iJETRM
International Journal of Engineering Technology Research & Management

# ROLE OF FINTECH ON DIGITAL BANKING IN INDIA

**Mr. Ravindra K C ***
**Ms. Tejashwini K C ****
* HOD & Assistant Professor, Kumadvathi First Grade College, Shikaripura – 577427
Mobile No: 9886840694
**Research Scholar, Department of Studies in Commerce, Davangere University, Shivagangothri, Davangere. Mobile No: 7411131996

**ABSTRACT**
Using data from the Reserve Bank of India's Working Group on Fintech and Digital Banking, the purpose of this study is to highlight the role of Financial Technologies, or Fintech, in the financial industry, specifically in the banking sector (2017). The article delves into the latest Fintech trends in Indian banking. In terms of shifting sectors and clients, this research points to a direction for Fintech evolution. It will go through the natural progression of Fintech-based advancements as well as the link between Fintech and financial inclusion. According to the findings, there is a value frontier in further investigation of new perspectives on emerging financial technology and its ramifications for the banking industry.

**Keywords:**
Digital banking, Fintech, Block chain, Big data

## INTRODUCTION

Fintech is a term that describes the use of technology to provide a variety of financial services. Fintech involves traditional financial firms, startups, venture capitalists, and regulators (Lee and Shin, 2018; Chanson et al., 2018). Fintech, at its most basic level, employs specialized software and algorithms to assist businesses, individuals, and organizations in better managing their financial operations, procedures, and lifestyles through the use of computers and, increasingly, smart phones (2018, Jung, Dorner, Weinhardt, and Pusmaz). The Financial Stability Board (FSB) defines Fintech as "new business models, technologies, procedures, or products that have a major impact on financial markets and institutions, as well as financial services provision." Fintech is utilised by a variety of industries to supply financial services, including the insurance industry, asset management organizations, payment companies, and others. Smartphone use for increased access to banking facilities, investment administrations, and digital currency are examples of innovations aimed at increasing the public's access to financial services. Fintech encompasses the development and use of digital currency such as Bit coin. While that section of Fintech attracts the most attention, the majority of the money is still invested in the traditional global banking business, which has a multi-trillion-dollar market capitalization (2019, Goldstein et al.). From the introduction of digital money to double-entry accounting, the phrase "financial technology" can be applied to any advancement in how people conduct business.

The most well-known (and well-funded) Fintech startups all have one thing in common: they're built to challenge, and eventually usurp, established traditional financial services providers by being more nimble, serving an underserved segment, or providing faster and better service (Belanche et al., 2019; D'Acunto et al., 2019).

Machine learning, artificial intelligence, predictive behavioural analytics, and data-driven marketing are just a few of the new technologies that will take the uncertainty out of financial decisions. (Frame and colleagues, 2019). Users will be involved in learning activities to enhance their habitual, unconscious spending and saving decisions. Fintech companies are also early adopters of automated customer service solutions, depending on chatbots and AI interfaces to assist clients with basic tasks while lowering staffing costs. Payment history information is utilised to spot anomalous transactions, which is another way Fintech is being used to combat fraud. As shown in Table 1, Fintech advances (Frame et al., 2019) are classified into categories depending on financial market domains.

iJETRM
International Journal of Engineering Technology Research & Management

Table 1: FinTech Ecosystem

| Clearing and Settlement of Payments | Deposits, Lending, and Funding | Provisioning on the market | Investment Management | Risk Assessment & Data Analytics |
|---|---|---|---|---|
| Payments via mobile and the internet<br>Crypto currencies<br>Ledger that is distributed | Ledger decentralised, Currency in the digital age, Crowdfunding, Peer-to-peer Lending | Cloud networking, Smart contracts, e-Aggregators | Advice from a robot<br>e-Trading for smart contracts | Artificial Intelligence, Robotics, and Big Data |

Source: World Economic Forum

**FINTECH IS HIGHLY INNOVATIVE FINANCE AND INTRODUCING IT TO THE DIGITAL ERA**

Fintech, or digital technologies, has played a critical role in the restructuring of financial markets, according to Gomber et al. (2018). Fintech (financial technology) is a fast growing section of the financial services industry, where technology-enabled business model startups and other new market entrants are posing a threat to the current financial ecosystem's operations (Jagtiani and Lemieux) (2018a, 2018b). India's exceptional progress in the Fintech area is due to the presence of an untapped enormous consumer market, a concentration on innovative start-ups, and supportive government laws and rules. Fintech is being adopted by both traditional banking institutions and non-banking financial businesses (NBFCs) to keep up with the speed of countless innovative startups. This most recent wave of upheaval is sweeping through the financial services industry, causing a paradigm shift in banking. Fintech in India may be able to solve traditional financial institutions' issues with low market penetration, credit history, and cash-based transactions in the economy.

The Indian banking and financial services sector can only be considerably reformed with the participation of regulators, industry participants, and investors. By decreasing the cost of common transactions, Fintech startups are altering marketplaces and consumer pathways. India has come a long way as a digital economy. India currently has around 1,500 Fintech start-ups, both large and small, with half of them founded in the last two years. India's Fintech industry expanded by 282 percent between 2013 and 2014, reaching USD 450 million in 2015. According to NASSCOM, the National Association of Software and Services Startups, India presently has over 400 Fintech companies, with investments predicted to expand by 170 percent by 2020. The Indian Fintech market is expected to grow from USD 33 billion in 2016 to USD 73 billion in 2020. Table 2 shows the many aspects of Fintech in India's financial markets:

**TABLE 2: LIST OF TOP 50 FINTECH STARTUPS IN INDIA**

| | | | | |
|---|---|---|---|---|
| • Paytm<br>• Razorpay<br>• Upstox<br>• Cred<br>• ETMoney<br>• Instamojo<br>• PolicyBazaar<br>• MobiKwik<br>• ZestMoney<br>• Lendingkart | • Refrens<br>• Pine Labs<br>• MoneyTap<br>• Khatabook<br>• Capital Float<br>• Shiksha Finance<br>• Amigobulls<br>• KredX<br>• CreditMantri<br>• Mswipe | • Financial Software Systems (FSS)<br>• BankBazaar<br>• Active.Ai<br>• Finly<br>• Ezetap<br>• Financepeer<br>• Loanwalle<br>• Money View<br>• Cube Wealth<br>• Goal Teller | • Kuants<br>• ePayLater<br>• PayKun<br>• PaisaDukan<br>• Cashfree<br>• CoinDCX<br>• Easy Home Finance<br>• Recko<br>• FypMoney<br>• Avail Finance | • Upwards<br>• KreditBee<br>• Finin<br>• Sqrrl<br>• Moneyfront<br>• ClearTax<br>• Groww<br>• LoanTap<br>• RevFin<br>• PayU |

**Source:** Authors' compilation

Crowd funding platforms have become a source of entrepreneurial finance thanks to Fintech, which allows entrepreneurs to raise capital from a crowd of online investors (Cumming and Hornuf) (2018). Equity

iJETRM
International Journal of Engineering Technology Research & Management

crowd funding, according to Estrin and Khavul (2016), is an open platform for entrepreneurial financing that takes place on a two-sided internet network and operates within a social media context. "Financial service is enabled by a direct, one-on-one relationship between a single user and one or more providers," according to P2P. The calendar year (Off & Wieandt, Moenningh). Peer-to-peer (P2P) lending allows anybody to borrow money from an online network under mutually agreed-upon conditions and profit-sharing agreements, comparable to borrowing from friends and family. P2P provides a forum similar to microfinance. Thanks to digital wallet companies, people in rural India who do not have bank accounts may now transmit money across borders and even globally using their phones.

The financial services business is being reshaped by Fintech, or financial technology. Fintech start-ups, accelerators, and incubators are springing up all over India. India has everything. India has all of the pieces in place to become a global Fintech hub. Because it has a large platform of underserved and unserved consumers, high mobile penetration, quickly expanding demographics, an innovation-driven start-up, consumer behaviour, and a pool of superior technology, India has a significant potential of creating Fintech. It is now bringing new technology to replace out-of-date financial processes like mobile-based payments, fund transfers, fund raising, lending, and portfolio management.

Demonetization, the adoption of the Goods and Services Tax (GST), the introduction of initiatives like the Unified Payments Interface (UPI), and the connecting of financial services like bank accounts to Aadhaar have all aided India's Fintech development. The Union Budget 2018 has given the Fintech community a boost, with pronouncements on the National Program on Artificial Intelligence, cash flow-based lending trends, specific corporate identities, and a focus on block chain, among other things. While these policies are favourable to Fintech, the establishment of a supportive climate is one of the most important conditions for establishing a long-term Fintech ecosystem. A unified and unambiguous regulatory framework: According to Odinet, "AI is better understood as the encompassing area that produces complicated robots that can demonstrate all traits of true human intelligence" (2018). It alludes to human intelligence being replaced by technology. Blockchain has been described as "the fastest-growing field of Fintech innovation" with "huge future potential in financial services," according to Chen (2019). It is an electronic payment system in which the system's performance ensures the security of the payment. According to Abraham et al. (2019), robo-advisors will slash prices while also reducing other costs connected with delivering financial services.

## DEFICIENCIES IN FINTECH

Fintech activity exposes the bank to a variety of risks (Gefen and Pavlou, 2006, 2012; Fang et al., 2014). The two major sources of risk listed below are projected to appear.

1. Credit, liquidity, operational risks, including cyber and legal risks, debt, and maturity mismatch are all examples of micro-financial hazards.
2. Macro-financial risks: unsustainable credit growth, greater interconnection or linkages, preferential treatment for high-risk businesses, procyclicality, contagion, and systemic significance.

The banking sector faces both hazards and opportunities as a result of financial technology and innovation. Risks to the financial system include the following:

1. Threats to strategy and profitability
2. The financial world is becoming increasingly linked
3. There is a structural issue with a higher level of operating risk
4. Operational risk is more unique than financial risk
5. There is a high danger of failure due to third-party/vendor management
6. Noncompliance risk, which includes customers and data security and Money laundering is referred to as terrorism financing
7. Volatility in the bank funding channel and risk-related liquidity

## POSSIBLE SCENARIOS FOR THE BANKING SYSTEM INCLUDE:

1. Innovation in the use of data for marketing and risk management in the banking industry
2. Innovation in the use of data for marketing and risk management in the banking industry
3. Increased competition contributes to the financial stability of a company.
4. Technology for regulatory compliance

ISSN: 2456-9348
Impact Factor: 5.004

iJETRM
International Journal of Engineering Technology Research & Management

## FINTECH IS CHANGING THE WAY OF BUSINESS IS TRANSACTED

Technology's integration into the supply of financial services has irrevocably changed the way businesses operate. Due to the availability of everything from crowd sourcing to mobile payments, traditional business models and traditional financiers are no longer viable options for entrepreneurs. It has become not only easier but also more accessible to start a business. An entrepreneur can find investors through crowd sourcing, for example, without ever meeting them. As a result, entrepreneurs can bypass protracted investor conversations and see funds flow in weeks rather than months. Traditional banking has been transformed by digital technology, which now allows small firms and people to send money across borders in record speed. Therefore as result, Fintech has decreased expenses dramatically, and Fintech adapted companies can attract significant investments because they are far more capable than traditional banks, as they do not have the same overheads and responsibilities. Their entire size grows and adapts in ways that larger companies can only dream about. Fintech innovations like crowd funding, mobile-based payments, and international financial transfers are revolutionizing small business start-ups and spreading globally, making it easier than ever to start and run a company.

## THE FUTURE OF INDIA'S FINTECH AND DIGITAL BANKING

In 2016, Sironi published the book that compared the prospects of other Fintech-based companies to that of traditional banking. Currently, 40% of the population does not have access to financial services, with 87 percent relying on cash payments. As a result, India may become a breeding ground for new financial technology start-ups. Mobile usage is predicted to increase from 64% in 2018 to 70% in 2019, and Internet penetration will contribute to the expansion of Fintech in India.

According to Ahern (2018), crowd fundraising allows you to collect money from people all around the world swiftly and easily. It has sped up the process of finding startup resources and reduced meeting times from months to weeks. Digital transactions climbed by 6.05 percent to 1.06 billion in 2017, according to the latest figures from the RBI. Furthermore, 90 percent of small firms, according to some estimates, lack access to any of the recognised financial services. These disparities in sophisticated technology availability have demonstrated that India has opportunity for Fintech development.

## CONCLUSION

By boosting financial stability, as well as ensuring effective financial service delivery and keeping competitive in the industry, new revolutionary financial technology has surpassed traditional financial ways (Philippon, 2017). Fintech has ushered in a paradigm shift in India, from banking to a relatively new industry. The rise of Fintech has opened up new possibilities for future outcomes. Entrepreneurs should be more aware of the latest financial technology prospects and advancements since they can help them build their firm and provide them with a new perspective on how to compete in today's market. A number of Fintech start-ups spanning the financial services spectrum are cropping up in India. The Fintech revolution has arrived in India, according to Schindler (2017), and transactional economics will become the backbone. This is a significant opportunity for all FIs wanting to maximize their potential outcomes. Our country has immense entrepreneurial potential, as seen by the rapid rise of Fintech. The Fintech shift is also aided by the efforts of the government and regulatory organizations, which are all eager to go above and beyond to support advancement in the banking sector. Banks and financial institutions must effectively collaborate with innovative firms for mutual benefit. Thus, financial institutions are confronted with a slew of issues, the most serious of which is the entire user experience. Financial institutions must ensure that their fundamental product and service offerings alter substantially as the ecosystem evolves and redefines itself. Customer requirements, as set by Fintech start-ups, demand that the experience of completing paperwork and building new accounts improves, starting with customer on boarding.

## REFERENCES

1. Abraham, F., Schmukler, S. L., & Tessada, J. (2019). Robo-Advisors-Investing- through-Machines . World Bank Research and Policy Briefs No. 134881.
2. Buckley, R., Arner, D., & Barberis, J. (2016). The evolution of Fintech: a new post crisis paradigm. Georgetown journal of international law, 47(4), 1271-1319.
3. Chanson, M., Risius, M., & Wortmann, F. (2018). Initial coin offerings (ICOs): An introduction to the novel funding mechanism based on Blockchain technology: Emergent research forum (ERF). In proceedings of the 24th Americas Conference on Information Systems (AMCIS).

iJETRM
International Journal of Engineering Technology Research & Management

4. Daniel, B., & Carlos, F. (2019). Artificial Intelligence in FinTech: understanding robo advisors adoption among customers. Artificial Intelligence in FinTech, 5.
5. Estrin, S., & Khavul, S. (2016). Equity Crowd funding and the socialization of entrepreneurial finance. In Academy of Management Proceedings (Vol. 2016, No. 1, p. 13036). Briarcliff Manor, NY 10510: Academy of Management.
6. Fang, Y., Qureshi, I., Sun, H., McCole, P., Ramsey, E., & Lim, K. H. (2014). Trust, satisfaction, and online repurchase intention. Mis Quarterly, 38(2), 407-A9.
7. Guild, J. (2017). Fintech and the Future of Finance. *Asian Journal of Public Affairs*, 17-20. Haridasan, A. C., & Fernando, A. G. (2018). Online or in-store: Unraveling consumer's channel choice motives. *Journal of Research in Interactive Marketing*, 12(2), 215-230.
8. Pooja Goel (2022). "Fintech Unfolding: Financial Revolution in India", Thailand and The World Economy | Vol. 40, No.2, May - August 2022, pp:41-51
9. Thakor, A. V. (2020). Fintech and banking: What do we know? *Journal of Financial Intermediation, 41*, 100833.