (Gunaratne et al., 2022). However, there seems to be a lack of studies specifically on neo banking or fully digitalized banking in the Sri Lankan context. Numerous studies have examined neo banking in the rest of the world, where the nature of its implementation has been studied (Raju et al., 2024). Nevertheless, the Sri Lankan banking sector offers a distinct combination of challenges and opportunities in the adaptation of such technologies. This research aims to identify the current situation of the Sri Lankan banking industry to introduce Neo Banking from an institutional perspective. Thereby, the study addresses a significant gap in the existing literature by exploring the challenges and opportunities of implementing neo banking, specifically within the Sri Lankan context.

The rest of the paper is organized as follows. First, it presents a review of relevant literature on fintech innovations, neo banking concepts, and the current state of the Sri Lankan banking industry. It then outlines the research methodology adopted for this study. The core of the paper presents the main findings, organized around key themes including

digital transformation, challenges in customer adoption, collaboration and competition with fintech firms, and regulatory considerations. The paper concludes with a discussion of the implications of these findings and offers recommendations for banking institutions and policymakers.

2. Literature Review

2.1. Fintech Innovations in the Banking Industry and Their Impact

The banking industry saw the importance of establishing an online presence towards the latter part of the 1990s (Pennathur, 2001). Before that, the ATM was the major technological innovation in banking up until the early 1990s (King, 2010). With the increasing role played by the internet, it is anticipated that the web will replace bank branches, as increased online banking usage by consumers would lead to physical branches closing down (Kim, 2022).

While banks have embraced digital transformation, fintech emergence has persistently fueled innovation in the banking sector (Feyen et al., 2023). Mobile wallets and P2P lending platforms are the best examples of fintech innovations, facilitating easy payments and direct lending between people without the need for intermediaries (Tang, 2024). Fintech's impact is also evident in promoting cashless economies and driving open banking solutions, where data sharing enables the development of new financial applications and services (Kumari & Devi, 2022). These rapid advancements in technology have given rise to innovative concepts like neobanks (Janamolla, 2024).

2.2. Neo Banking

Neo banking is a term that has gained prominence since 2017. It refers to a new generation of financial service providers operating entirely online without physical branches. The concept of neo-banking originated in Europe, which pioneered creating this platform, and has now expanded to include approximately 100 neo-banks (Shabu & Ramankutty, 2022). By eliminating the need for physical infrastructure, neo banks deliver services at lower operational costs while offering user-friendly digital platforms, faster transactions, and innovative financial products (Brightmore, 2024).

The evolution of neo banking has also transformed the relationship between fintech firms and traditional banks. Neo banks are essentially fintech companies that provide a combination of traditional and innovative banking services through digital platforms (Monis & Pai,

2023). Currently, banks and fintech companies see one another as partners instead of rivals. This cooperative approach has blurred the boundaries between traditional banking and fintech-driven models, creating a hybrid ecosystem that combines the strengths of both sectors (Hoang et al., 2021). In the Sri Lankan context, where regulatory frameworks are still maturing, such collaborations like CBSL's FinTech regulatory sandbox may serve as a practical pathway toward introducing neo-banking while minimizing systemic risks (Jayamaha, 2019).

2.3. Sri Lankan Banking Industry and Ongoing Discussion on Neo Banking

The banking industry of a country plays a crucial role, as maintaining the robustness of the banking system is essential to avoid adverse effects on the overall financial stability of the country (Samarasinghe & Lakmal, 2024). To ensure sustainable economic growth, the government needs to expand the financial sector and implement critical actions to fortify the long-term connection between financial development and economic growth (Navaratnam et al., 2019). Because of this importance, any structural innovation, such as the adoption of neo banking, depends not only on technological readiness but also on how well the broader financial system can adapt to new models of service delivery.

In the present context, scholars have identified that innovation acts as a replacement for price competition. Leading mobile payment platforms have been a key catalyst for the digital revolution, with fintech companies playing an increasingly major role in Sri Lanka's financial sector. This has raised concerns among leading banking officials that fintech could take about 25% of the traditional financial services sector (Fairooz et al., 2021). In this light, Sri Lankan banks need strategic moves towards digital-first operations to remain competitive (Habeeb & Wickramasinghe, 2019). However, ongoing discussions highlight the practical challenges Sri Lanka faces when transitioning to neo-banking, including the absence of a national digital identity system, high investment costs associated with neo-banking, high cash reliance, low digital literacy, fragmented digital roadmaps among institutions, rigid frameworks, and limited sandboxing opportunities (YouTube, 2022).

2.4. Stakeholders in the Sri Lankan Neo Banking Context

Stakeholder Theory suggests that a company should consider the interests of all parties affected by its actions, not just shareholders (owners). These parties, called stakeholders, can influence or be influenced by the company's operations (Freeman & McVea, 2005).

Freeman (1984) categorized stakeholders into internal (i.e., customers, employees, suppliers, and owners) and external (i.e., governments, competitors, and special interest groups) (Freeman & McVea, 2001). A further distinction can be made between primary and secondary stakeholders. According to Clarkson (1995), stakeholders are categorized based on whether they directly or indirectly impact a firm. Primary stakeholders are those "without whose continuing participation the corporation cannot survive as a going concern". Secondary stakeholder groups comprise individuals or entities that do not participate in business, thus impact the corporation or are impacted by it, but are not crucial for its continued existence. According to this narrow definition in the neo banking context, internal stakeholders consist of banks, as owners and service providers, and customers. External stakeholders include the Central Bank, as the regulatory authority that represents the government. However, fintech companies occupy a more complex position, operating both as suppliers when partnering with banks and as competitors when operating as independent neo banks.

Some research studies identify fintech companies as competitors that are encroaching on the traditional business of banks, even though banks are adapting to the digital world (Vives, 2017). But more recently, there has been increased partnership and collaboration between fintech firms and banks (Chernoff & Jagtiani, 2024). Additionally, Bailure (2007) posits that although internal groups are often considered "key," there are instances where external stakeholders hold greater significance and should not automatically be placed in a subordinate role. This view is especially pertinent when considering the Central Bank's role within the banking ecosystem. Despite being classified as an external stakeholder, the Central Bank holds significant influence as the primary regulatory authority, shaping policies and ensuring financial stability in the banking sector.

According to stakeholder theory, the stakeholders pertinent to the neo banking sector in Sri Lanka are domestic commercial banks, the central bank, and fintech companies. Licensed Commercial Banks (LCBs), which lead the Sri Lankan banking landscape in terms of both their asset base and the variety of services provided, are the most vital category of financial institutions within the banking industry (Central Bank of Sri Lanka, 2025b). Out of 24 LCBs in Sri Lanka, 13 Banks are domestic LCBs (CBSL, 2023). Domestic banks have mostly retail-funded deposit structures other than wholesale-funded foreign bank funding sources, suggesting that domestic banks' financial activities are more closely linked to Sri Lanka's real economic (Central Bank, 2024).

3. Methodology

This study adopts a qualitative research design guided by an interpretivism research philosophy, using narrative method to understand perceptions, experiences, and attitudes of different stakeholders in the neo banking ecosystem (Klein & Myers, 1999; McQueen & Zimmerman, 2006). A nonprobability sampling technique, which is highly beneficial when a researcher cannot conduct random sampling, is used (Etikan, 2016). Accordingly, this research employs purposive sampling for the situational analysis, enabling the researcher to interview relevant stakeholders actively engaged in the market. This approach identifies the needed information and looks for individuals with the appropriate expertise or experience who are open to sharing it (Etikan, 2016).

The study identifies stakeholders pertinent to the neo banking sector in Sri Lanka according to stakeholder theory. Together with domestic commercial banks, fintech companies acting as competitors and partners of neo banking models, make them an ideal population for the research to study the viability of neo banking within the Sri Lankan context. Domestic commercial banks, from the banking industry, and fintech companies, as both their neo banking business model partners and competitors, were interviewed to achieve the objective, giving a clear representation of retail banking practices in Sri Lanka. This study's research sample includes four (04) domestic commercial banks and one (01) fintech company. This was in line with a previous qualitative study on factors affecting fintech acceptance in Sri Lanka, has employed five (05) fintech firms (Piyananda & Aluthge, 2023). Accordingly, interviewees consisted of senior officers such as Chief Digital Officers, Chief Information Officers, and Assistant General Managers of Digital Banking from private and state-owned banks, and the Chief Delivery Officer of a fintech company.

Themes for conducting interviews were identified from peer discussions and existing literature. According to a bibliometric review done on the current research trends reviewing 191 relevant articles between 2009 and 2022 published on neo banking, the fundamental concepts that are researched are on consumer attitude, loyalty, data privacy, intention to use, digital transformation, and financial innovation (Mall et al., 2024). Accordingly, the identified themes for the in-depth interviews are digital transformation, fintech competition and collaboration, customer adoption and challenges, growth potential and future of neo banking, policy consideration, and data and security. The findings of the study reinforce the stakeholder theory by identifying the role, influence, and expectations of identified key stakeholders in the banking industry.

The interview questions for each theme were validated using a pilot study to ensure the reliability of the primary data collected. Secondary data were obtained from publicly available reports, financial statements, official publications from the Central Bank of Sri Lanka, academic literature, and industry analyses. The thematic analysis of the collected data was done using NVIVO Software.

4. Results/Analysis and Discussion

4.1. Situation Analysis

The findings are based on in-depth interviews conducted with four senior executives from Sri Lankan domestic commercial banks and a senior executive from a fintech company. Participants include the Chief Digital Officer of a private commercial bank, the Assistant General Manager of Digital Banking of another private commercial bank, a senior officer of equivalent rank from a third private commercial bank, the Chief Information Officer of a state-owned bank, and the Chief Delivery Officer of a fintech company.

4.2. Results

The concept map in Figure 1 and word cloud in Figure 2, obtained using the NVIVO analysis indicates critical insights in terms of industry perspective.

Figure1: Concept Map

Figure 1 illustrates that institutional executives perceive factors such as trust, customer confidence, technological readiness, and digital onboarding innovations influence customer adoption, reflecting both behavioral and technological issues in the implementation process. At the same time, it pinpoints institutional-level factors such as regulatory policies, data security, and collaboration with fintechs that shape the strategic look at neo-banking growth. Meanwhile, the inclusion of such subthemes as AI-powered fraud detection tools, cloud systems, and UI/UX design points to an industry increasingly reliant on digital infrastructure and customer-oriented innovation. Overall, the concept map emphasizes the fact that neo-banking adoption in Sri Lanka depends not only on customer attitudes but also on institutional adaptability, technological evolution, and regulatory preparedness-all combining to determine the future path of the sector.

Figure 2: Word Cloud

Figure 2 presents an NVivo word cloud visualization of the most repeated terms in the qualitative data gathered from industry interviews. The size of a word represents its frequency in the transcripts and thus the stronger the centrality of the word in the participants' narratives. As explained here, terms like "customer," "banking," "digital," "people," "banks," and "customers" were the most consistent or recurring, which means that the discussion was strongly centered on customers' experiences and on the issues of neo banking and digital transformation in banking. Other important keywords, such as "security," "trust," "payments," and "convenience," were also present, indicating that these factors are critical preconditions for stakeholders while shaping neo-banking systems' acceptance and adoption. These are followed by "government," "fintech," "cloud," and "credit," which indicate that digital banking is not unidimensional.

4.3. Findings

4.3.1. Theme 1: Digital Transformation and Innovation in Banking

In recent times, the banking and financial sector in Sri Lanka has adopted significant digitization and automation to enhance operational effectiveness, including the Real Time Gross Settlement (RTGS) system, Common Electronic Fund Transfer Switch (CEFTS), Common ATM Switch (CAS), Common POS Switch (CPS), and the LANKAQR code, spearheaded by the Central Bank of Sri Lanka (Ministry of Technology, 2025). According to a KPMG report, five years' digital growth occurred within just a few months due to COVID. Customers had no choice but to utilize digital platforms in their banking needs (Perera, 2023).

This acceleration has also reshaped the physical presence of banks. As stated by the assistant general manager of Digital Banking of one private commercial bank, *"Banking will be needed, but banks may not."* This captures the fundamental shift occurring in the Sri Lankan banking sector, where banks have deliberately reduced the expansion of their physical footprint. Some banks report that opening only two new branches recently, compared to ten over previous decades. Unless directed by the government, branch networks will not expand further, and several banks foresee closing 20–30 branches in the near future. This aligns with broader digital transformation goals, and it is justified by Kim (2022), who notes that increased online banking usage may result in the closure of physical branches. Building on this physical reduction, some banks have introduced "digi branches," where more than 95% of transactions, such as account opening, deposits, investments, and money market services, are conducted digitally via self-service technologies. This shift is clearly reflected in current bank practices, with one leading bank reporting that over 96% of consumer transactions are already digital, making physical banking less essential except for specific business services.

As physical banking becomes less central, banks are compelled to compete within customers' digital ecosystems. According to the interviews, banks now compete with peers and digital platforms like social media and e-commerce, as customers expect the same speed, convenience, and design quality. This finding reflects a global trend; studies highlight that the rise of fintech and BigTech firms has redefined competition in the financial sector, with banks needing to adapt to platform-based service models (Gomber et al., 2018; Mărăcine et al., 2020). To stay relevant, they embed into customers' digital ecosystems through multi-stage roadmaps, offering basic to advanced features for different literacy levels rather than digitizing the existing process.

Building on this competitive landscape, Sri Lankan banks successfully implemented leading projects in Sri Lanka's financial sector, including Sampath Bank's nation's first AI-driven banking robot and virtual teller machine, the Commercial Bank of Ceylon's AI–powered Annual Report Assistant (AIPARA). Seylan Bank's AI-driven debt collection and portfolio management system, Affiniti Collect Plus, and People's Bank's improved digital lending processes and AI-powered multilingual chat services illustrate how institutions are embedding advanced technologies into their service models. Researchers note that AI-driven applications in banking enhance efficiency in customer service, risk assessment, and debt management, while also reducing operational costs (Smărăndescu, 2025). Furthermore, banks aim to boost digital interaction with customers by expanding the chatbot's reach to platforms like Messenger and WhatsApp (Thavapalakumar, 2024).

Interview findings further revealed that recent technology investments by banks include replacing outdated hardware and adopting robotic process automation (RPA) for critical operations, such as onboarding, card, and loan applications. Tokenization and NIC/video-based verification with over 90% facial match accuracy are being introduced to strengthen security and compliance. Emerging tools like Flutter are used to speed up multi-platform integration. As one senior executive mentioned, *"Investing in digital projects may not bring quick returns, but they cannot be abandoned. Banks must focus on providing convenience to customers today while preparing for the future."* This view highlights the long-term strategic commitment behind digital initiatives despite short-term financial pressures.

While the government's planned national digital ID will eventually streamline verification, banks stress the need to implement existing onboarding solutions immediately without waiting until the proper implementation of digital ID systems. These developments reflect broader global findings that successful digital transformation in banking requires simultaneous investments in front-end innovation and robust back-end infrastructure (Choi et al., 2022). Click or tap here to enter text.

4.3.2. Theme 2: Customer Adoption and Challenges in Implementing Neo-Banking

Understanding customer behavior is crucial for successful neo-banking implementation. As stated by the chief delivery officer from the fintech company in Sri Lanka, *"Accurately understanding the correct customer trend is the key."* Younger generations, such as Gen Z and Alpha, increasingly avoid visiting bank branches. In such an economy, providing the right function at the right time is the central mission of

fintech companies.

Despite evolving customer preferences, current adoption patterns reveal significant gaps between availability and usage. Even with digital services available, usage remains limited. One large commercial bank reported having 2 million registered internet banking users but only 1 million active users. Of 8 million customers, only 5 million use debit cards, with the rest preferring in-branch cash withdrawals. This disconnect highlights the challenges banks face in converting digital capability into active customer engagement.

Low adoption of digital payments in Sri Lanka stems from deep-rooted behavioral patterns, including cash dependence, especially among SMEs, which account for 80% of the economy. While QR code usage is growing among large merchants, it is slow among small-scale businesses, partly due to commission fees and a reluctance to change familiar cash-based habits. People's desire to minimize tax exposure is a significant barrier to digital payment adoption. Research conducted in Europe on cashless payments and tax evasion has identified, due to digitalization, tax evasion has been reduced (Immordino & Russo, 2018). However, in banks' view, tax regulation in Sri Lanka creates challenges for digital adoption, as it was noted that *"some people don't like going digital because they want to avoid taxes."* However, India and Singapore saw rapid digitalization through demonetization and strong government incentives, approaches that banks believe could be adapted in Sri Lanka. Beyond the behavioral resistance, demographic and geographic barriers compound these challenges. Rural areas face additional barriers such as poor internet coverage and low digital literacy. The Assistant General Manager of Digital Banking from a private commercial bank noted, *"Even though digital enabling is feasible from a technological perspective, there are still considerable unbanked and underbanked populations in the country, which a commercial bank could not neglect as a responsible national commercial bank."* To address the resistance, banks follow a phased approach, gradually introducing advanced features once customers are comfortable with basic digital transactions, thereby building trust and reducing resistance. However, banks also resist change due to outdated systems incompatible with modern solutions and having limited funds to invest in new projects.

Further, banks note that first movers in neo-banking who bear most of the groundwork risk achieving only low returns, as competitors can quickly replicate concepts and offer an improved version without much effort. Meanwhile, one bank noted, *"Investments in digital projects may not yield immediate returns, but they cannot be abandoned. Banks aim to provide convenience to their customers while preparing for future*

challenges and competition". This perspective demonstrates the practical implementation of Kreger's (2022) research, which identified that winning customers would drive the future global economy. Success depends on those who have a better understanding of customer expectations from banking and can design financial services that provide an outstanding user experience (Kreger, 2022).

4.3.3. Theme 3: Growth Potential and Future of Neo-Banking

Currently, customer acceptance remains limited. Gen Z shows the highest computer and digital literacy, Millennials maintain strong digital skills with a gradual decline in computer use, and Gen X lags both in overall technological proficiency (Department of Census and Statistics, 2023). As seen by the Chief Information Officer of one state-owned bank, "*people do not accept neo banking at present. However, there is a possibility of adoption in the future. It takes too much cost for servers and maintaining a payment development system, and further, there is a great concern about adoptability*". Similarly, according to him, *"Currently, high-net-worth customers want digital banking for their convenience, but not everybody wants that."*

Despite these adoption challenges, banks predict that neo-banking will become a reality within the next five years, providing a user interface and user experience (UI/UX) on par with global digital leaders. However, they stress that simply transferring existing processes to a mobile app does not qualify as neo-banking; rather, it should be an advanced, integrated platform.

While neo-banking will act as another delivery channel rather than replacing core banking architecture, Sri Lanka's mixed levels of digital literacy require a gradual, roadmap-based approach rather than a sudden shift. All the interviewees from Sri Lanka's domestic commercial banks agreed upon the statement of the Chief Delivery Officer of a fintech company in Sri Lanka, *"70% of the infrastructure needed for digitalization is now in place. However, the main obstacle is adoption."* Market segmentation influences adoption strategies. This trend is reflected in foreign banks and niche local banks, where they already serve specific segments with fully digital platforms. However, large commercial banks with diverse customer bases find such models impractical for immediate mass adoption.

Open banking is identified as the next step in banking, enabling centralized data sharing between banks, government agencies, and other institutions. This would allow shared Know Your Customer (KYC) data, interbank transactions, and integration with government

databases. A national digital ID could make physical KYC processes obsolete, while behavioral algorithms and alternative credit scoring, similar to models in Nepal, could help expand lending. For instance, policymakers are currently considering incorporating utility payment history, salary records, and mobile connection usage data to supplement CRIB information. Looking ahead, banks envision the Sri Lankan banking sector evolving toward neo-banking models. However, both customer and institutional willingness to embrace these changes is lacking, and stronger regulatory direction toward neo-banking would be highly beneficial.

4.3.4. Theme 4: Fintech Collaboration and Competition

The primary role of fintech companies is to add value to the financial firm's digital transformation. The company researchers interviewed fell under the fintech companies where they operate under the B2B model and their customers are financial institutions' clientele, including nearly half of Sri Lanka's commercial banks, such as Sampath Bank, Commercial Bank, and the Bank of Ceylon (BOC). Key contributions include introducing the Electronic KYC (EKYC) system, developing new apps, B2B customer onboarding or service, and providing fund transfer solutions. The fintech companies in Sri Lanka leverage cloud computing and artificial intelligence (AI) technologies to deliver innovative banking solutions. This technological capability positions companies strategically within Sri Lanka's fintech ecosystem, where collaboration with traditional banks has become essential for driving digital transformation. This aligns with the broader view that, while banks have embraced digital transformation, fintech emergence has persistently fueled innovation in the banking sector (Feyen et al., 2023).

Banking officials are concerned that fintech could take away 25% of the traditional financial services sector (Fairooz et al., 2021). Meanwhile, a chief information officer of one of the private commercial banks noted that *"Right now, there isn't much competition from non-bank institutions because the Central Bank restricts providing core banking services without banking licenses. But in the future, if those restrictions are lifted, it could change quickly because they have much bigger customer databases and technological capability than the banks."* Both banks and fintech companies emphasized that collaboration is the best strategy in the current context. Collaboration with fintech firms is increasingly becoming an attractive option for overcoming in-house software limitations while also preparing for a future in which fintech companies could emerge as strong competitors. This aligns with research findings that, more recently, there has been increased partnership and collaboration between fintech firms and banks (Chernoff & Jagtiani,

2024).

However, as mentioned by the interviewee of the fintech company, *"The biggest challenge is banks being not ready to accept the new technology, banks themselves sometimes resist change due to outdated systems that are incompatible with modern solutions, as well as banks having limited funds to invest in new projects".* This underscores the need for a cultural and structural transformation within traditional banks to embrace neo-banking.

4.3.5. Theme 5: Regulatory and Policy Considerations

The Chief Digital Officer of a Sri Lankan private commercial bank stated, "*Banks can't fight AI with A4."* Sri Lanka does not yet have formal regulations for digital-only banking, though frameworks exist in countries like Bangladesh and Singapore. Banks are expecting similar regulatory changes that would create clearer operational and security standards within three years. According to the chief information officer of one of the largest commercial banks, *"Unlike private and other companies, banks are restricted from fully utilizing cloud services,"* highlighting that regulatory requirements from the Central Bank of Sri Lanka (CBSL) currently mandate, financial institutions to maintain data 100% within the countries' geographical premises, which limits cloud usage. However, previous research has identified that cloud computing is a key driver of the banking sector's digital transformation (Jeyaraj et al., 2024). This highlights the need for regulatory approval to adopt main technologies to go for a fully digitalized banking system in the Sri Lankan context.

Banks also advocate for a centralized government-controlled KYC database, which would ease compliance and improve efficiency. Other priorities, than regulatory approval for fully cloud-based systems, include open banking guidelines, which would ease compliance and improve efficiency. While core infrastructure such as SWIFT, eKYC (Electronic Know Your Customer), bKYC (Biometric Know Your Customer), QR systems, and card payments are already in place, the real challenge is ensuring seamless integration and adoption.

4.3.6. Theme 6: Data and Security

Banks admit that much of their data remains unstructured but are working toward leveraging behavioral insights for lending decisions, such as monitoring salary deposits and bill payment patterns. Further, as mentioned by the executive of the interviewed fintech company, *"In our country, interoperability as a system is low, hindering the effective use*

of innovative digital tools." This stresses the need for regulatory directions on standardized data sharing and facilitating infrastructure to utilize a huge amount of underutilized data generated through digitalization. Security is a top concern, with banks implementing multi-layer authentication (e.g., passwords, biometrics, OTPs), device-based authentication, and AI-driven fraud detection that monitors usage patterns, location data, and unusual transactions. They comply with the Personal Data Protection Act (PDPA), aligned with GDPR, and call for enforceable minimum-security standards across all platforms. Banks emphasize that fraud powered by AI requires equally advanced countermeasures. As mentioned by the chief digital officer of one private commercial bank, *"once a fraudulent activity occurs, most commonly when a customer shares an OTP and loses funds, the bank transforms the responsibility solely to the customer, leaving them to deal with the police and sort out the case"*. He further mentioned that this level of responsibility placed on customers increases their concern regarding security issues, thereby hindering digital adaptability due to fear. This suggests that banks should advocate for stronger back-end protections rather than overburdening customers with excessive login requirements that harm user experience.

5. Conclusion and Implications

This study reveals that while Sri Lanka's licensed commercial banks (LCBs) have made strong progress in digital adoption. The findings suggest that banks can leverage pragmatic approaches like streamlined onboarding processes, activated campaigns, and contextual nudges in an attempt to bridge the gap. The proven success of digi-branches also further implies that banks can optimize physical networks by repurposing low-traffic outlets into self-service hubs while reallocating staff toward digital onboarding and SME support. Such strategies not only improve cost efficiency but also extend financial access to rural and underserved communities.

At the regulatory and industry level, the results demonstrate clear pathways for action. Regulators can use these insights to design a phased digital-only bank licensing framework, implement centralized KYC utilities, and gradually roll out open banking standards to lower onboarding costs and enhance competition. Findings also show how fintech firms can add value by offering modular solutions—such as EKYC, risk-based authentication, and alternative credit scoring that shorten banks' time-to-market and expand credit access for SMEs. Joint bank–fintech initiatives, including youth-focused digital accounts and SME QR-first programs, can be piloted to generate measurable improvements in activation, cost-to-serve, and security outcomes.

Theoretically, the study identifies the institutional stakeholders who are impacted by and have a significant influence on neo-banking adoption by the banking industry of Sri Lanka, from the perspective of the stakeholder theory. Accordingly, the insights into the factors influencing

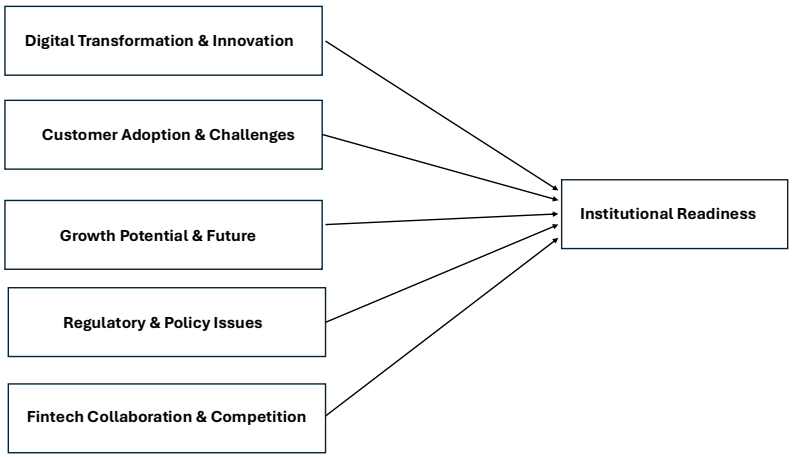

Figure 3: Conceptualization

the readiness of the banking industry from the point of view of competitors and partners were identified. The study's implications offer actionable guidance for banks, fintechs, and regulators to collaboratively shape a more inclusive, efficient, and trusted digital financial ecosystem in Sri Lanka. Figure 3 below provides a conceptualization of the key themes to understand the institutional readiness of the Sri Lankan banking industry to move towards neo-banking.

Conversely, relevant regulatory institutions were not interviewed during this study. Future studies can incorporate their perspective to better understand the regulatory landscape in digital evolution when progressing towards neo-banking. Additionally, future research may focus on how digital finance contributes to sustainability through green lending and reduced paper use, as well as on cybersecurity, ethics, and data privacy issues. Finally, investigating financial inclusion among rural, elderly, and low-income groups, along with comparative studies on regulatory balance between innovation and safety, would support Sri Lanka in formulating effective policies that promote trust and responsible digital finance growth.

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