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Impact of Fintech on Banking Industry

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Abstract: By offering banks greater efficiency, transparency, lower costs, enhanced security, a flexible user experience, quicker payments, investment banking, and more, fintech startups have caused havoc in the banking industry. In order to stay ahead of the curve and prosper in a world that is changing, banks must employ fintech solutions and digital tactics. The quick growth of fintech has presented banks with both opportunities and difficulties in terms of their profitability. Fintech affects bank operations, which lowers bank profitability; in the middle and later stages, the benefits of Fintech progressively grow, and the profitability progressively rises. Global fintech enterprises are causing a stir in the banking sector by providing digital financial services and products on platforms that are user-friendly for both banks and consumers. Fintech businesses fall into a variety of categories, including digital wallets, payments, insurance, crowdsourcing, and data exchange. The financial industry is observing the changes and disturbances, despite their tiny nature. This essay investigates the necessity of banks working with fintech and the effects of fintech on the banking sector.

Keywords: Fintech, Financial Technology, disruption, banking industry

1. Introduction

In the digital world, the banking sector, and other financial institutions, the impact of fintech is a buzzword. The banking sector has changed recently as a result of the quick evolution of new fintech solutions, which are providing cutting-edge services and technologies that will shape the way the sector operates going forward in order to maintain its market share. By offering cutting-edge services like online payments, data analytics, wealth management, and investment banking, fintech solutions elevate the banking process. By working together, we can maximize fintech's influence on the banking sector. Digital technology and financial services combine to form the term FinTech, or financial technology. FinTech, to put it simply, is the creative application of technology to the development and provision of financial services. FinTech promotes companies' use of digital technology to provide cutting-edge goods and services, including online banking, mobile payments, crowdfunding, alternative finance, big data, Robo advisers, peer-to-peer lending, and general financial management. FinTech was first presented as a back-end system solution for banks and other financial organizations. But in the intervening period, its meaning has evolved considerably. These days, it includes a number of user-friendly programs that let you manage your money, trade stocks, and use technology to pay for groceries and insurance.

Objectives

- To understand the need for banks to collaborate with Fintech.
- To study the benefits of Fintech.
- To know the impact of fintech on banking industry

Need For Bank to Collaborate with Fintech

Now that we know what fintech is and the statistics that support its importance to the banking industry, let's examine the reasons why fintech and banks should collaborate:

- **Increase in the use of smartphones:** According to a survey, there will be 7.26 billion smartphone users worldwide in 2022. This figure suffices to infer that the use of smartphones has significantly increased in the contemporary world.
- **Almost every service is available online:** People may purchase anything and anything online these days. Everything may be searched and purchased online, including services like cleaning and grooming as well as goods like groceries and medications. Fintech payment solutions for banking services are connected to the user's bank account, allowing the user to use the funds in the bank to make online payments for a variety of services that are offered on the fintech app, such bill payment, ticket booking, EMIs, and many more.
- **Security is the priority:** Fintech businesses use cutting edge technology to safeguard the financial data of its clients. Blockchain is used for safe data storage, RegTech is used for compliance, AI is used for fraud

detection, and multi-cloud and IoT are used for more intelligent security solutions. By taking these precautions, clients' financial information is protected against fraud and cyberattacks. By employing a variety of technologies and solutions, fintech companies are adopting a comprehensive approach to security in order to protect the confidentiality of their clients' data.

- **Better Branding:** Fintech companies are using contemporary technologies like gamification to increase client engagement with financial tasks like budgeting. Banks should take note of this novel approach to branding legacy services, as it has the potential to enhance client attraction and retention. Banks may enhance client satisfaction and maintain their competitiveness in the market by implementing these cutting-edge strategies.
- **Enhanced Customer Satisfaction:** Fintech companies' creative approach to customer experience has caused a disruption in the financial services sector. They are known to be less expensive than traditional banks and to be quicker, more secure, and efficient. As a result, a lot of fintech businesses have been able to gain their clients' trust by providing outstanding customer service and acquiring new clients through referrals.
- **Improved Security:** Online and mobile banking transactions are secure because to security measures like encryption and biometric authentication.
- **Access to New Technologies:** By using cutting-edge technologies like data analytics, banks may better understand their clients' needs and create goods and services that better suit them.
- **Enhanced Customer Experience:** Banks may better understand their consumers, meet their needs, and offer them individualized services by utilizing cutting-edge tools and technologies.
- **Cost Reduction:** Through the reduction of labor costs, process simplification, and operational expenses, fintech solutions assist banks in cutting costs.
- **Faster Payments:** Since fintech technologies enable more rapid processing capabilities, the banking industry and financial institutions may now offer speedier payment alternatives, allowing clients to make payments securely and swiftly.
- **Increased Transparency:** By giving consumers greater control over their financial data and the ability to monitor their accounts and transaction histories, advanced fintech solutions contribute to the creation of a more transparent banking industry.

2. The 3ds Driving Fintech Companies

The fintech industry has had phenomenal growth globally, and over the next four years, it is expected to develop at a compound annual growth rate (CAGR) of over 20%, reaching a market value of approximately \$305 billion by 2025. Fintech, which is widely present in the financial services industry as well as the consumer market, is characterized by three key features.

Digitization: Fintech uses innovative financial technology to provide people and businesses greater control over their financial well-being. Ultimately, it all comes down to digitization. The foundation of all fintech products is the rapid and broad adoption of digital technologies, which has been significantly aided by the ubiquitous presence of smartphones.

Decentralization: The second "D" that propels FinTech companies to success is decentralization. By separating out traditional financial services like loans, bonds, and borrowings into stand-alone products, fintech promotes financial inclusion. Customers and businesses can bypass traditional routes and obtain the services they need more quickly and conveniently thanks to digital technologies. Financial inclusion is promoted by making financial services more easily accessible to individuals who do not currently have them.

Disruption: Digital technology and decentralized services have entirely upended the traditional means of obtaining financial products and services, which brings us to the third "D," or disruption. FinTech is one of the main forces behind the financial services industry and shows no signs of slowing down. Because they aren't limited by established practices in larger companies, FinTech start-ups have been able to accelerate discoveries more quickly and widely by grabbing the attention of venture funders.

3. Benefits Of Fintech

With the power of technology, people may now send and receive money, apply for loans, and make investments from anywhere in the world as long as they have internet access. Innovative fintech marketing strategies are forcing industry veterans to adopt new technology out of fear of falling behind. Here are a few of the many advantageous features of fintech.

- **Higher Productivity and Efficiency:** The potential for fintech to greatly improve the efficiency and speed of financial transactions is one of its biggest benefits. For example, making payments with a mobile device can be done faster than with a traditional method like a debit or credit card.

- **Enhanced Usability**

The ability of fintech to help expand financial access for people worldwide is another important benefit. For instance, mobile payments can be used to complete transactions in areas where the financially excluded are unable to use traditional banking services.

- **Enhanced Security**

Many customers worry about their security in light of the numerous attacks and data exposures that have occurred recently. Fintech businesses can help allay these concerns by bolstering security and fraud prevention with cutting edge technologies.

- **Enhanced Innovation**

By definition, fintech is always evolving and getting better. This may lead to the development of fresh, cutting-edge goods and services that benefit both consumers and companies.

Impact Of Fintech on Traditional Banks

In what ways does fintech surpass conventional banking? Fintech has an unimaginable impact on everything from investment banking and wealth management to the simplest of payments. Innovative solutions that are ten times quicker, easier to use, and more convenient than conventional banking techniques can be found from fintech companies. With just a few taps on their cellphones, customers can easily purchase goods or items thanks to mobile payment systems. Fintech solutions greatly assist banks by providing data analytics and insights that enable them to obtain important consumer insights and boost operational efficiency. Banks are better able to comprehend and serve their customers' needs when they make use of these potent analytical instruments.

Impact Of Fintech On Banking Industry

- **E-Wallets**

Since e-wallets are the primary means of making the increasingly common digital payments we use today, they have a significant impact on the banking sector. Due to e-wallets' enormous success, many institutions are starting to see their potential and welcome them as a cooperative way to adopt new technologies.

- **Biometric Sensors**

Customers no longer need to worry about losing their ATM card when they use biometric technology. In the event that the card is misplaced, they can access their money via biometrics. Biometric technology is having a fast-moving impact on the banking industry and offers users easy and convenient banking.

- **Artificial Intelligence**

Financial institutions and banks can leverage past data to anticipate and identify fraudulent activity by implementing AI and ML algorithms. Banks will be able to automate procedures and obtain comprehensive insights for well-informed decision-making thanks to the expanding usage of AI and ML in the financial services industry.

- **Smart Chip Technology**

A chip-based payment system called EMV, or smart chip technology, is used to secure financial transactions. Smart chip technology has an effect on the banking sector by increasing payment transactions and improving security, resulting in a decline in credit card fraud and an increase in customer trust in electronic payments.

- **Artificial intelligence**

AI has grown to be crucial to FinTech banking services over time. As per Business Wire, the worldwide AI banking market is projected to grow at a compound annual growth rate (CAGR) of 32.6% from \$ 3.88 billion in 2020 to \$ 64.03 billion by 2030. Furthermore, machine learning and AI are essential for fraud detection. Software for fraud detection is used by banks, and it sends out notifications whenever a transaction may be fraudulent. Afterwards, the human inquiry that establishes if the attack was genuine or not supports it.

- **AI-powered service chatbots**

AI-based chatbots for customer care have also been developed by FinTech companies and have gained popularity recently. Chatbots are nothing more than computer programs that mimic human speech or text by using natural language processing and machine learning. Chatbots can be utilized to provide quick and effective customer support by answering often requested queries and assisting with basic operations like paying bills and checking account balances.

2. Conclusion

Traditional banks now face a competition from the Fintech revolution that they can leverage to enhance their offerings. Banks ought to embrace FinTech solutions and establish common ground for collaboration with FinTech companies. To make that happen, though, the financial industry must also focus on finding solutions to widespread problems brought on by stringent bank regulations and regulatory arbitrage by some FinTech companies. India is steadily climbing the Fintech ladder and offers many chances for Fintech firms to succeed in the diverse market as long as they have a solid go-to-market plan and a careful solution-customer match in place. The banking sector risks losing its competitive edge if it does not adapt its business models to include digital technology. The growth of the Fintech industry has also helped India's economy as a whole. However, there are still certain issues with online security and the percentage of unbanked people that use it. Therefore, the actions that have been taken must not be abandoned due to these minor but significant factors. Therefore, the authorities

ought to create efficient regulations to do away with it so that the fintech industry can upgrade the banking system of India completely

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