

Impact of Financial Technology on Traditional Banking

OPEN ACCESS

Volume: 11

Special Issue: 1

Month: March

Year: 2024

E-ISSN: 2581-9402

Received: 26.01.2024

Accepted: 11.03.2024

Published: 22.03.2024

Citation:

Davey, Harshini A.

“Impact of Financial

Technology on

Traditional Banking.”

Shanlax International
Journal of Management,

vol. 11, no. S1, 2024,

pp. 208–16.

DOI:

<https://doi.org/10.34293/management.v11iS1-Mar.8044>

Harshini A Davey

II MBA

Dwaraka Doss Goverdhan Doss Vaishnav College, Chennai, Tamil Nadu

Abstract

The study's goal is to quantify how financial technology has affected the banking sector. The influence of financial technology, or fintech, on traditional banking has been nothing short of revolutionary. Fintech companies and technologies have caused a disruption in the banking industry by offering alternative ways for individuals and businesses to get financial services. One of the most noticeable outcomes is an increase in the customer experience. User-friendly interfaces, quicker account creation processes, and round-the-clock access to financial services through computers and smartphones have all been made possible by fintech companies. As a result, in order to satisfy customer expectations, traditional banks have been forced to update their digital systems and services. The term “financial technology,” or “Fintech,” refers to new technology that aims to enhance and automate the provision of financial services. Fundamentally, Fintech uses specialized software and algorithms that are employed on computers and, increasingly, smartphones to assist organizations, company owners, and individuals in better managing their financial operations, procedures, and lifestyles. The study's goal is to examine how Fintech is affecting the banking sector.

Keywords: Fintech, Fintech Services, Banking, Traditional Banking Industry

Introduction

The financial industry is experiencing significant transformations due to the unrelenting advancement of technology. Fintech, or financial technology, has upended traditional banking in ways that were previously unthinkable. This study paper takes the reader on an investigation to explore the various aspects of this Fintech disruption's effects for customers and institutions.

In today's digital world, one of the most attractive and quickly growing sectors is finance technology, or fintech as it is generally known. The explanation may sound simple, but the products and companies that deploy cutting-edge online and digital technologies in the banking and financial services industry-as well as how they are used and impact customers-are far more intricate.

In a short amount of time, the emergence of a new FinTech era has really profoundly changed how we conduct business, engage with customers, and see the future of finance. The lines between business services are become fuzzier, allowing IT firms, banks, and advisors to provide services of the same level.

The emergence of new fintech businesses that offer cutting-edge technology and services that are revolutionizing the banking industry has resulted in a significant shift in the way banks conduct business. In addition to changing the financial environment, fintech represents

a danger to traditional banks, which need to change or risk falling behind. Fintech businesses provide a wide range of services, including investment banking, data analytics, payments, and wealth management. In order to be competitive in today's economy, banks must adopt the fintech revolution or risk falling behind. Banks can remain ahead of the curve and generate new business possibilities by utilizing the benefits of fintech.

Additionally, fintech has been essential in promoting financial inclusion, especially in underprivileged areas. Fintech businesses have developed platforms that address the requirements of the underbanked and unbanked people by utilizing technology. Previously unavailable to many, these platforms provide basic financial services including savings accounts, money transfers, and microloans.

Fintech has made it possible for people and companies to engage in the formal economy through mobile banking and digital payment systems, fostering economic growth and lowering poverty rates. Furthermore, the availability of alternative credit scoring models and creative lending techniques has facilitated capital access for those with imperfect credit histories, fostering economic mobility and entrepreneurship.

Types

- Money transfers and payment processing are the first kind. Fintech of this kind enables clients to transfer money swiftly and safely. Banks are able to provide their clients with speedier money transfers and a more convenient and secure payment experience thanks to fintech businesses.
- Investing, which includes trading stocks, bonds, ETFs, mutual funds, hedge funds, and other securities, is the second category of fintech. Banks may take advantage of this technology by providing clients with enhanced investment management and handling the intricacies of these marketplaces.
- Loan origination is the third category of fintech offerings; it helps banks to automate the loan origination process. Customers may now apply for loans online and receive an approval in a matter of minutes as opposed to days or weeks thanks to technology.
- Wealth management, which encompasses asset allocation and portfolio optimization services, is the final category of fintech offerings. With the use of this technology, banks are able to provide their clients with more individualized financial options and better advice.

Growth Drivers

- Jan Dhan: The government was able to transfer INR 740 billion directly thanks to JAM Trinity. High levels of smartphone and banking penetration, with 1.2 billion mobile customers and over one billion bank accounts thanks to the Jan Dhan Yojana.
- India stack: Apex suite of APIs designed for enterprises and startups. Open API systems such as Digital India, UPI, Aadhar, GSTN, and Bharat Bill Payments
- Positive government efforts include the National Payments Council, Digital India, and tax breaks on surcharges.
- The blockchain industry in India is anticipated to expand at a compound annual growth rate (CAGR) of 37% until 2024. Ø Start-up India is the government of India's flagship project aimed at developing a robust start-up ecosystem.
- Aadhar is a biometric identity database that has over 1.2 billion registered citizens.

India – Fintech Companies

India's Fintech sector is growing at one of the quickest rates globally. The country of India is home to 636 Fintech businesses. The Indian Fintech sector is expected to reach \$150 billion in value by 2025. The leading fintech businesses are:

Paytm

Pay through mobile, or Paytm, is one of the first and most well-known mobile payment and financial services firms in India. Paytm provides companies and consumers with payment, banking, finance, and insurance services.

Lending Kart

2014 marks its launch. In less than 72 hours, the business assesses risk, detects fraud, establishes a customer's creditworthiness, and disburses loans using big data analytics tools and machine learning techniques.

PhonePe

With over 440 million users, PhonePe is among the most well-known Fintech startups in India. The application, which is accessible in eleven Indian languages, allows users to send and receive money, pay utility bills, invest money, buy insurance products, and even buy digital gold.

Fintech's Purpose in The Modern World

FinTechs have contributed to the digitization of banking by automating and developing procedures that minimize human interaction, lines, time, location, etc. People may bank anytime, anyplace, and with ease thanks to them. In contrast to conventional banking systems, client data collection and storage has become more straightforward, precise, and error-free. FinTechs' solutions result in cost savings for bank branches as well as clients. Banking at a physical branch, or using the traditional method, is at least ten times more expensive than using an ATM, while using a mobile banking app is fifty times more expensive.

Objectives

1. Evaluating the Challenge of Traditional Banking Models by Fintech Innovations: This paper examines how new technologies such as mobile applications, blockchain, artificial intelligence, and other innovations have affected traditional banking practices.
2. Analyzing Financial Institutions' Opportunities and Challenges: examining the difficulties that established banks have in the age of Fintech disruption, including as increased competition, mounting cost constraints, and the requirement for digital transformation.
3. Examining the tactics used by conventional banks to fight Fintech disruption, such as joint ventures with Fintech startups, investments in Fintech businesses, and internal development of digital solutions etc

Literature Review

Singh P. (2013) investigated the problems Indian customers have with e-banking services. It was demonstrated that most customers are aware of the e-banking services offered by their bank. The poll indicates that there are notable variations in the different problems that arise when utilizing e-banking services. It was also found that the influence of various factors on people's use of financial services varied.

Jeon and Kiyong (2014) claim that Indian customers prefer bigger banks. Bigger banks have several ATM locations around the country since they have to reduce their transportation expenses.

2020's Sharif Abu Karsh This study aims to investigate the effects of Fintech firms in relation to the conventional banking sector. Fintech is a digital financial solution that helps people and small companies meet their banking demands. Fintech businesses are forecast to develop at a quicker rate in nations where digital technology is available, but they should be able to offer the same financial

products as current banks. It has been suggested that traditional banks' performance has already been financially impacted by Fintech startups.

According to Navaretti et al. (2018), fintech companies should work with banks rather than against them, either by collaborating or by imitating their operations. One of the causes is that, unlike banks, Fintech lenders do not have access to central bank liquidity, which limits the liquidity they can offer.

Vijay Singh Negi's paper published 2023, "Fintech Disruption in Traditional Banking: Implications for Banks and Consumers," This study looks at how Fintech is transforming traditional banking and looks at the advantages and drawbacks it has for consumers and financial institutions. Established banks are being forced to digitally alter in order to stay in business by fintech innovators. They achieve this by putting cost and competitive limits on technologies like artificial intelligence (AI) and blockchain. The research looks at benefits for customers, such better access and tailored experiences, while addressing concerns about data security and financial inclusion. The study explores the broader economic and social ramifications of fintech, emphasizing the critical role that regulators must play and the significance of banks' innovation and adaptation in changing environment.

According to Acemoglu and Robinson (2012), political institutions may influence a nation's inclusive economic growth. However, there hasn't been much research done on how these institutions might impact the creation and use of innovative financial technology and business models.

In fact, additional studies ought to be done to evaluate the ways in which governments, interest groups, and political institutions might impact the creation and use of new financial technologies and, in turn, ascertain the indirect effects of these technologies on economic inclusivity.

Vineet Chouhan and Anjali Sharma's paper from 2023, "The Effect of Financial Technology (Fin-tech) on the Conventional Banking Industry in India," Quantifying the impact of financial technology on the banking industry is the aim of the study. Digital disruption has an impact on bank business models as well as conventional organizations due to changing customer behavior. In order to better understand how financial technology is affecting India's traditional banking industry, a structured questionnaire was given to 300 bank clients who were selected using basic random sampling.

Research Methodology

Research Design: "A research design is the selection of parameters for data collection and analysis with the goal of balancing procedure economy with relevance to the research purpose." Descriptive research design was chosen for the investigations.

To understand consumer behavior, the researcher must explain the current circumstances. Descriptive research studies are so employed. The only things that descriptive research may report are the past and present.

Technique for Gathering Data

Both primary and secondary data are mostly used in the study. The primary and secondary data used in the study are mostly from textbooks, journals, newspapers, magazines, and the internet.

Techniques for Sampling

Population: The population in the survey is the total number of elementary units.

Here, it covers a subset of online Fintech consumers.

Sample Size: An online group of Fintech users provided their opinions as the basis for this study.

Sample Design: The study employed random sampling procedures. Every sample has an equal

ET - Edge Tech Horizon: Transforming IT, Business and Beyond (Hybrid Mode)

chance of being selected when using random sampling as a sampling strategy. A randomly selected sample is intended to provide an objective depiction of the entire population.

Data Collection

Financial Service Sector	Traditional Banks - Before the Launch of Fintech	Traditional Banks - After	Fintech Companies
Lending	83%	65%	65%
Payments	88%	58%	42%
Wealth Management	90%	82%	18%

fintech	2015	2020	2024
Mobile banking applications	30%	65%	85%
Payments platforms	20%	55%	83%

Data Findings

The information shows notable shifts in market shares and customer acceptability in the financial services industry, namely in lending, payments, wealth management, and Fintech services, such as digital payments and mobile banking apps.

Platforms and services for robo-advisors. These results demonstrate how Fintech disruption has changed over time in both Throughout a number of years, traditional financial institutions and customer behavior .

Lending

Before the rise of fintech industry, data shows traditional banks market share was 83% which was significantly reduced to 65%. Hence fintech companies took a share of 35 %

Payments

In the payment industry, conventional banks held a strong 88 percent market share prior to the emergence of Fintech. But although Fintech businesses took up 42% of the industry, their market share was cut to 52% by the Fintech .

Wealth Management

Traditional banks had sizable 90% of the market in the wealth management industry But with Fintech disruption, their market share has decreased, now it consist 82%.

The fintech industry is estimated to rise to USD 421b in 2029 from 111b in 2024. This shows there is going to be huge growth in this industry which will take a major of market share traditional banking system in India. Hence it's very important for banks to incorporate fintech into their business to be in the market.

The digital transaction value has been increasing in India from USD 107b in 2020 to USD 216b in 2023. This shows more users are going towards digital payments. Traditional banks needs to adopt technology to serve its customers in best possible ways

Benefits

Enhanced Profitability: Banks are able to increase their profitability through the use of the internet. Compared to banks that do not provide Internet banking, those that do are more lucrative and have greater operating efficiency ratios (Wamalwa, 2006). Banks are able to charge significantly

less for internet banking than they would for traditional banking. Cost-effective method: Online banking gives customers the choice to use a self-service channel. This allows the banks to curtail its employment to a certain extent, hence reducing the administrative expenses that the banks are required to bear. Because online banking involves less paperwork and administrative assistance for bank transactions, it is more cost-effective than traditional banking.

Customization and innovation: Fintech businesses are frequently started by businesspeople with experience in technology, which enables them to take a fresh and creative approach to the financial services industry.

They constantly experiment with new technologies like artificial intelligence and machine learning to improve their goods and services. Can profit from individualized financial solutions made to meet their unique requirements and tastes.

Enhance interaction with customers: Maintaining a relationship with clients has become strategically important for most institutions. Banks may utilize internet banking technology and facilities to establish and maintain strong connections with their customers by providing a range of products and services that are easy to access.

Challenges

Risk to Security: A significant percentage of users decline e-banking solutions because of uncertainty and security concerns. The IAMAI Study from 2006 states that 43% of internet users in India don't utilize online banking because of security concerns. As a result, it poses a serious problem for marketers and allays customer fears over security, which may encourage more people to utilize online banking.

The Elements of Trust: The primary obstacle to online banking for the majority of clients is trust. Customers choose traditional banking because they don't trust internet security. They think that since online transactions are risky, fraud is possible.

Integration with Legacy Systems: Fintech implementations may encounter compatibility problems when interacting with legacy systems that are currently in place inside financial institutions.

Training and Adaptation: To ensure a seamless transition to new technology, they must fund training initiatives and help employees and clients make the necessary adjustments.

Opportunities

Untapped Rural Markets: With 70% of the world's population living in India, there is a substantial untapped market there for the banking sector. Despite the fact that all metropolitan areas have access to financial services, only a small number of sizable villages have banks. The banks need to reach every last hamlet because the majority of Indians still reside in rural areas.

Multiple Channels

Banks can provide their clients a range of channels via which they can access their banking and other services, including as ATMs, neighborhood branches, phone and mobile banking, video banking, and more, in an effort to increase the number of people using their services.

Competitive Advantage

Banks have an advantage over competing organizations thanks to the benefits of adopting e-banking. The use of electronic banking confers several advantages to financial institutions, such as reduced expenses, improved client interactions, and increased geographical coverage, among other perks. The advantages of online banking have given banks the chance to improve how they run their banking operations.

Criticisms

Risk and Regulation: According to critics, the financial system is now facing additional dangers and difficulties as a result of Fintech's explosive expansion. It's possible that fintech companies-especially startups-don't have the same level of risk management and regulatory scrutiny as conventional banks. This has sparked worries about fraud, consumer protection, and systemic hazards that can materialize if Fintech companies don't comply with regulations.

Financial Inclusion and Exclusion: Fintech has been accused of making financial exclusion worse, even though technology has the ability to improve financial inclusion by giving marginalized communities access to financial services. Some contend that as financial services rapidly shift online, people without access to digital technology or those who are not tech-savvy may fall behind.

Lack of Consumer Knowledge: A lack of consumer knowledge may result from the complexity of some Fintech goods and services, especially those that are associated with blockchain technology and cryptocurrencies. Opponents contend that users or investors in these products could do so without fully understanding the dangers involved, which could result in monetary losses.

Data Security and Privacy: Fintech businesses' acquisition and use of enormous volumes of customer data has sparked serious privacy concerns.

Data breaches, potential exploitation of private financial information, and a lack of openness in the usage and sharing of data are among the concerns raised by critics.

It's still difficult to strike a balance between innovation and data security.

Impact

Fintech businesses have caused a stir by disrupting established banking conventions, from wealth management to payments, by providing more user-friendly and convenient solutions.

Big Data and Cloud Technologies

Banks may centralize their operations on a network thanks to cloud technology, giving customers access to financial services and products anywhere in the globe.

Banks go through enormous volumes of client data using big data analysis to get insights about unique tastes and behavior. Thus, a more customized and customer-focused banking experience is fostered by the availability of personalized offers and recommendations.

Accessible APIs

In the banking industry, open APIs (application programming interfaces) facilitate cooperation between various financial institutions and outside vendors. They enable easy and secure data interchange between different businesses by facilitating secure access to financial information.

This partnership encourages creativity and makes it possible to produce new and enhanced financial solutions using software and the web. In addition, it provides improved services by combining features from several sources.

Multichannel Financial Services

A smooth client experience is provided by omnichannel banking, which offers a variety of communication channels including digital tools like chatbots. This makes problem solving quick and easy and raises client satisfaction levels all around.

Omnichannel banking offers a flexible and customized banking experience at the same time. Consumers want consistent service across channels, whether they are online, mobile, or in-person.

Electronic Wallets

The way people and companies handle their money has changed dramatically as a result of e-wallets. They provide consumers with unmatched accessibility and convenience, making it simple and safe to save payment information and complete transactions.

E-wallets now account for a sizeable amount of digital payments and are a crucial part of global e-commerce transactions. In order to stay competitive, this trend has forced traditional banks to include e-wallet services in their portfolios.

Suggestions

According to the report, Fintech services need to be technologically user-friendly in order to inspire a diverse range of users. To address customers' issues, customer service must be available around-the-clock. The demands of the clients must guide the design of the goods and services.

Rules and laws pertaining to Fintech transactions must be transparent. In order to expand the number of consumers for the services, the concern must provide a speedier approval rate. According to research on appealing Fintech goods, client services must have smart card technology, card integration, and efficient mobile payments. For users, the service providers must guarantee the lowest possible transaction costs.

Concerns concerning efficient block chain technology integration and user advantages must be raised. Chatbots are essential for providing effective customer support. E-wallets need to be equipped with superior features that rival those of other competitive services. It has to be updated frequently in light of the current situation.

It must give consumers access to transparent reports and transaction status information. The application has to be easy to use. Utilizing any feature in the program must be simple. It must guarantee the least amount of data storage and limit app interruptions. There must be lightning-fast connection. Applications should only require minimal data storage for access.

Conclusion

India is a country that is steadily climbing the Fintech ladder and offers many chances for Fintech companies to access the diverse market and succeed as long as they have a solid go-to-market plan and a careful match between their solution and their customers. Through the provision of digital financial goods and services on platforms that are widely accessible to both consumers and financial institutions, fintech businesses are causing a disruption in the banking system globally. Fintech businesses are divided into several categories, including digital wallets, payments, insurance, crowd sourcing, and data sharing. The financial sector is paying attention to the changes and disturbances, notwithstanding the slight inconvenience.

The banking sector risks losing its competitive edge if it does not adapt its business models to include digital technologies. The growth of the Fintech industry has also helped India's economy as a whole. However, there are still some issues with online security and the percentage of unbanked people that use it. Therefore, the actions that have been made must not be abandoned due to these little but significant issues. Therefore, the authorities ought to devise efficacious measures to eradicate it, enabling the Fintech industry to entirely transform India's financial infrastructure.

References

1. Shubham Goswami "Impact of Financial Technology (Fintech) on Financial Inclusion in Rural India" (2022)
2. Davis, R., & White, S. (2021). "Regulatory Challenges in the Fintech Era: Striking a Balance "Fintech Adoption Index 2022" - KPMG.

3. https://iaeme.com/MasterAdmin/Journal_uploads/IJCBS/VOLUME_5_ISSUE_2/IJCBS_05_02_001.pdf
4. <https://www.google.com/amp/s/www.thestreet.com/.amp/technology/what-isfintech-14885154>
5. Dr. C.Nithya, (2021),” A STUDY OF ELECTRONIC BANKING IN INDIA”