

Impact of Fintech on the Profitability of Public and Private Banks in India

Dr.Girish Kumar Painoli¹,Dr.D.Paul Dhinakaran²,Dr.C.Vijai³

¹Professor School of Commerce Studies, JAIN (Deemed to be university)
Bengaluru, gkpainoli@gmail.com

²Assistant Professor, Department of Commerce, JayagovindHarigopalAgarwalAgarsen College,
Chennai, Tamil Nadu

³Assistant Professor, Department of Commerce, St.Peter's Institute of Higher Education and
Research, Tamil Nadu

ABSTRACT

Fintech is financial technology; Fintech provides alternative solutions for banking services and non-banking finance services. Fintech is an emerging concept in the financial industry. The main purpose of this paper Impact of Fintech on the Profitability of Public and Private Sector Banks In India. It explains the evolution of the fintech industry and present financial technology (fintech) in the Indian banking sector. The data has collected by PwS, KPMG, RBI, and SSRN. The paper provides the historical evolution of Fintech and Market size and growth. The fintech services India fastest growing in the world. the fintech services are going to change the habits and behavior of the Indian finance sector.

Keywords:Fintech, Financial Technology, Fintech development, Internal Indicators, banks, profitability

INTRODUCTION

FinTech has the potential to fundamentally transform the financial landscape, provide consumers with a greater variety of financial products at competitive prices, and help financial institutions become more efficient. The rapid and transformational changes brought on by FinTech need to be monitored and evaluated so that regulators and society can keep up with the underlying technological and entrepreneurial flux. This article provides a succinct review of the sector, encompassing its evolution, characteristics and driving factors, both for the world and India. For a sustainable business ecosystem, FinTechs need to bridge the digital divide and promote equitable and broad-based customer participation. (www.rbi.org.in)

Modern banking in India originated in the last decade of the 18th century. Struggling through colonial to post-independence era and from nationalization to liberalization, the fintech industry has witnessed a massive transformation over the last two centuries. The technology-led revolution in the 21st century, government efforts such as UPI and the rising fintech industry has placed the Indian banking ecosystem at the global epicentre. Going by facts, as per a report from May 2019 published by PwC and ASSOCHAM, the adoption rate for fintech in India is the second-highest globally at 57.9%. (Agarwal, M., and Staff, I, 2019)

REVIEW OF LITERATURE

Srinivasan, K., and Rajarajeswari, S.(2021) The purpose of this paper is to discuss issues such as fintech drivers, shortcomings of traditional financial services, and the role of technological advancement. The paper also addresses issues concerning fintech investment and disruption. It refers to financial technology challenges such as investment management, customer management, and regulation. The paper examines the evolution of fintech in the global market over time.Kandpal, V., and Mehrotra, R. (2019) The cashless transaction system is achieving its growth day by day, as soon as the market becomes globalized and the development of the banking sector more and more the people moves from cash to a cashless system. The cashless system is not just a necessity but also a need of today's order. Over the past few years, efforts to drive financial inclusion in India have delivered mixed results. Access to bank accounts has increased dramatically, driven by a strong policy and regulatory push.

Raj, B., and Upadhyay, V.(2020) The term 'FinTech' is a combination of the words 'financial' and 'technology'. It can be broadly defined as technology-enabled financial innovation that could result in new business models, applications, processes or products with an associated material effect on financial markets, institutions and the provision of financial services.Vijai, C.(2019) Fintech is financial technology; Fintech provides alternative solutions for banking services and non-banking finance services. Fintech is an emerging concept in the financial industry. The main purpose of this paper accesses the opportunity and challenges in the fintech industry. It explains the evolution of the fintech industry and present financial technology (fintech) in the Indian finance sector.M, C. S., & R, K.(2019)The evolution of the internet has disrupted or even shattered some of the conventional industries throughout the '90s and the 21st century. Just think about the record industry which has been completely wiped out by online streaming, or about street fashion shops which have been taken over by online retails shops. However, it is believed that the only industry which will be resistant to the change in the finance industry but it has also been proven wrong. It is changing faster than any other industry now.

Chugh, B. (2020) This paper attempts to answer the question, how is fintech regulated in India? The paper first analyses the types of consumer-facing fintech activities that are currently prevalent in India. It identifies fourteen types of consumer-facing fintech activities in India. Together these fourteen types of activities constitute a typology of consumer-facing fintech activities in India. Pant, S. K. (2021) Fintech in simple terms is leveraging technology to deliver banking and financial solutions to individual and enterprise customers. This is one of the fastest-growing sectors in both developed & developing countries with India amongst the top three fintech startups globally. Blockchain, Cryptocurrency, AI, Data Analytics, Machine learning, Big data, Robotics, and Cloud are some of the top technologies leveraged by fintech firms to deliver products. Domestic & global broadband connectivity setup by telecom service providers made available basic infrastructure needed for fintech growth. Guild, J. (2017) The application of

technological innovations to the finance industry (Fintech) has been attracting tens of billions of dollars in venture capital in recent years. Examples of Fintech innovations include digital cash transfer services in Kenya and India, and peer-to-peer lending platforms in China. These services, when developed in tandem with complementary government policies and regulatory frameworks, have the potential to expand financial services to hundreds of millions of people currently lacking access and to break new ground on the way finance is conducted.

OBJECTIVE

To find out whether there is any impact of FinTech on the profitability of Selected public and private banks.

SCOPE AND METHODOLOGY

Issue proclamation The rising effect of FinTech has constrained banks to change their method of working and furthermore deal with the sound contest they need to look from the monetary and non monetary establishments offering monetary items and administrations at serious rates effortlessly. This suggests that financial firms need to put resources into FinTech to guarantee that the quality is accomplished and creative items and administrations are offered to their clients to work with their client driven mission and vision. This will likewise help different new businesses and banking area firms in improving the monetary scene which is a basic need. Each financial substance needs to keep itself refreshed and redesigned with contending principles and prerequisites to face and deal with truly rising rivalry.

SOURCE OF DATA

Data are those which have been already collected by someone else and which have been passed through the statistical processes. In this study data has been taken from various secondary sources like newspapers, internet, books, magazines, reports, publications and journals.

RESEARCH HYPOTHESIS

H₀: There is no impact of Fintech on the profitability of selected public and private banks.

FINTECH

Fintech or Financial Technology is the use of technology in the financial sector to give better and more efficient services to its clients. Simply put, Fintech is the intersection of Finance and technology which in turn, benefits both the sectors. From ATM machines to stock market exchanges, all technological advancements in the finance sector come under the Fintech niche and have been around us for decades now. It is because of this convergence that we are able to get cash without having to go to the bank buy shares without having to carry a load of paperwork

with it, and pay with a touch on our mobile screens (<https://fintrakk.com/>)

Image 1: Sectors in FinTech Industry

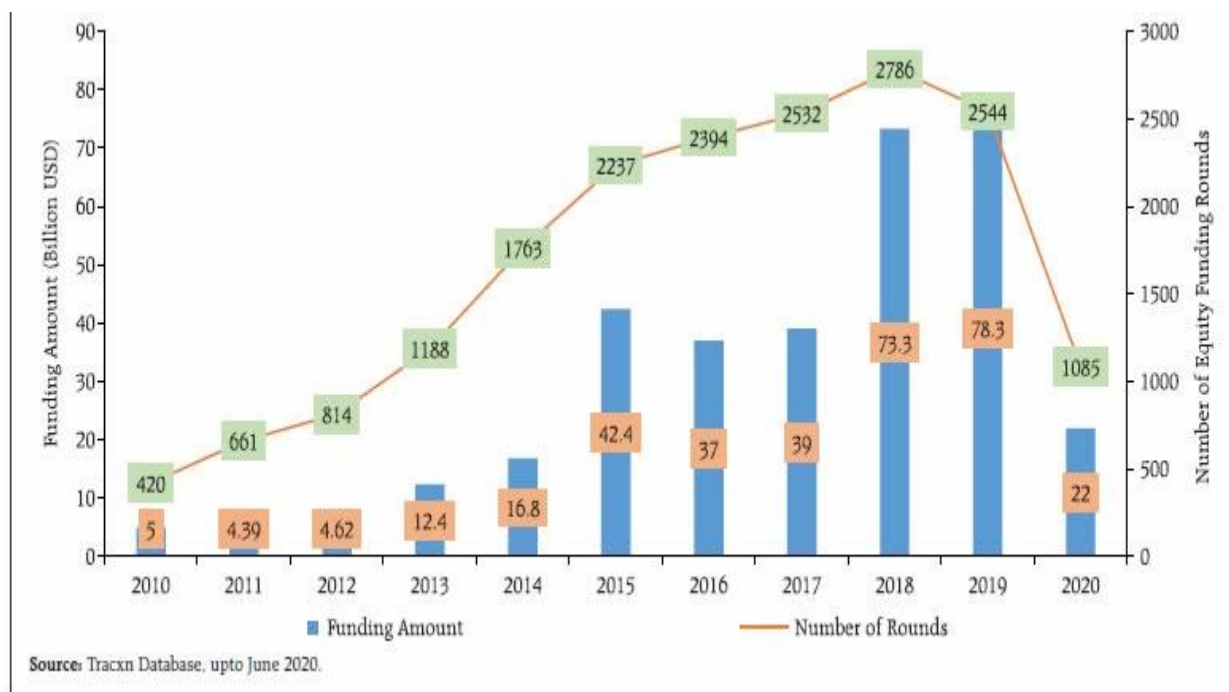


Source: <https://casereads.com/>

GLOBAL FINTECH MARKET SIZE

The global Fintech market reached a value of nearly \$111,240.5 million in 2019, having grown at a compound annual growth rate (CAGR) of 7.9% since 2015, and is expected to grow at a CAGR of 9.2% to nearly \$158,014.3 million by 2023. Also the market is expected to grow to \$191,840.2 million in 2025 at a CAGR of 10.2% and to \$325,311.8 million in 2030 at a CAGR of 11.1%. Growth in the historic period resulted from growth in the emerging markets, increased funding and investments in fintech startups, rising internet penetration, and increase in disposable income. Factors that negatively affected growth in the historic period were stringent government regulations, and lack of human touch. Going forward, increasing popularity of digital payments, increasing investments in blockchain technology due to its high efficiency in data management, exponential growth of e-commerce, and implications of COVID-19 are expected to drive the market. Concerns regarding the security of consumer data are a major factor that could hinder the growth of the Fintech market in the future. (<https://www.thebusinessresearchcompany.com/>)

Chart 1:Global Fintech Investment

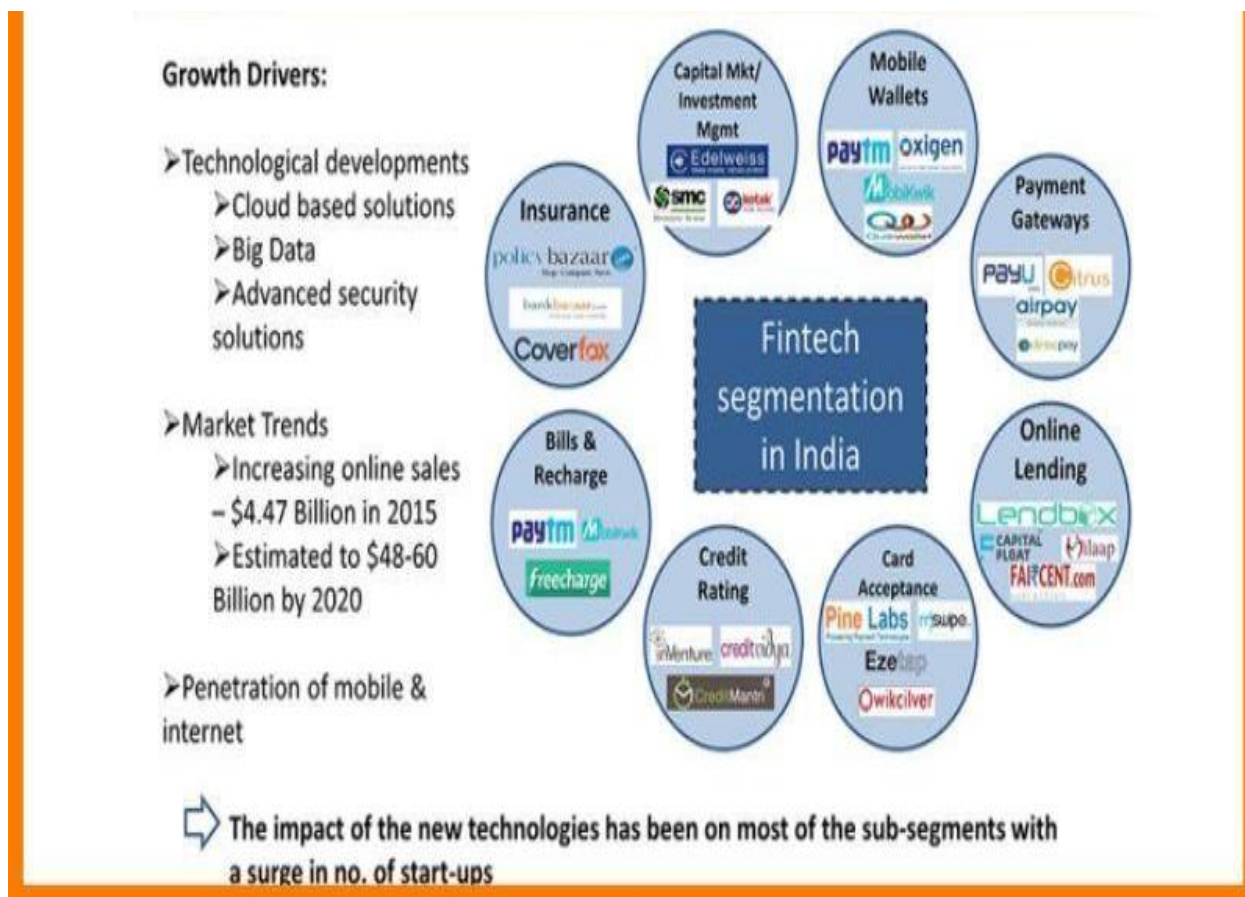


Source: <https://www.rbi.org.in/>

FINTECH INDUSTRY IN INDIA

India is strongly poised to realise a FinTech sector valuation of USD 150-160 billion by 2025, translating to an incremental value-creation potential of approximately USD 100 billion. It is estimated that to meet this ambition, India’s FinTech sector will need investments of USD 20-25 billion over the next five years,” says the report. India’s dynamic FinTech industry has over 2,100 FinTechs of which 67 per cent have been set up over the last 5 years alone. The total valuation of the industry is estimated at USD 50-60 billion. The industry’s growth has been undeterred by the pandemic, as it has seen the emergence of three new Unicorns and five new Soonicorns (USD 500 mn+ valuation) since January 2020. Prateek Roongta, Managing Director and Partner, Boston Consulting Group India said, “We believe India’s FinTechs are at the precipice of significant value-creation of USD 100 billion over the next five years. To actualise this potential, the industry would require investments to the tune of USD 20-25 billion till 2025. Consequently, the number of Indian FinTech Unicorns will more than double over the next few years (Online, F., 2021)

Image 2:Fintech Industry Structure



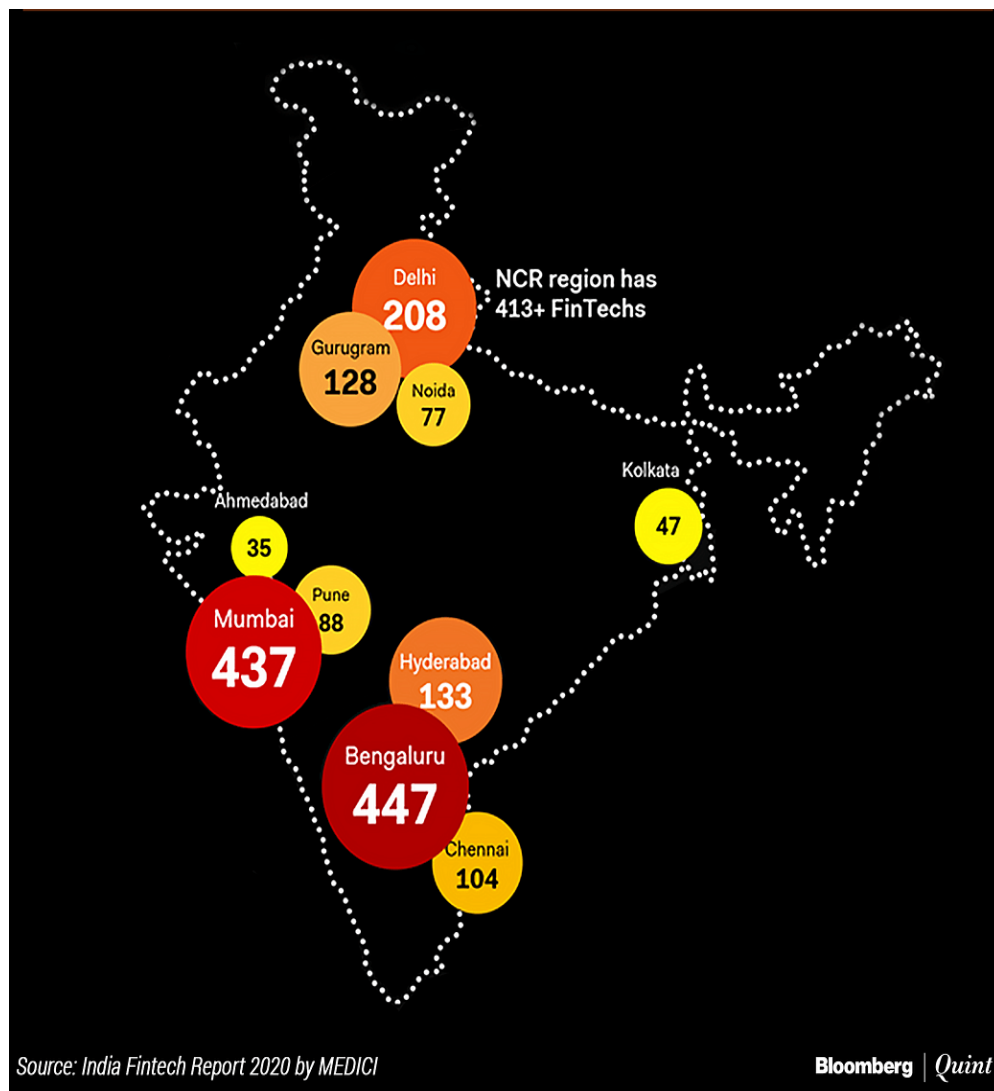
Source:<https://startuptalky.com/fintech-industries-in-india/>

INDIA'S FINTECH STARTUP

Fintech startups brought a significant change in our economy and major changes to how we make payments. The payment system has changed the way we all conduct business. Here are some of the FinTech firms that are making headlines in the finance industry and reaching out to various markets with their unique financial solutions.

India's fintech startup landscape counts 405 companies in payments, 365 in lending, 313 in wealthtech, 173 in personal finance management, 111 in insurtech, and 58 in regtech and cybersecurity, according to a research paper released in July by Medici. Most of these startups are located in Bengaluru (447) and Mumbai (437), which, between them two, represent 40.6% of all of the country's fintech startups headquarters. (<https://fintechnews.sg,2020>)

Image 3: Fintech Hubs top ten cities



ACTIVE AREAS OF FINTECH INNOVATION (Drishti IAS.,2020)

- **Cryptocurrency** and digital cash.
- **Blockchain technology**, that maintains records on a network of computers, but has no central ledger.
- **Smart contracts**, which utilize computer programs (often utilizing the blockchain) to automatically execute contracts between buyers and sellers.
- **Open banking**, a concept that leans on the blockchain and posits that third-parties should have access to bank data to build applications that create a connected network of financial institutions and third-party providers.
- **Insurtech**, which seeks to use technology to simplify and streamline the insurance industry.
- **Regtech**, which seeks to help financial service firms meet industry compliance rules, especially those covering Anti-Money Laundering and Know Your Customer

protocols which fight fraud.

- **Cybersecurity**, given the proliferation of cybercrime and the decentralized storage of data, cybersecurity and fintech are intertwined.

COLLABORATION BETWEEN FINTECHS AND BANKS

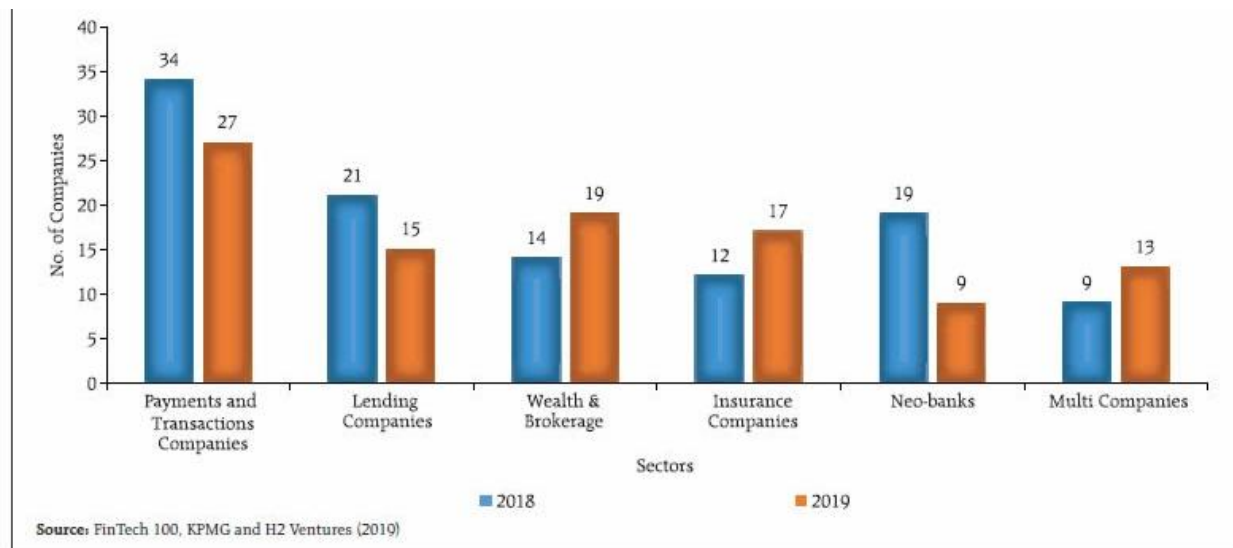
Though digital technology and big data/analytics have been shaking up the financial-services industry, a Mckinsey report released recently states that investors believe fintech start-ups will become a significant force in the future, and that future has arrived. The advent of fintech players had somehow made banks a little bit conventional in the initial years. However, banks are now joining forces with fintech startups to upgrade their existing systems and enable smoother operations to deliver a better experience for consumers. Similarly, by leveraging data analytics, fintechs have encouraged collaboration between numerous financial service providers and enabled them to deliver products and services through an open architecture (Online, F,2021)

Table 1:LARGE FINTECH FUNDING IN INDIA

| Players | Business category | Investment Period | Total Deal value (USD Million) |
|---------------------------------|--|--|--------------------------------|
| Paytm | M-Wallet/Gateway | Feb 2015 | 890.0 |
| Billdesk | Payment Aggregator | Mar 2016; 2012, 2006 | 157.5 |
| Freecharge | M-Wallet/Gateway | Feb 2015; Sep, 2014 | 113.0 |
| Mobikwik | M-Wallet | May 2016; Dec 2015; Apr 2015; 2013; Sep 2012 | 86.9 |
| A leading Indian FinTech portal | Marketplace for loans and insurance products | Jul 2016; Jan 2014; Mar 2011 | 79.0 |
| Policybazaar | Insurance | Apr 2015; May 2014; Apr 2013; Mar 2013; May 2011 | 69.6 |
| Financial Software and Systems | Financial Planning | Oct, 2014 | 57.0 |

Source: KPMG (2016).

Chart 2: Top 100 Finmtechs by business models



Source:<https://www.rbi.org.in/>

RIGHT COMBINATION OF INCENTIVES, POLICIES, AND REGULATION

(<https://www.india-briefing.com/>)

Reserve Bank of India

The RBI has so far promoted the Unified Payments Interface and the Bharat Bill Payments System, as well as digital payments, P2P lending, and the use of automated algorithms to offer financial advice. Moreover, the RBI has granted licenses to 11 fintech entities to establish payment banks that provide savings, deposit, and remittance services.

Government Schemes

Government-led initiatives such as Jan DhanYojana, Digital India program, and National Payments Council of India (NPCI) have provided important enabling platforms for technology innovators. The removal of surcharges on electronic transactions, tax benefits for consumers and businesses using e-payments, and changes in authentication requirements are other examples of the government's efforts to encourage the growth of a fintech ecosystem in India.

Fintech Startup Sector

This is probably the greatest empowering incentive towards the expansion of fintech ventures in India. An encouraging regulatory environment has enabled the launching of more than 125 fintech startups in 2018 alone. As mentioned earlier, several national and international banks and investment groups are also investing in India's fintech startups and funding fintech solutions.

Image 4: Regulatory Bodies in India

Regulatory Bodies in India



Source: <https://casereads.com>

IMPACT OF FINTECH ON BANKING SECTOR

Loans

It has changed the manner in which the banks work and has opened an enormous new market for market-based loaning. With the passage of Fintech organizations, credits and related administrations can be effortlessly profited by purchasers. Elective models are being made to furnish shoppers with capital, regardless of whether it is a business or a person. These organizations are committed to improving client experience, monetary items and rapid endorsement of credits.

Payment Services

Fintech administrations have affected how the installments are made. Presently, installments are made web based utilizing web or through cell phones, mitigating the requirement for dealer accounts. Cash can be moved straightforwardly to the financial balance, which lessens the odds of fakes and exchange charges.

Wealth management

With the ascent of fintech, the manner in which individuals set aside cash, oversee resources, and contribute their capital is evolving. Utilizing the new monetary innovation, these organizations mean to give redid arrangements of dealing with their own abundance and ventures. Fintech programming additionally helps in contrasting choices all together with make the best speculation plans for individual budget.

Remittance Transfers

For quite a long time, banks and individuals have battled with customary settlement benefits that can be costly and confounded. Throughout the long term, fintech organizations have strived to make these inbound and outbound exchanges basic and moderate.

Insurance Services

Getting protection has now become a less perplexing strategy. With modified plans, all should be possible on the web. From the application interaction to the installment of charges intermittently, this paper-broad help has developed with fintech advancements greatly.

Equity-Funding

Through these technologies, new Project Ventures and Business can raise the fund in the form of Equity from a large number of people.

FINTECH CHALLENGES (Cherednichenko, S.,2020)

1. Security issues and data privacy
2. Big data and AI integration
3. Blockchain integration
4. Compliance with government regulations
5. Lack of mobile and tech expertise
6. Growth issues and effective marketing to acquire customers
7. User retention and user experience issues

FUTURE OF FINTECH IN INDIA

In next to no time, India has gotten one of the main countries in Fintech development. The monetary innovation is changing the existences of Indian residents and is a stage forward to the production of computerized economy. In the period of "Advanced India," the Fintech organizations will undoubtedly discover a few chances to underwrite. The Government of India has as of late showed a drive called the 'Jan DhanYojana' plot expects to open a financial balance for each resident. Likewise, trying to promote credit only exchanges, the public authority has offered charge discounts to merchants that acknowledge over half of installment in through electronic installment framework. The digitization of banks will make fintech innovation the fate of banking and monetary areas of India.

CONCLUSION

The eventual fate of Fintech in India will see both vertical and even development. The level development will include existing advances getting more available to a more prominent number

of individuals. The upward development will see the rise of totally new monetary innovations that give individuals new instruments to exchange, contribute, set aside cash, and rebuild their accounts. Both these types of development will take India forward on its excursion to monetary development, and open a great deal of financial development in transit.

REFERENCES

1. Agarwal, M., & Staff, I. (2019, December 16). What Impact Has India's Fintech Ecosystem Created On Banking? Retrieved from <https://inc42.com/features/what-impact-has-indias-fintech-ecosystem-created-on-banking/>
2. Cherednichenko, S. (2020, December 18). 7 Key Challenges Fintech Startup Faces and Their Solutions. Retrieved from <https://www.mobindustry.net/7-key-challenges-fintech-startup-faces-and-their-solutions/#>
3. Chugh, B. (2020, April 06). Financial Regulation of Consumer-Facing Fintech in India: Status Quo and Emerging Concerns. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3520473
4. Drishti IAS. (2020, December 08). FinTech In India. Retrieved from <https://www.drishtias.com/daily-updates/daily-news-editorials/fintech-in-india>
5. Future of Fintech in India - Opportunities and Challenges. (2018, November 29). Retrieved from <https://www.india-briefing.com/news/future-fintech-india-opportunities-challenges-12477.html/>
6. Global FinTech Market Report Opportunities And Strategies. (n.d.). Retrieved from [https://www.thebusinessresearchcompany.com/report/fintech-market#:~:text=Fintech Market Size,nearly \\$158,014.3 million by 2023.](https://www.thebusinessresearchcompany.com/report/fintech-market#:~:text=Fintech Market Size,nearly $158,014.3 million by 2023.)
7. Guild, J. (2017, August 22). Fintech and the Future of Finance. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3021684
8. India's Fintech Industry Growing Strong Despite COVID-19. (2020, October 19). Retrieved from <https://fintechnews.sg/44527/india/indias-fintech-industry-growing-strong-despite-covid-19/>
9. Kandpal, V., & Mehrotra, R. (2019, November 21). Financial Inclusion: The Role of Fintech and Digital Financial Services in India. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3485038
10. M, C. S., & R, K. (2019, November 06). Fintech- an Exploratory Study and Its Applications. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3465076
11. Online, F. (2021, March 03). Fintech adoption: How startups have impacted banking, financial services, insurance in India so far. Retrieved from <https://www.financialexpress.com/industry/sme/cafe-sme/fintech-adoption-how-startups-have-impacted-banking-financial-services-insurance-in-india-so-far/2205519/>
12. Online, F. (2021, March 13). India's FinTech industry valuation estimated at USD 150-160 bn by 2025: Report. Retrieved from

- <https://www.financialexpress.com/industry/indias-fintech-industry-valuation-estimated-at-usd-150-160-bn-by-2025-report/2211960/>
13. Pant, S. K. (2021, March 09). Fintech: Emerging Trends. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3763946
 14. Raj, B., & Upadhyay, V. (2020, May 29). Role of FinTech in Accelerating Financial Inclusion in India. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3591018
 15. Srinivasan, K., & Rajarajeswari, S. (2021, May 13). Financial Technology in Indian Finance Market. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3845245
 16. Top 10 FinTech Companies in India: Most Successful Startups. (n.d.). Retrieved from <https://fintrakk.com/top-10-fintech-companies-in-india-most-successful-startups/>
 17. Vijai, C. (2019, December 02). Fintech in India – Opportunities and Challenges. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3354094
 18. Dr. D. Paul Dhinakaran, “Exports and Imports Stagnation in India During Covid-19- A Review” GIS Business (ISSN: 1430-3663 Vol-15-Issue-4-April-2020).
 19. https://www.researchgate.net/publication/345319766_Investment_in_Technology_Does_It_Proliferate_the_Profitability_and_Performance_of_the_Indian_Banks
 20. Retrieved from https://www.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=19899