

THE IMPACT OF FINTECH ON TRADITIONAL BANKING

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Abstract

Financial technology (Fintech) is used to describe new tech that seeks to improve and automate the delivery and use of financial services. At its core, Fintech is utilized to help 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.

The rise of Financial Technology (FinTech) has significantly disrupted traditional banking systems, transforming how financial services are delivered and consumed. FinTech innovations, such as digital wallets, peer-to-peer lending, blockchain, and robo-advisors, have introduced greater accessibility, speed, and efficiency, creating new opportunities for consumers and businesses alike. This shift is challenging established banks to rethink their operational models, customer engagement strategies, and regulatory compliance frameworks. While traditional banks maintain

advantages in trust, infrastructure, and regulatory alignment, the rapid evolution of FinTech has prompted many to collaborate with or adopt similar technologies to stay competitive. This paper explores the impact of FinTech on traditional banking, analyzing the competitive pressures it creates, the opportunities for collaboration, and the broader implications for the financial sector's future. Key themes include innovation in financial products, shifts in customer expectations, and the evolving role of regulatory oversight in a technology-driven financial ecosystem.

Keywords: Fintech, Fintech Services, Banking Industry.

Introduction

Financial technology (Fintech) is used to describe new tech that seeks to improve and automate the delivery and use of financial services. At its core, Fintech is utilized to help 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. Fintech, the word, is a combination of "financial technology". When Fintech emerged in the 21st Century, the term was initially applied to the technology employed at the back-end systems of established financial institutions. Since then, however, there has been a shift to more consumer-oriented services and therefore a more consumer-oriented definition. Fintech now includes different sectors and industries such as education, retail banking, fundraising and nonprofit, and investment management to name a few

The rapid evolution of financial technology, or fintech, has revolutionized the way financial services are delivered, creating both opportunities and challenges for traditional banking institutions. Fintech refers to the integration of technology into offerings by financial services companies to improve their use of financial services. This sector encompasses a broad range of innovations, from digital payments and peer-to-peer lending platforms to blockchain and robo-advisors, all of which have reshaped customer expectations and industry practices.

Objectives

1. To Improve Efficiency - Streamline banking processes using fintech solutions.
2. To Increase Accessibility - Make banking services more accessible through digital platforms.
3. To Enhance Security - Strengthen security with advanced fintech technologies like encryption and biometrics.
4. To Reduce Costs - Lower operational costs by automating tasks and improving processes.
5. To Boost Customer Experience - Offer faster, more convenient services to customers.
6. To Promote Financial Inclusion - Provide banking services to underserved or unbanked populations.

Evolution of FinTech

The roots of FinTech trace back to the early 21st century when digital advancements began reshaping financial processes. Over the years, the FinTech landscape has evolved from basic online banking services to sophisticated technologies such as blockchain, artificial intelligence, and machine learning (Johnson & Smith, 2015). This evolution has given rise to a new era in financial services, characterized by

increased efficiency, accessibility, and innovation.

Present Scenario in Fintech in Traditional Banking

The fintech industry in India is growing rapidly and is expected to continue to do so in the coming years. Here are some of the highlights of the current state of fintech in India:

Funding

In 2022, Indian fintech startups raised \$5.65 billion, making them the second most funded startup sector in the country. In the third quarter of 2024, India attracted \$778 million in fintech funding, second only to the United States.

Number of Fintech Startups

The number of registered fintech startups in India has grown from 2,100 in 2021 to 10,200 in 2024.

Fintech Unicorns

India is third globally in the number of fintech unicorns, with a combined market value of \$90 billion.

Adoption Rate

The adoption rate of fintech in India is 87%, which is higher than the global average of 67%.

Fintech Market Size

The fintech market in India is estimated to be worth \$110 billion in 2024, and \$420 billion by 2029.

Fintech Activities

Fintech activities include peer-to-peer lending, crowdfunding, mobile payments, money transfers, blockchain, cryptocurrencies, and robot investment.

Alternative Credit Scoring

Fintech companies are using alternative data sources to evaluate credit risk, such as digital footprints, utility bill payments, and social media behavior.

Some factors that are driving the growth of fintech in India include:

- ✓ Favorable Policies
- ✓ Development of Enabling DPIs
- ✓ Institutional Support
- ✓ Technological Innovations
- ✓ The Government's Push towards a Digital Economy
- ✓ A young and Tech-Savvy Population

Advantages of Fintech in Traditional Banking

Convenience and Accessibility:

Fintech companies often use digital channels to offer financial services, making it

easier and more convenient for customers to access and manage their finances. Customers can perform transactions, such as making payments, transferring funds, and checking account balances, from the convenience of their own residences using computers or mobile devices. This level of accessibility is especially beneficial for people who live in remote locations.

Lower Operating Costs:

Fintech companies have lower operating costs than traditional financial institutions because they don't have to maintain physical branches or large staff teams. It allows them to offer lower fees and interest rates to their customers. In addition, fintech companies often use algorithms and automation to streamline their operations, minimizing the need for manual labor and the possibility of human error.

Innovation and Customization:

Fintech companies are often founded by entrepreneurs with technology backgrounds, allowing them to approach financial services in new and innovative ways.

To enhance their products and services, they continually experiment with new technologies such as artificial intelligence and machine learning. Can benefit from

personalized financial solutions tailored to their specific needs and preferences.

Conclusion

In conclusion, fintech has significantly transformed traditional banking by enhancing efficiency, accessibility, and customer experience. While traditional banks still hold a dominant position due to their established infrastructure, trust, and regulatory frameworks, fintech companies have introduced innovative solutions that challenge and complement conventional banking models. The rise of digital payments, peer-to-peer lending, blockchain, and AI-driven financial services has forced traditional banks to adapt by incorporating new technologies and updating their business models. Ultimately, the future of banking is likely to be a hybrid model, where both fintech and traditional banking coexist, with fintech offering agility and innovation, and traditional banks providing stability and regulatory compliance.

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