

Impact of Fintech Companies in the Indian Banking Sector- A Study

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## Impact of Fintech Companies in the Indian Banking Sector- A Study

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### Abstract

As the world as a whole, is progressing towards development, every single part of it, be it a continent or a country is developing its own standards. As a country develops, the sectors in it also develop and become better than what they were earlier. One such evolution that has popped out in the recent past and is in a stage of a boom in the current day situation is the concept of “Fintech”, in other words, the “Neo Banks” in the Indian Banking Sector. Fintech companies are those firms using new technology to compete with traditional financial methods in the delivery of financial services. In today’s world, Fintech is used for various purposes such as digital payments, investing, wealth management, and many other activities. Such development helps the citizens to make their own financial decisions and expand their financial knowledge. This research paper, prepared by myself (S Vigneshwar), deals with the advent of Fintech Companies, its impact on the Banking System (with special reference to India), and the future of such companies in the long term.

**KEYWORDS:** Fintech, financial services, technology. Indian Banking sector

### INTRODUCTION:

The BFSI (Banking and Financial Sector of India) has been swiftly shifting with the advent of FinTech Companies in the post-2008 financial crisis, it is observed by the behaviours of the citizens of the country that no single bank in the country controls the sector. In fact, the crisis led to a reduction in the level of loyalty for each bank and this was the time when newer, technologically advanced companies also put a foot ahead to get into the world of BFS. This period marks the beginning of the “Fintech” or the “Neo banks” in India. Fintech was introduced as a result of technological advancements and enables users to improve and automate the delivery of financial services. The concept of Fintech was initially applied to the back-end operations of well-known reputed financial institutions. Slowly, the transition

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occurred and the financial institutions now focus on customer services and the definition has been made more customer-centric. Fintech uses a variety of technologies such as:

- Cloud Technology
- Artificial Intelligence (AI)
- Internet Of Things (IoT)
- Blockchain
- Robotic Process Automation (RPA)
- Digital Transformation
- Advanced Analytics
- Smart contracts

#### STATEMENT OF THE PROBLEM:

The rapid growth and integration of Financial Technology (Fintech) companies in the Indian Banking Sector have raised significant questions about their influence on traditional banking operations, customer behaviour, regulatory frameworks, and overall industry dynamics. This study aims to exhaustively investigate and analyse the multifaceted impacts of fintech companies on the Indian banking landscape, addressing various dimensions such as technological innovation, customer preferences, and financial inclusion. As Fintech Companies continue to reshape the way financial services are delivered and accessed, understanding their effects on the Indian Banking Sector becomes vital for policymakers, industry participants, and stakeholders to make informed decisions and ensure a sustainable and adaptive financial ecosystem. This research seeks to investigate into the complexities surrounding this transformation, providing valuable insights into how fintech advancements are reshaping the traditional banking paradigm in India and suggesting potential strategies for stakeholders to harness the benefits while mitigating associated risks.

#### OBJECTIVES OF THE STUDY:

The main objectives of the study are mentioned below:

- 1) To understand the customer's degree of knowledge/understanding about the existence of Fintech Companies.
- 2) To study the factors affecting the influence of Fintech companies in the Indian Banking Sector.
- 3) To examine the degree of trust in utilizing Fintech services.
- 4) To understand the extent of services provided by both Fintech Companies as well as Traditional Banks.

#### REVIEW OF LITERATURE:

Dr.Girish Kumar Painoli, Dr.D.Paul Dhinakaran, Dr.C.Vijai (2021) have opined that the Fintech is financial technology that provides alternative solutions for banking services and non-banking finance services. It is an emerging concept in the financial industry. This paper explains the evolution of the fintech industry and present financial technology in the Indian banking sector. The data source for this study is from PwS, KPMG, RBI, and SSRN. The authors have brought the historical evolution of Fintech, Market size and growth. The fastest growing trend has been found and their services are going to change the habits and behaviour of the Indian finance sector.

According to Karthika, Neethu and Dr. Lakshmi (2022), the authors emphasise the need for Digital transformation development which boom of Fintech initiatives which are the most important innovations in the financial industry. Fintech deals with the novel processes and

products that are available for financial services thanks to digital technological advancements. Fintech is very rapidly growing in financial markets and its impact is on banks and financial institutions. It permits 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 due to fintech. It empowers the customers to take their financial decisions and to get higher financial literacy. After Covid, the impact is noticed even in the rural areas of the country.

Dr. K. Samuvel and Arya Pradeep (2020) are of the view that financial technology is to describe new tech that improve and automate the financial services. Fintech is helpful to companies, business owners and consumers better manage their financial operations, processes, and lives by utilizing specialized software and algorithms that are used on computers and, increasingly, smartphones. Their study analysed the impact of fintech on banking industry with a sample of the study is 150. It included a descriptive research design and random sampling method is followed. The study found that the respondents are highly dissatisfied with the app has minimum data storage and they are satisfied towards the gives useful and clear reports. The conclusion is that the development of Fintech sector has also given a boost to overall growth of the economy. However, some hindrances related to e-security and the usage rate among unbanked population have been observed in this study. It requires initiatives and proper regulators to formulate effective policies in fintech sector.

#### ANALYSIS AND FINDINGS

This study has been undertaken with the use of a questionnaire comprising of fifteen (15) questions – 3 demographic questions containing one’s age as a value between given groups, gender and their occupation and the remaining 12 questions relating to the respondents’ viewpoints about Fintech companies, their influence in the Indian Banking Sector, ascertaining the level of trust by the respondents’.

Convenience sampling and snowball sampling were used for this research article in gathering responses. A total of 54 responses were collected, whose ages were ranging from 17 to 65. The responses indicate that the responses have been collected in a diverse manner, where 3 age groups (18-25, 42-50, 51-60) comprise more than 20% each and have an almost similar number of responses. A total of 36 male and 18 female had responded the survey.

#### DATA ANALYSIS AND INTERPRETATION:

Table 1: Gender and the importance of security as a factor for respondents maintaining bank accounts in various traditional banks- one-way ANOVA

| Source of Variation | SS       | Df | MS       | F        | p-value  | F critical |
|---------------------|----------|----|----------|----------|----------|------------|
| Between Groups      | 0.453704 | 1  | 0.453704 | 0.351982 | 0.555565 | 4.026631   |
| Within Groups       | 67.02778 | 52 | 1.288996 |          |          |            |
| Total               | 67.48148 | 53 |          |          |          |            |

INTERPRETATION

$H_0$  = Security is a very important factor to be considered while maintaining a bank account.  
 $H_1$  = Security is not an important factor to be considered while maintaining a bank account.

From the above table, the p-value of 0.555565 is greater than the level of significance, which is 5% = 0.05. Therefore, the Null Hypothesis ( $H_0$ ) is to be accepted. It is concluded that security is considered an important factor for every customer in choosing their banks and maintaining accounts.

Table 2: Occupation and the trust of respondents in fintech companies than the traditional banks if the status of both are the same -one-way ANOVA

| Source of Variation | SS       | Df | MS       | F        | p-value  | F critical |
|---------------------|----------|----|----------|----------|----------|------------|
| Between Groups      | 3.404853 | 4  | 0.851213 | 1.386761 | 0.252633 | 2.565241   |
| Within Groups       | 29.46307 | 48 |          |          |          |            |
| Total               | 32.86792 | 52 |          |          |          |            |

INTERPRETATION

$H_0$  = Respondents trust Fintech Companies more than Traditional Banks when both are adjudged the same status.  
 $H_1$  = Respondents do not trust Fintech Companies more than Traditional Banks when both are adjudged the same status.

From the above data, the F statistic value of 1.386761 is lesser than the F critical value of 2.565241. Therefore, the Null Hypothesis ( $H_0$ ) can be accepted. Hence, it is concluded that respondents trust Fintech Companies in line with existing banks when the status of the former becomes equal to that of the latter.

Table 3: Respondents' gender and their preferences regarding whether they would trust their existing traditional banks for day-to-day transactions and handling of cash- chi-square

| Gender | 1      | 2   | 3       | 4   | 5       |
|--------|--------|-----|---------|-----|---------|
| Male   | 0.0625 | 0.1 | 0.37378 | 0.5 | 0.66667 |
| Female | 0.125  | 0.2 | 0.75757 | 1   | 1.33333 |

X<sup>2</sup> 5.123863636  
 Df 4  
 p-value 0.274822794

The above table brings out the values of the Chi-square statistic of both Male and Female.

## INTERPRETATION

$H_0$  = Respondents trust their existing traditional banks more than other banks.

$H_1$  = Respondents do not trust their existing traditional banks more than other banks.

It is observed from the above data that the p-value of 0.274822 is greater than the level of significance of 5%, which is 0.05. Therefore, the Null Hypothesis( $H_0$ ) is to be accepted. So, it is concluded that the respondents trust their existing traditional banks.

Table 4: Occupation and respondents' preference as to whether they would shift to fintech companies in the future if they provide better services than the traditional banks -Chi-Square

| Occupation   | 1        | 2        | 3        | 4        | 5        |
|--------------|----------|----------|----------|----------|----------|
| Employment   | 0.469444 | 0.001736 | 0.005051 | 0.027778 | 1.388889 |
| Entrepreneur | 1.556481 | 2.370370 | 0.168350 | 0.280093 | 0.296296 |
| Retired      | 0.555556 | 1.388889 | 0.040404 | 0.222222 | 0.111111 |
| Student      | 0.145869 | 1.198006 | 0.995597 | 0.001425 | 0.481481 |
| Unemployed   | 0.011111 | 0.340278 | 0.989899 | 0.444444 | 0.222222 |

X<sup>2</sup>      13.713  
dF        16  
p-value   0.620085

The above table presents the values of the Chi-square statistic of the occupation categories.

## INTERPRETATION

$H_0$  = They would shift to Fintech Services in lieu of better services

$H_1$  = They would not shift to Fintech Services even though better services are provided.

From the above data, we can infer that the p-value of 0.620085 is greater than the level of significance of 5% = 0.05. Therefore, the Null Hypothesis ( $H_0$ ) shall be accepted. So, it is concluded that the citizens would shift to Fintech Companies in the future if better services are provided.

## FINDINGS AND SUGGESTIONS OF THE STUDY

- It is found that security is a very important factor for customers while choosing their banks to maintain their account.
- It is noticed in this study that customers are not ready immediately to accept the fact that Fintech services have developed and are equalising their benchmark as that of the Traditional Banks.
- Fintech Services reach the levels of Banks in the future then the customers are ready to shift their bank accounts to the former,
- The existing traditional banks have not lost their customers' loyalty as the latter trusts the former in maintaining accounts.

- Along with security, the respondents also feel that Interest Rates and Loan Rates are also important to an extent in determining their banks to maintain an account.
- Majority of the respondents use Unified Payment Interface (UPI) such as Google Pay, PhonePe, Paytm as their mode of payment for day-to-day transactions.

#### CONCLUSION:

Fintech companies have steered in a transformative era in the Indian Banking Sector. Their innovative technologies and customer-centric approach have revolutionized traditional banking, fostering greater accessibility, efficiency, and tailored services. By reaching underserved populations and simplifying complex financial processes, Fintech firms have contributed to financial inclusion and economic growth. However, this disruption has not been without challenges. Regulatory adjustments and data security concerns must be navigated to ensure a harmonious integration of Fintech innovations. As Fintech continues to reshape the landscape, a collaboration between these nimble startups and established banks will be key in driving the sector's evolution. The Indian Banking Sector stands at a crossroads, poised to leverage the immense potential of Fintech to create a more dynamic, responsive, and inclusive financial ecosystem.

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#### QUESTIONNAIRE:

##### "The Impact of Fintech Companies in the Indian Banking Sector"

1. Age (in years):
  - a. Below 18
  - b. 18-25
  - c. 26-33
  - d. 34-41
  - e. 42-50
  - f. 51-60
  - g. Above 60
2. Occupation
  - a. Student
  - b. Employment
  - c. Entrepreneur
  - d. Unemployed
  - e. Retired
3. Gender
  - a. Male
  - b. Female
  - c. Prefer not to say
4. Have you heard or/and used any financial technology (Fintech) Services?
  - a. Yes, I have heard as well as have used it.
  - b. Yes, I have heard about it, but not have used it.
  - c. No, I have neither heard nor used it.
5. How do you handle your day-to-day bank transactions?
  - a. Branch Banking
  - b. Phone Banking
  - c. Internet Banking
  - d. Google Pay/Paytm/PhonePe
6. Are you aware of the various fintech and digital banking solutions available currently?
  - a. I certainly am aware of their presence
  - b. I am not sure of all, but to an extent, I have an idea.
  - c. I am not aware of these companies.

7. Do you have any idea about the following companies' names? (Jupiter, Niyo, InstantPay , RazorpayX)
  - a. Yes, I have heard of all.
  - b. To an extent, yeah I know these companies names'.
  - c. I have zero idea as to what sector these companies belong to.
  
8. What attributes would you consider if you were to select a non-banking service provider?
  - a. Security
  - b. Lucrative interest rates
  - c. Affordable Loan rates
  - d. Hassle-free usage
  - e. Popularity
  
9. At what level do you consider the importance of the factors mentioned below? (Key: 1- Highly Important; 2- Important; 3- Neutral; 4- Less Importance; 5- Very Less Importance)
  - a. Product Availability
  - b. Security
  - c. Interest Rates
  - d. Loan Rates
  - e. Seamless Usage
  
10. If you are already a user of Fintech Services, would you still continue to use those services in the future? (Key:- 1- Very Likely ; 5- Very less Likely)
  
11. Would you recommend your family members and peers to use Fintech Services? (Key:- 1-Very Much ; 5-Not at all)
  
12. Do you trust your traditional banks for the transactions and handling of cash, more than other institutions? (Key:- 1-Definitely ; 5-Never)
  
13. Would you rather trust the Fintech Companies more than Traditional Banks if the former would be treated as equally as the latter?
  - a. Yes, Without any hesitation.
  - b. Nothing can match the level of traditional banks.
  - c. It is upto the situation and the circumstances prevailing at that point of time.
  
14. Do you believe that Fintech Companies can provide better services than the existing age-old Traditional Banks? (If not now, atleast in the future) (Key:- 1-Strongly Believe ; 5-No Belief)
  
15. If Fintech Companies provide better services in the future, would you mind shifting your accounts to such institutions? (Key:- 1-Very Likely ; 5- Not Likely)

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