Impact of Fintech Startups on Traditional Banking

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Abstract*: Traditional banking institutions have been impacted by the emergence of Fintech firms in the constantly changing financial landscape. Fintech Startups are newly born highly technologically advanced businesses creating a boom in the banking sector by providing online banking, mobile banking, RTGS and many more services that simplify traditional banking models to a great extent. This paper examines how these quick movers are changing the banking industry, upending traditional wisdom, and spurring creativity. We explore how fintech companies affect traditional banks by analyzing changes in consumer behavior, market competition, and regulatory frameworks using a combination of real-world examples and data analysis. Our goal is to examine the opportunities and difficulties that both traditional financial services industry and fintech entrepreneurs face by comprehending this dynamic interrelation. This research paper will help us in determining if there persists the need for traditional brick and mortar banks*

Keywords: Fintech, Fintech Startups, Traditional Banking

I. INTRODUCTION

"A bank is a financial institution that accepts deposits from the public and creates a demand deposit while simultaneously making loans.[1]". The banking sector in India has a rich and diverse history, evolving over centuries to become one of the main pillars of the country's economy.Traditional banking or retail banking is recognized by the appearances of banks at physical locations with a domestic banking license. This model has been the foundation for the banking field for centuries in India, however, since 1991 technological advancements have helped in its gradual development.

The 20th century witnessed significant developments in the Indian banking sector, including the establishment of the Reserve Bank of India (RBI) in 1935, which became the central banking authority responsible for regulating monetary policy and overseeing the banking system. Followed by the upsurge of digital banking with the widespread adoption of online banking, mobile banking, and contactless payments in the 21st century. "Fintech" or "financial technology" emerged when Citigroup initiated a project titled "Financial Services Technology Consortium," which aims to facilitate technological collaboration in the finance industry. Fintech startups like Paytm, PhonePe challenged existing banks and offered cutting-edge financial services, disrupting traditional banking structures. They were successful in accelerating innovation, heightening competition by providing customer oriented and customer friendly services which led to the descend of traditional banking.

II. OBJECTIVE OF STUDY

As the financial landscape continues to evolve rapidly, driven by technological innovation and changing consumer preferences, it is essential to understand how these dynamics are reshaping the traditional banking sector. This research project aims at investigating the Impact of Fintech Startups on Traditional Banking and the objectives of the same are as stated bellow:

- To investigate how the Fintech Startups have revolutionized the banking sector through innovative technologies, disrupting traditional banking methods and practices and shaping new trends for the customers.
- To understand the continued necessity of the traditional banking services in the financial landscape. exploring the market demands that traditional banks still fulfil despite the rise of digital alternatives.
- To assess whether traditional banking services remain relevant considering the changing consumer preferences and technological advancements.

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- To analyse the continuous development of Fintech Startups despite the inherently higher risk profile when compared to traditional banking.
- Examining strategies for risk management that have enabled the Fintech Startups to thrive in the competitive market.

III. REVIEW OF LITERATURE

The banking history is interesting and reflects evolution in trade and commerce. It also throws light on living style, political and cultural aspects of civilized mankind. Banking in India was generally mature in terms of supply, product range and reach-even though reach in rural India remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks were considered to have clean, strong, and transparent balance sheets relative to other banks in comparable economies in its region (Amol Gajdhane,2012). Traditional Banking methods eventually got replaced with technology and Fintech enabled applications. Fintech competitors are encroaching on the traditional business of banks, even though banks are adapting to the digital world. New competitors can use hard (codifiable) information to erode the traditional relationship between bank and customer, based on soft information (the knowledge gained from bank and customer relationships) (Jean Dermine). The new start - up companies are trying to replace the traditional transaction system with the new, effective methods by applying technology in financial sectors for mobile payments, loans, money transfers and even for asset management (P. Krishna Priya,2019).

RESEARCH QUESTIONS:

- What is the relevance of the presence of traditional banks after upliftment of the Fintech field?
- Why is there a continued necessity of traditional banks when all the services can be provided by modern banking models?
- Will Traditional Banks cease to exist in the future?

IV. RESEARCH METHODOLOGY

Research methodology in the Impact of Fintech on Traditional Banks involves a systematic approach to investigating the impact, effectiveness, and ethical implications of technologically advanced banking methods and models within the finance domain. Here are the key components of research methodology in this area:

1. Research Question Formulation: The first step in research methodology is to formulate clear and specific research questions that address the impact of fintech on traditional banking model. These questions should focus on the specific literature gap found during the literature review.

2. Literature Review: Conducting a comprehensive review of existing literature is essential to identify gaps in knowledge, understand previous research findings, and inform the design of the research study. This involves reviewing academic journals, conference proceedings, white papers, and other relevant sources to gain insights into the current development in the field of banking as well as Fintech.

3. Research Design Selection: Researchers must select an appropriate research design that aligns with the research questions and objectives. This may include experimental studies, observational studies, case studies, or mixed-methods approaches, depending on the nature of the research inquiry and available resources.

4. Sampling Strategy: Researchers need to determine the sampling strategy for selecting participants or data sources for the study. This may involve selecting specific bank employees, finance professionals or students, as well as determining the sample size and sampling techniques such as probability or non - probability sampling.

5. Data Collection Methods: Researchers employ various data collection methods to gather relevant information for their study. This may include collecting data from surveys, questionnaires, interviews of bank employees and finance professionals etc.

6. Data Analysis Techniques: Data analysis involves analysing the collected data to answer the research questions and test hypotheses. This may include the use of SPSS to get clear and accurate outcomes.

7. Interpretation and Reporting: Finally, researchers interpret the findings of their study and report them in a clear, accurate, and transparent manner. This involves discussing the implications of the findings as well as acknowledging any limitations or biases in the study.

Overall, research methodology on this topic involves a rigorous and systematic approach to generating evidence-based insights into the effectiveness, impact, and ethical considerations of Fintech technologies in the banking sector.

V. TYPE OF RESEARCH

The type of research on the topic "The Impact of Fintech Startups on Traditional Banking" is Experimental in nature. Experimental research refers to the scientific method that involves manipulating variables in controlled settings to gather data and information about a subject.

It can be characterized as follows:

1. Controlled Conditions
2. Randomization
3. Manipulation of variables
4. Measurement and Observation
5. Replication and Experimentation

The 2 variables in this report are Fintech Startups and Traditional Banking which act as the "cause" and "effect" to make the research successful.

VI. DATA COLLECTION METHODS

A survey was conducted by circulation of a google form to a collection of working professionals, students, and homemakers. Qualitative research methods were applied which helped in exploratory studies, theory development and an in-depth understanding about the topic. Qualitative research methods serve as a valuable approach for understanding complex phenomena, exploring individuals' perspectives, and delving into the intricacies of human behaviour. It focuses on gathering and interpreting non numerical data such as texts, images, or videos to gain a better understanding of the phenomenon.

Qualitative research methods are generally used in exploring complex social phenomena, understanding human experiences and behaviours, and identifying patterns and themes in data that may not be easily quantifiable.
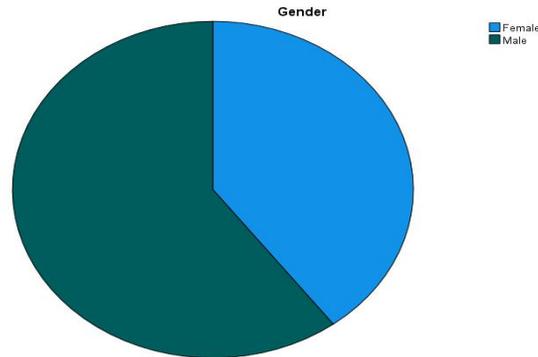
VII. DATA ANALYSIS AND INTERPRETATION

Data was collected with the help of a google form which was circulated among 100 people of various occupations and educational background. An analysis was drawn from the survey conducted which is explained below:

GENDER

Gender

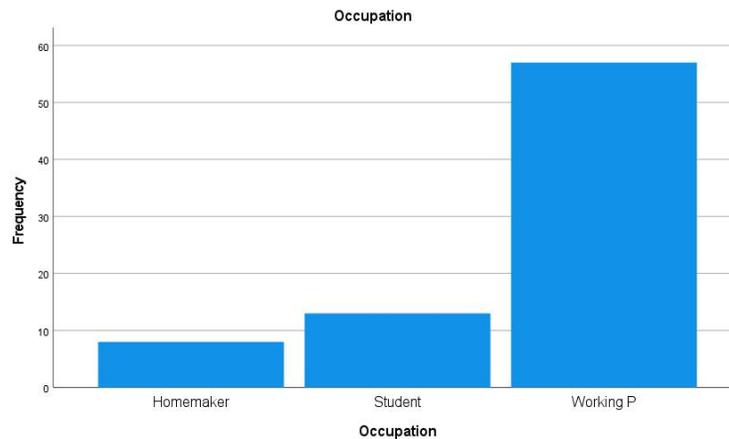|		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	31	39.7	39.7	39.7
	Male	47	60.3	60.3	100.0
	Total	78	100.0	100.0	

Analysis

40% - Females

60% - Males

Out of the 78 respondents, majority males have filled the survey on "The Impact of Fintech Startups on Traditional Banking".

OCCUPATION

Occupation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Homemaker	8	10.3	10.3	10.3
	Student	13	16.7	16.7	26.9
	Working P	57	73.1	73.1	100.0
	Total	78	100.0	100.0	

Analysis

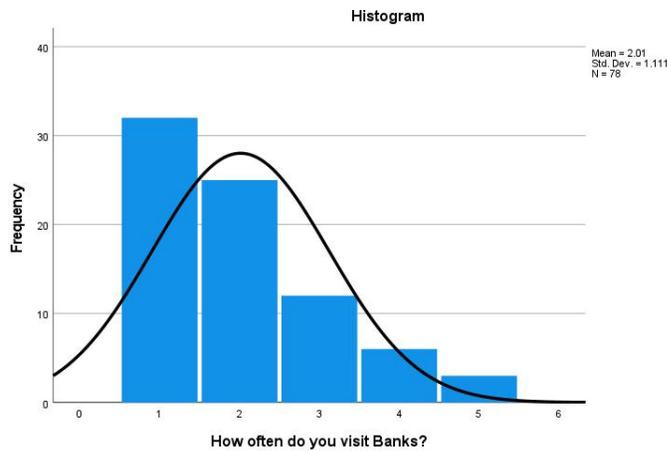10% - Homemaker

17% - Students

73% - Working Professionals

The above formulated bar graph proves that maximum Working Professionals have filled the survey form on "The Impact of Fintech Startups on Traditional Banking."

FREQUENCY OF VISIT TO THE BANKS

How often do you visit Banks?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	32	41.0	41.0	41.0
	2	25	32.1	32.1	73.1
	3	12	15.4	15.4	88.5
	4	6	7.7	7.7	96.2
	5	3	3.8	3.8	100.0
	Total	78	100.0	100.0	

Histogram

Mean = 2.01
Std. Dev. = 1.111
N = 78

Analysis

On a scale of 1 to 5 (1 being the lowest), majority of the population who have filled the survey form for "The Impact of Fintech Startups on Traditional Banking" have responded 1.
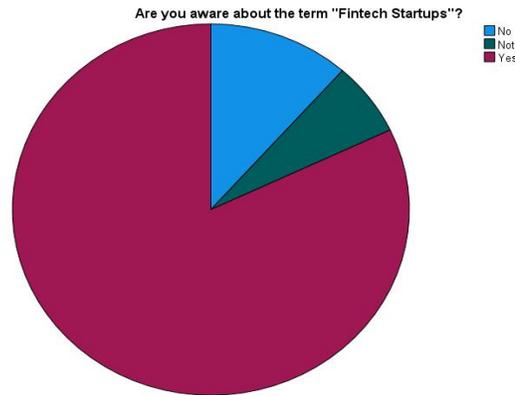
This proves that due to the technological advancements in the banking sector as well as the Fintech field, higher level of comfort and convenience is found in banking services being received through modern banking methods.

Online banking, Mobile banking, NEFT, RTGS, BNPL are all examples of modern Fintech enabled banking services, which are continuously gaining popularity and hence the frequency of visiting banks to receive banking services has dropped tremendously.

AWARENESS ABOUT "FINTECH STARTUPS"

Are you aware about the term "Fintech Startups"?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	9	11.5	11.5	11.5
	Not	5	6.4	6.4	17.9
	Yes	64	82.1	82.1	100.0
	Total	78	100.0	100.0	

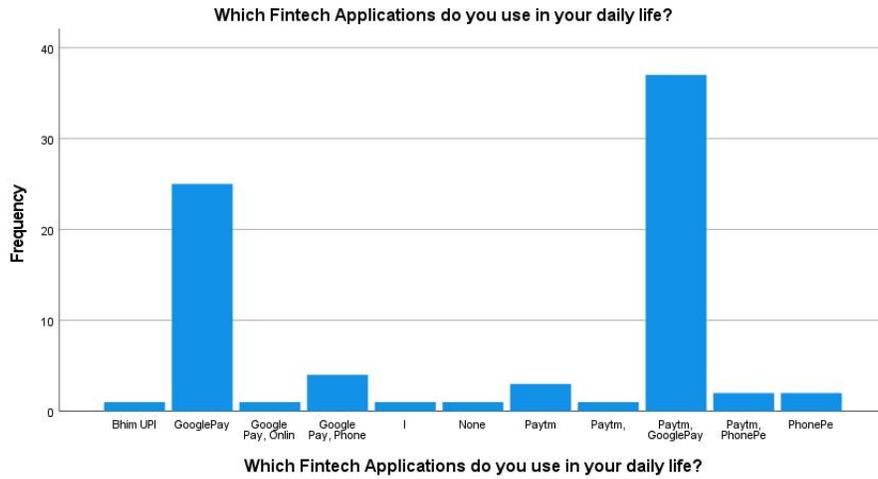Are you aware about the term "Fintech Startups"?

Analysis

Finance Technology has started gaining popularity because of which majority of the respondents are aware about the term "Fintech Startups." People know about fintech startups due to their disruptive solutions in finance, extensive media coverage highlighting their innovations, and their direct impact on consumer banking experiences, offering convenient alternatives to traditional services.

FINTECH APPLICATIONS USED IN DAILY LIFE

Which Fintech Applications do you use in your daily life?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Bhim UPI	1	1.3	1.3	1.3
	Google Pay	25	32.1	32.1	33.3
	Google Pay,online	1	1.3	1.3	34.6
	Google Pay, Phone	4	5.1	5.1	39.7
	I	1	1.3	1.3	41.0
	None	1	1.3	1.3	42.3
	Paytm	3	3.8	3.8	46.2
	Paytm,	1	1.3	1.3	47.4
	Paytm, Google Pay	37	47.4	47.4	94.9
	Paytm, PhonePe	2	2.6	2.6	97.4
	PhonePe	2	2.6	2.6	100.0
	Total	78	100.0	100.0	

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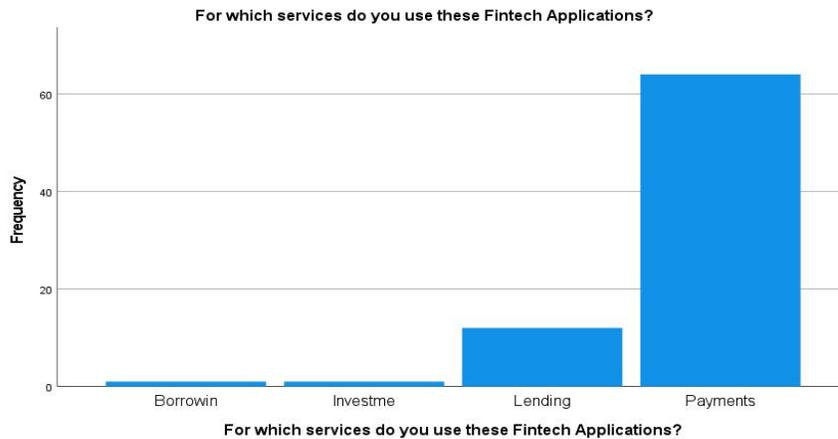Which Fintech Applications do you use in your daily life?

Analysis

Paytm & Google Pay are the most sought of Fintech Applications providing Fintech enabled banking services to the customers because of their user-friendly interfaces and seamless digital transactions. These apps increase the ease of online lending, trading, accepting money etc. because of which traditional banking has suffered a slight decline.

MOST USED SERVICES OFFERED BY FINTECH APPLICATIONS

For which services do you use these Fintech Applications?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Borrowing	1	1.3	1.3	1.3
	Investment	1	1.3	1.3	2.6
	Lending	12	15.4	15.4	17.9
	Payments	64	82.1	82.1	100.0
	Total	78	100.0	100.0	

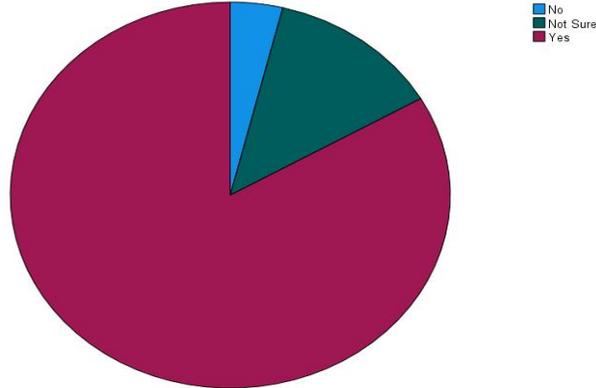For which services do you use these Fintech Applications?

Analysis

Payments from applications built by Fintech Startups are observed to me the most used because of a universal need for secure transaction methods, replacing traditional cash and card payments.

DEPENDENCE ON FINTECH STARTUPS

Do you think people have become highly dependent on services provided by Fintech Startups?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	3	3.8	3.8	3.8
	Not Sure	10	12.8	12.8	16.7
	Yes	65	83.3	83.3	100.0
	Total	78	100.0	100.0	

Do you think people have become highly dependent on services provided by Fintech Startups?

Analysis

83% of the respondents for the survey of "The Impact of Fintech Startups on Traditional Banking" agree with the dependence of the population on Fintech Applications.
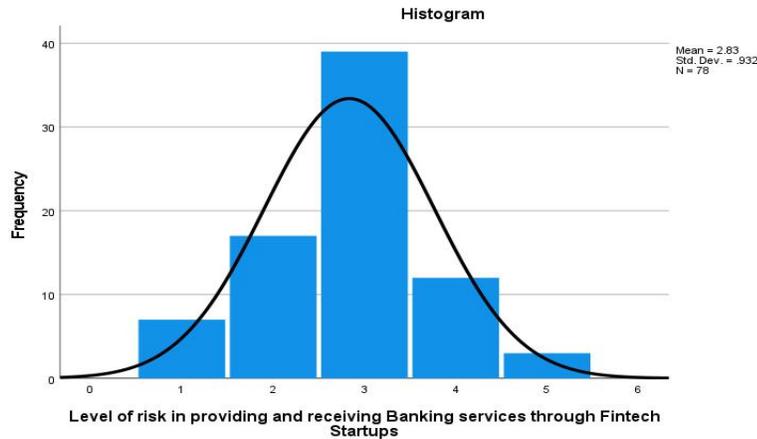
An inference can be drawn stating that, dependence on Fintech Applications has led to the decline in expected need of Traditional Banking.

However, 3% of the respondents do not agree with the fact that people have become highly dependent on the applications developed on the Fintech technology.

RISK IN BANKING SERVICES THROUGH FINTECH STARTUPS

Level of risk in providing and receiving Banking services through Fintech Startups

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	7		9.0	9.0
	2	17	21.8	21.8	30.8
	3	39	50.0	50.0	80.8
	4	12	15.4	15.4	96.2
	5	3	3.8	3.8	100.0
	Total	78	100.0	100.0	

Histogram

Mean = 2.83
Std. Dev. = .932
N = 78

Level of risk in providing and receiving Banking services through Fintech Startups
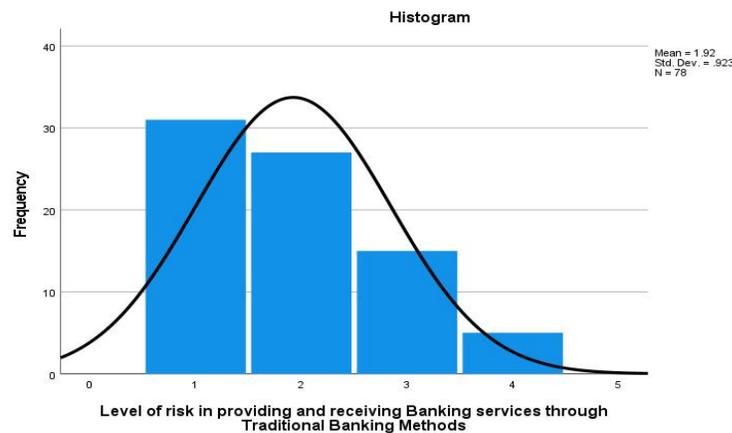
Analysis

According to the responses received, 50% of the population are not sure, if the level of risk is higher in traditional banking or modern banking models.

There is no proof as per the sample selected for data analysis that Fintech Startups are comparatively prone to more risk and are dangerous in contrast to traditional Banking methods.

RISK IN BANKING SERVICES THROUGH TRADITIONAL BANKING

Level of risk in providing and receiving Banking services through Traditional Banking Methods

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	31	39.7	39.7	39.7
	2	27	34.6	34.6	74.4
	3	15	19.2	19.2	93.6
	4	5	6.4	6.4	100.0
	Total	78	100.0	100.0	

Histogram

Mean = 1.92
Std. Dev. = .923
N = 78

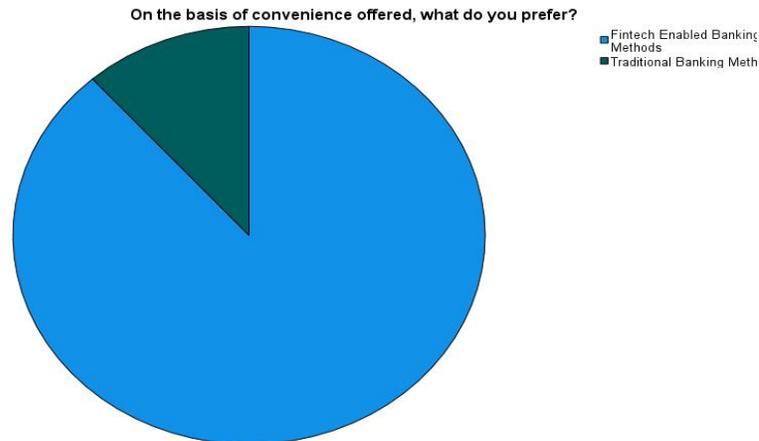Level of risk in providing and receiving Banking services through Traditional Banking Methods

Analysis

Interpretation of the above data, explains that although users are highly dependent on Fintech Startups, they find minimal risk in providing and receiving banking services through Traditional Banking methods.

CONVENIENCE BASED PREFERENCE

Based on convenience offered, what do you prefer?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Fintech Enabled Banking Methods	69	88.5	88.5	88.5
	Traditional Banking Methods	9	11.5	11.5	100.0
	Total	78	100.0	100.0	

On the basis of convenience offered, what do you prefer?
■ Fintech Enabled Banking Methods
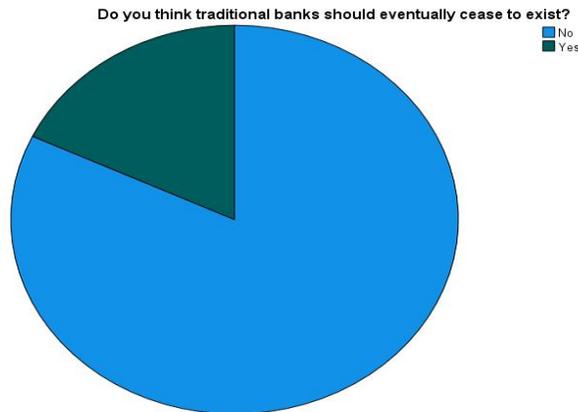■ Traditional Banking Meth

Analysis

Fintech Enabled Banking Methods are proven to be convenient when compared to Traditional Banking Methods.

They provide 24/7 access to financial services through mobile apps and online platforms, eliminating the need for physical branches and lengthy paperwork. Additionally, fintech banks often offer faster account opening processes, streamlined transactions, and personalized digital experiences tailored to individual preferences, enhancing overall user satisfaction and efficiency in managing finances.

DO YOU THINK TRADITIONAL BANKS SHOULD CEASE TO EXIST?

Do you think traditional banks should eventually cease to exist?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	64	82.1	82.1	82.1
	Yes	14	17.9	17.9	100.0
	Total	78	100.0	100.0	

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Do you think traditional banks should eventually cease to exist?

Analysis

According to the responses received, users of the banking services disapprove of complete discontinuation of the traditional banks. While facing competition, traditional banks maintain their relevance through established trust, regulatory stability, and diversified product offerings, ensuring their continued presence alongside fintech innovations.

VIII. LIMITATIONS

Despite its potential benefits, research on the Impact of Fintech Startups on Traditional Banking faces several limitations that can affect the interpretation and generalizability of findings. These limitations stem from various factors, including methodological constraints, data quality issues, and ethical considerations. Here are some common limitations of the research paper formulated.

1. The data collected through interviews and surveys for interpretation was selected based on Non - Probability Sampling method specifically Simple Random Sampling. This creates a Sampling Bias which can limit the external validity of the findings and restrict their applicability to other contexts or populations.
2. The scope of the data collected for interpretation is limited only to India, which acts as a limitation for the research paper on "Impact of Fintech Startups on Traditional Banking."
3. Studies with statistically significant or favorable results are more likely to be published than those with nonsignificant or negative results creating a Publication Bias.
4. Major limitation is the use of SPSS which cannot successfully analyze big data sets.

IX. CONCLUSION

The conclusion of the survey done for the research project on "The Impact of Fintech Startups on Traditional Banking" determines that Traditional Banks will not cease to exist eventually in the future, though the convenience rate and level of comfort offered by Traditional banking methodologies is the least.

Usage of Fintech applications developed by Fintech Startups is higher as compared to Traditional Banking but is also proven to be comparatively riskier.

The literacy rate, fear of fraud and risks, comfort and convenience levels bring this topic to the conclusion that Traditional Banks will not cease to exist in the future.

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APPENDIX

The questions asked in the questionnaire included:

Demographics

1. Name
2. Email Address
3. Contact No.
4. Gender
5. Age
6. Educational Background
7. Occupation

Survey Questions

1. How often do you visit Banks? (On a scale of 1 to 5, 1 being the lowest).
2. Do you prefer visiting banks to tech savvy ways of providing and receiving banking services?
3. Are you aware about the term Fintech Startups?
4. Which Fintech Applications do you use in your daily life?
5. For which services do you use these Fintech Applications?
6. Do you think people have become highly dependent on the financial services provided by Fintech Startups?
7. Level of risk in providing and receiving banking services through Fintech Startups (On a scale of 1 to 5, 5 being the riskiest).
8. Level of risk in providing and receiving banking services through Traditional Banking (On a scale of 1 to 5, 5 being the riskiest).
9. On basis of convenience offered, what would you prefer?
10. Do you think Traditional Banks should eventually cease to exist?
11. Views if any.