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An Empirical Study on Fintech Industry Impacting on Indian Banking Sector

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ABSTRACT: The rise of the fintech industry in India has had a significant impact on the banking sector, bringing about both opportunities and challenges. Fintech companies have introduced innovative technologies and business models, which have transformed traditional banking services and enabled new players to enter the market.

Thus, it is important for us to carefully consider the impacts of the rise of the fintech industry on the banking sector of India and the Indian economy as a whole. Nevertheless, there is limited study testing regarding the concerned subject. This study aims to bridge this void by traversing the impacts of the rise of the fintech industry on the banking sector of India.

Overall, this research paper highlights the significant impact of the rise of the fintech industry on the Indian banking sector, providing valuable insights for policymakers, bankers, and fintech entrepreneurs. It highlights the need for continued innovation, collaboration, and regulatory support to ensure that the fintech industry contributes to financial inclusion, economic growth, and social development in India.

By enlightening on the implications and aftermath of an increase in the financial technology (fintech) businesses, the learning will be instrumental to the larger scope of debate on the future of the banking sector of India and its influence on the Indian economy.

I. INTRODUCTION

Fintech companies in India have emerged as disruptive forces in the banking sector, offering innovative digital solutions that provide faster, cheaper, and more convenient banking services to customers. For example, digital lending start-ups such as Capital Float and Lendingkart are using artificial intelligence and machine learning to provide faster and more accurate credit assessments, reducing the time and cost involved in obtaining a loan. Mobile wallet providers such as Paytm and PhonePe have become popular alternatives to traditional banking services, offering users a range of electronic payment options and value-added services such as bill payments, mobile recharges, and insurance.

Fintech companies in India have also been recognized as key drivers of monetary inclusion, enabling millions of previously unbanked or underbanked individuals to access financial services. For example, digital payments provider PayNearby has partnered with over 3 lakh micro-enterprises in rural areas to provide digital financial services, while micro-lending platform KrazyBee has provided credit to over 2.5 million students and young professionals who lack a credit history.

However, traditional banks in India continue to dominate the financial landscape, with public sector banks holding the majority of the market share. These banks face a range of challenges, including high levels of non-performing assets, regulatory constraints, and legacy systems that are not always well-suited to the demands of the digital age. According to a report by PwC, 74% of Indian banks are investing in fintech partnerships or collaborations to enhance their digital capabilities and remain competitive.

In recent years, the relationship between fintech companies and the Indian banking sector has become more collaborative, with banks partnering with fintech companies to co-create solutions that leverage the strengths of both sectors. For example, Axis Bank has partnered with fintech start-up Ripple to enable instant cross-border payments



using blockchain technology, while ICICI Bank has launched a digital banking platform in partnership with fintech firm NIUM that enables customers to send money abroad in real time.

The financial technology (fintech) industry has been rapidly growing in India, with an increasing number of start-ups offering innovative financial services and disrupting traditional banking systems. This has led to a significant transformation in the financial landscape of India, with a focus on increasing financial inclusion and driving economic growth. The purpose of this research paper is to analyze the impact of the rise of fintech on the Indian banking sector, examine the opportunities and challenges it presents, and identify the key trends and drivers of the industry's growth

The rapid growth of the fintech industry in India over the past few years is driven by factors such as the increasing use of mobile devices, the rise of e-commerce, and the growing demand for digital financial services. Fintech start-ups in India have introduced innovative technologies and business models, enabling them to offer financial services that are more accessible, affordable, and convenient than traditional banking services. These companies have also focused on providing services to underbanked and unbanked segments of the population, contributing to financial inclusion and social development.

Fintech companies have introduced new payment systems, digital banking services, and innovative lending models that have challenged the dominance of traditional banks. The rise of fintech has also put pressure on traditional banks to improve their customer service, reduce fees, and adopt new technologies.

II. LITERATURE REVIEW

Statistics

1. Introduction

- A report by KPMG estimates that Indian fintech will be worth US\$84 billion in 2025 after growing at 22.7% CAGR between 2019 and 2025 (KPMG, 2020).
- A report by McKinsey highlights the potential for fintech to drive innovation and financial inclusion in emerging markets like India (McKinsey, 2016).

2. Definition and characteristics of fintech

- According to a report by PwC, fintech is "the innovative use of technology in the design and delivery of financial services and products, improving on traditional offerings and creating new ones" (PwC, 2017).
- The same report highlights some of the key features of fintech, including its use of digital platforms, its focus on customer experience, and its ability to leverage data and analytics to improve decision-making (PwC, 2017).

3. Fintech in India

- A report by EY identifies digital payments as the fastest-growing segment of the Indian fintech market, with a CAGR of 39% between 2019 and 2025 (EY, 2020).
- In the same report, Fintech is cited as a potential driver of financial inclusion in India by providing access to financial services for underserved populations (EY, 2020).

4. Impact of fintech on the banking sector

- According to a report by Deloitte, the rise of fintech is creating both opportunities and challenges for traditional banks in India (Deloitte, 2018).
- The same report identifies some of the key challenges faced by traditional banks in adapting to the rise of fintech, including legacy technology systems, regulatory constraints, and cultural barriers (Deloitte, 2018).



5. Digital payments and mobile banking

- A report by Google and Boston Consulting Group predicts that digital payments in India will reach a transaction value of US\$500 billion by 2020, up from US\$50 billion in 2016 (Google and BCG, 2017).
- The same report highlights the potential for mobile payments to drive financial inclusion in India by providing access to financial services for underserved populations (Google and BCG, 2017).

6. Digital lending

- According to a report by Deloitte, the Indian digital lending market is expected to reach US\$1 trillion by 2023, driven by the growth of fintech companies and their ability to leverage data and analytics to assess credit risk (Deloitte, 2019).
- The same report identifies some of the challenges faced by digital lending platforms, including the need for regulatory clarity and the potential for fraud and cyber risks (Deloitte, 2019).

7. Future outlook

- According to a report by EY, the Indian fintech market is expected to continue its rapid growth in the coming years, driven by increasing smartphone penetration and government initiatives to promote digital payments (EY, 2020).

Analysis

In recent years, India has emerged as a key market for fintech companies, driven by factors such as increasing smartphone penetration, the availability of low-cost mobile data plans, and supportive government policies. This literature review aims to provide an overview of the existing literature on the impact of the rise of the fintech industry on the Indian banking sector.

Digital Payments and Mobile Banking:

One of the key areas of impact of fintech on the Indian banking sector has been the growth of digital payments and mobile banking. According to a report by NASSCOM, the Indian digital payments market is expected to reach \$500 billion by 2020, driven by factors such as increasing internet and smartphone penetration, government initiatives such as the demonetization drive, and the launch of new payment systems such as UPI (Unified Payment Interface). The growth of digital payments and mobile banking has also been accompanied by an increase in financial inclusion, as more people can access banking services through their mobile phones.

Collaboration between Banks and Fintech Companies:

Another area of impact of the rise of the fintech industry on the Indian banking sector has been the surge in collaboration between banks and fintech companies. This collaboration has taken different forms, such as banks partnering with fintech companies to offer digital payment solutions or banks investing in or acquiring fintech startups. According to a report by PwC, such collaboration can help banks to enhance their customer experience, reduce costs, and innovate faster.

Regulatory Frameworks and Data Privacy:

The rise of the fintech industry has also presented challenges related to regulatory frameworks and data privacy. In India, the regulatory landscape for fintech is still evolving, and there are concerns related to data privacy and cybersecurity. According to a report by EY, regulatory issues such as compliance, licensing, and data privacy are some of the key challenges faced by fintech companies in India. The government has taken steps to address some of these concerns, such as the establishment of the Personal Data Protection Bill in 2019.



Impact on Traditional Banking:

The emergence of the fintech industry has affected India's traditional banking system. According to a McKinsey analysis, the rise of fintech has reduced the profitability of traditional banking products such as personal loans and credit cards. Because of their minimal overheads and innovative business structures, fintech companies can offer these items at a reduced cost. As a result, traditional banks are increasingly experiencing competition from fintech firms and must adapt to shifting market conditions.

Rise of Digital Lending:

Another area where the expansion of the fintech industry has had an impact on the Indian banking sector is the increase of digital lending. Fintech firms are harnessing technologies like artificial intelligence and big data analytics to provide novel lending options like peer-to-peer lending and fast loans. According to a KPMG research, India's digital lending market is expected to reach \$1 trillion by 2023. Its expansion is being driven by factors such as increased credit demand, the availability of alternative data sources, and the ease of access to credit via digital platforms.

Impact on Employment:

The rise of the fintech industry has also had an impact on employment in the Indian banking sector. While fintech has created new job opportunities in areas such as software development and data analytics, it has also led to the displacement of traditional banking jobs. According to a report by the International Labour Organization, the rise of the fintech industry could result in the displacement of up to 40% of banking jobs in India by 2022. To mitigate the impact on employment, it is imperative to promote the reskilling and upskilling of workers in the banking sector.

Impact on Financial Inclusion:

Financial inclusion in India has been significantly impacted by the fintech industry. According to a report by the World Bank, India has made significant progress in financial inclusion in recent years, with the number of bank accounts increasing from 35% of the adult population in 2011 to 80% in 2017. Fintech companies have played a key role in this progress, by leveraging technology to offer innovative financial products and services to underserved and unbanked populations. For example, digital wallets, mobile banking, and micro-lending platforms have enabled millions of Indians to access financial services and participate in the formal economy.

Collaboration and Partnerships:

Given the complex and dynamic nature of the fintech industry, collaboration and partnerships between fintech companies and traditional banks are becoming increasingly important. By leveraging each other's strengths and expertise, fintech companies and traditional banks can offer innovative solutions that meet the evolving needs of customers. According to a report by Accenture, the number of fintech-bank partnerships in India increased from 15 in 2015 to 40 in 2018. These partnerships are expected to drive the growth of the fintech industry and improve the customer experience.

Challenges and Risks:

While the rise of the fintech industry has brought many benefits to the Indian banking sector, it has also posed several challenges and risks. These include concerns about data privacy and security, the need for a supportive regulatory framework, and the potential for systemic risks and financial instability. An RBI report indicates that fintech companies' rapid growth underscores the need for a robust regulatory framework. This will balance innovation with risk management. It is critical to address these challenges and mitigate the risks associated with the rise of the fintech industry. This will ensure its sustainable growth and contribution to the Indian economy.

III. DATA VISUALISATION

According to the PWC Global Fintech Survey conducted in 2016 consisting of 163 respondents from banks around the globe, it is found that major percentage of executives in financial sector i.e. 73% assess that fintech will most likely disrupt consumer banking. The fintech industry sees an opportunity to disaggregate traditional banking components and offers tailored services to consumers and businesses - market share, margins, information security/privacy and



customer churn. Only half of the respondents from the banking sector (53%) believe they are consumer-centric, contrasted with over 80% of FinTech survey contributors. A majority (52%) of the respondents in the survey offer a mobile application to their clients, while 18% are in the process of developing one

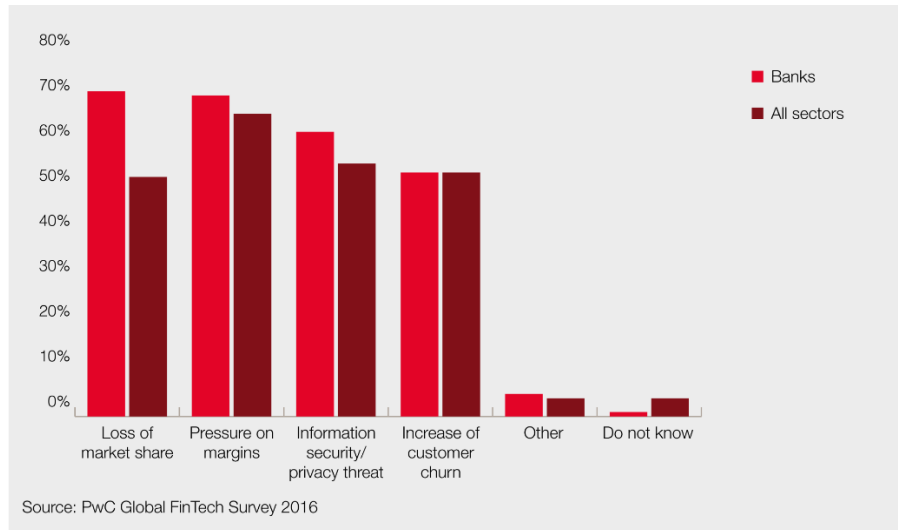


Figure : Threats related to the rise of FinTech within your industry

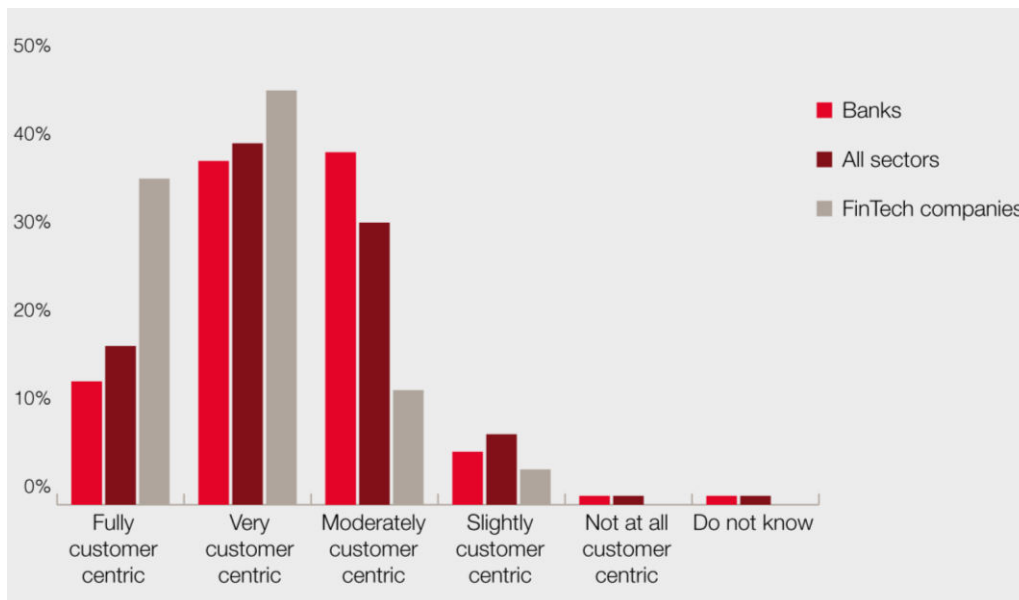


Figure : Rating the Company on Providing True Customer Centrality

FINDINGS

- The rise of the fintech industry in India has resulted in significant growth in the market size of fintech and related sectors, including digital payments and digital lending.



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- The adoption of mobile banking and digital payments is increasing rapidly in India, driven by factors such as increasing smartphone penetration and the availability of low-cost mobile data plans.
- The Indian fintech market is expected to continue growing at a high rate. This could potentially disrupt the traditional banking industry and require collaboration between traditional banks and fintech companies.
- While the rise of the fintech industry presents significant opportunities for innovation and growth in the Indian banking sector, it also presents challenges related to regulatory frameworks, data privacy, and cybersecurity.
- To fully realize the potential of fintech in the Indian banking sector, it is paramount to address these challenges. In addition, it is important to promote an enabling environment that fosters innovation, collaboration, and responsible growth.

IV. CONCLUSION

For the Indian banking sector, the rise of the fintech industry presents both opportunities and challenges. While the growth of digital payments and mobile banking has resulted in increased financial inclusion, and collaboration between banks and fintech companies can help to improve customer experience and drive innovation, there are also regulatory frameworks, data privacy, and cybersecurity challenges. To fully realize the potential of fintech in India's banking sector, it is critical to address these challenges and foster an enabling environment that encourages innovation, collaboration, and responsible growth.

The impact of the rise of the fintech industry on the Indian banking sector has been significant and multifaceted. While it has led to the growth of digital payments, mobile banking, and digital lending, it has also disrupted traditional banking. It has raised concerns about regulatory frameworks and data privacy and has had an impact on employment. To fully realize the potential of fintech in the Indian banking sector, it is imperative to address these challenges. In addition, it is critical to promote an enabling environment that fosters innovation, collaboration, and responsible growth.

Finally, the growth of fintech in India has had a tremendous impact on the banking sector, upsetting traditional banking systems and revolutionizing the delivery of financial services. While the business offers numerous prospects for growth and innovation, it also faces substantial obstacles in terms of competition, data protection, and regulatory frameworks. To ensure that the fintech industry contributes to financial inclusion, economic growth, and social development in India, policymakers, bankers, and fintech entrepreneurs must collaborate.

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