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Impact of Fintech on the Banking Sector

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ABSTRACT

Digital transformation development triggers the boom of Fintech (financial technology) initiatives, which are recognized as some of the most important innovations in the financial industry. Fintech refers to the novel processes and products that become available for financial services thanks to digital technological advancements. Fintech is very rapidly growing in financial markets and effective impact on banks and financial institutions. This digital transformation allows the users to access their financial requirements wherever they are rather than physically going to the bank. The functions of banking sectors are reduced from complicated to more simplified manner through the innovative products in fintech. This development empowers the customers to take their financial decisions and allows them to get higher financial literacy than ever before. After covid, the impact is far more visible in the rural areas also. Most of the paper works digitalized and data regarding the customers are secured in a very protective manner.

Keywords- FinTech, Banking sectors, Bigdata, API, Artificial intelligence, Demonetisation.

I. INTRODUCTION

Fintech mostly refers to start-up businesses with a focus on technology and finance that offer specialized versions of established financial institutions like banks, asset management firms, and insurance companies' existing products and services. Fintech is not just for growing firms. A fintech is a form of financial technology that can be wished for as an upcoming market for financial services in the twenty-first century. The phrase was first used to describe technology associated with the bank division of well-established consumer and trade financial organizations.

Since the fintech companies are still in the early stages of becoming well-known, they have not yet entirely replaced the traditional banks. By building on their current goodwill and by employing good tactics for their improvement, banks should quickly accommodate this transformation of the growing acceptance of technology in banking.

Fintech competitors are expanding on the traditional activities of banks even as banks are changing to the digital world. According to current information, new rivals may harm long-standing ties between banks and their clients by leveraging hard (codifiable) data (the knowledge gained from bank and customer relationships). However, the bulk of new competitors avoids applying for a banking license to minimize regulatory costs and steal valuable business from banks. By taking advantage of millennials' rising mistrust of banks and offering them user-friendly digital services, the new entrants may profit. Banks typically focused on things, while new competitors are becoming more interested in people.

The established business models of banks are under pressure from rivals in the fintech sector. Retail banks have two competitive advantages that new entrants could undermine: (1) they have privileged access to a

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stable customer base that can be used to sell a variety of products; and (2) they can borrow money at a low-cost thanks to easy access to low-cost deposits and explicit or implicit government insurance. Deposit insurance might make it simpler for new competitors to open banks, but in this case, the license fee and other compliance costs would still be the newcomers' responsibility.

II. LITERATURE REVIEW

The fintech and banking industry sector include the following technological trends:

Cloud computing and big data (Bigdata). Banks can sell their products anywhere in the world because of the centralization of network services made possible by cloud technologies. Data can be obtained using these technologies without the need to set up specialized software on the device. The analysis of incredibly diverse digital information from sources including the Internet, organizational document archives, sensor readings, gadgets, etc., is then used by big data to create customized offers for customers.

API (Application Programming Interface, often known as an API, or an application programming interface) is a component of systems that allow for client interaction. An application, service, or operating system may provide classes, procedures, functions, structures, and constants for use in third-party software products. This is referred to as an API.

The future of payments on any device and anywhere is being determined by technologies enhanced by artificial intelligence. By examining their previous transactions, consumption habits, and other actions, we can predict our clients' future behaviour and suggest payment solutions with reduced rates. One of the most significant innovations is the use of voice for transactions. They demand specialized security and verification techniques, which are still under development to a substantial extent. The most valuable resource at the moment is financial data. It is feasible to enhance customer experiences, increase retention, and better understand customer buying behaviour by connecting payment solutions with other systems.

Open banking allows trusted third parties to safely access financial data from customers. The process has a set format that is only accessible with the customer's permission and is outlined under open banking. Providing their services can help businesses gain a clear image of their client's financial situations. Additionally, it enables customers to see clearly where their money is going.

Traditional bank branches impacted by fintech:

The emergence of financial technology has both benefits and drawbacks for the banking industry. On the one hand, it offers ways to improve the services that banks offer to their clients, with chatbots enhancing customer experience, mobile apps giving clients a real-time view of their bank accounts, and machine learning securing against fraud. On the other hand, fintech is putting traditional banking and financial services under intense pressure from all sides, endangering the long-term viability of some of our most recognizable institutions.

Financial products can now be offered by non-financial businesses thanks to fintech. Employees can now save money with an interest-bearing cash account and make purchases with a debit card branded with Gusto, an online HR and benefits platform. Element, an online insurance provider, has also partnered with Vodafone to create a new cyber-security insurance for individual users of Vodafone's mobile network. Numerous industries are being affected by digital transformation and automation, not the least of which is the financial services sector.

According to Business Insider, financial services are being transformed by disruptive technologies like artificial intelligence, blockchain, and alternative lending. (Arslanian, H.,2019).

Although a large majority of traditional banking institutions and branches are integrating digital services to compete with the digital startups that have been establishing themselves, many of them continue to play a crucial role in providing a variety of services.

The ability of customers to use their financial service platforms has been significantly impacted by technology. (Gomber, P.,2018)

In this way, fundamental customer service and approval procedures can be delegated to artificial intelligence algorithms by banks and other financial institutions.

Customers of financial services still gain some confidence from in-person contact. In a recent survey of banking customers, 50% of respondents stated that they would prefer to open a new deposit account or submit an application for a new loan in person. In addition, 25% of respondents claimed they would not create an account with a bank without local branches. For clients, local banks must have friendly faces.

Despite digitization, branches and ATMs continue to play important roles in banking because:

Although relatively straightforward transactions have moved to digital channels, branches are still useful for more complicated transactions. Strict anti-money laundering and know-your-customer (KYC) regulations necessitate personal contact for certain transactions, especially for first-time consumers.

Even after completing digital research, many consumers still value personalized product recommendations. In a similar vein, a lot of millennials favor going to a branch to open a new account, learn about budgeting, comprehend retirement possibilities, and comprehend and apply for a mortgage. Regarding security worries, branches offer a sense of permanence and security that internet banks find challenging to replicate.

The fintech market in India:

In India, there are more than 2100 Fintech businesses, and more than 67 percent of those were founded in the last five years. (Acherjee, A. Regulatory Sandboxes in FinTech)

Funding for India's Fintech industry has also increased dramatically; in 2021, investments totaling more than $8 billion were made at various phases of the investment process.

According to projections, the value of Fintech transactions will increase from US$66 billion in 2019 to US$138 billion in 2023, growing at a 20 percent compound annual growth rate (CAGR). As of September 2021, India had had significant growth in the area of digital payments, with a monthly volume (total digital transactions) of over 5.7 billion transactions totaling almost US$2 trillion.

The growth of fintech:

By the time the 21st century arrived, India had established itself as one of the leading participants in this age, with a wide range of clever innovations and entries. (Mathews, J. A. 2002)

In addition, the 2008 Global Financial Crisis cleared the ground for the fintech sector to take off and spread widely. People gradually began to abandon the established banking system and gained confidence in the newcomers.

The introduction of Google Wallet in 2011, Apple Pay in 2014, and Bitcoin v0.1 in 2009 were the catalysts for the development of the fintech sector in India. (Van Riel, A. C., 2021)

India has experienced significant growth in recent years as a result of its concentration on customer-centric financial products and services.

The demonetization campaign in 2016 had a significant impact on fintech. Fintech firms receive a lot of support from the Indian government's efforts to promote Digital India and make the country a cashless economy with financial inclusion. (Fouillet, C.,2021)

Fintech start-ups have begun to share the market through cooperation ever since traditional banks struggled to implement their banking services integrated with the SWIFT system. Initiatives within the SWIFT system, such as SWIFT GPI, offer complete transaction tracking with strong security. The fintech industry in India has a vast array of opportunities to provide creative and affordable financial solutions.

The quick uptake of fintech led to the establishment of numerous Indian companies in just a few years, including Paytm, Phonepe, Mobikwik, and Freecharge. This ensured that smartphone use will continue to grow and take over as the main way people manage their finances.

In India, there are already more than 2000 fintech companies, and the last five years have seen a rise in fintech start-ups. This forced even the conventional banks to reconsider their approaches and welcome the incorporation of more fintech into their offerings to appeal to today's tech-savvy clients. Traditional banks have embraced Open Banking and Banking as a Service (BaaS), which provide outside service providers access to their customer’s financial information. BaaS helped neo banks and digital banks enter the Indian market.

Mobile payments, automated investment apps (Robo-advisors), online lenders, and crowdfunding platforms are just a few of the fintech innovations that have completely transformed the financial sector.

III. OBJECTIVES

To understand the effects of fintech companies in the banking sector.

IV. DISCUSSION

The term "fintech" describes the technology and innovation used to compete with financial services to offer customers new and improved services in sectors like banking, asset and wealth management, investing, insurance, and mortgages. Bankers are always thought about ways to prevent theft and fraud by providing top-level security to their customers. After this implementation of this technology, it will be greatly useful for bankers, and it will fulfill their safety requirements respectively. Because of the technological advancement in the banking sector, users also benefit in various ways. Through this technology, they can access their account without a password. Even though they lost their ATM cards they can access their funds. The immense growth of e-wallets leads the world to the digitalization of funds. Through e-wallets, ease of transferring money from one corner of the world to another corner of the world. Nowadays banks are coming up with their mobile application, with that the users can access their funds quickly and perform several other functions such as checking the deposited amount, paying bills quickly, checking the remaining account bala, nice and many more. Using biometric applications, these functions are carried out in a very secure manner. Through fintech, both the bankers and customers are highly benefitted that their work is done in a very simplified and secure manner.

V. CONCLUSION

India has become more accepting of FinTech businesses over the past two years and has encouraged the widespread adoption of digital financial models. Every aspect of the conventional banking system has been transformed by fintech, including paperless lending, mobile banking, digital payments, mobile wallets, insurance, lending, and more. In India, banks have typically been the entry point for payment services. FinTech businesses, such as Paytm, Razor pay, PhonePe, MobiKwik, and others, have gradually gained popularity and are now widely used. There is a greater reliance on these digital solutions, whether you use them to pay for hotels, recharge your mobile phones, or buy groceries.

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