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Impact of Fintech on Banking: A Conceptual Study

Dr Lakshmi P[1], Bindhu B J[2] , [3]Krishna V Badiger
[1]Assistant professor, Department of Management, IFIM College, Bangalore,
[2]MBA student, IFIM College Bangalore, Electronic City,
[3]MBA student, IFIM College Bangalore, Electronic City

Abstract:
In this paper the study has been done on the meaning of the fintech. Fintech is the financial technology which is used in the Banking services for the financial transactions. And the companies which comes under the fintech services and how this fintech services has influenced the or has the impact on the banking system and we have also come up with the strategies for bank for coping with this fintech services and we have compared the fintech services of India with the other countries like china and the UK. We have also recorded the changes this fintech services has bought in the country.

Introduction

Fintech is the financial technology which is used in the Banking services for the financial transactions. Like whichever transaction has to be done it can be done through the fintech services. In the olden days we had a traditional method of transaction like, we had to go to the nearby bank later we had given the related information and stand in the que or wait for hours to make our work done. But due to the introduction of the fintech services there has been a lot of changes which has been carried out in the banking sector. Like for ex- if we had to send the money from one account to another we had to go the nearby bank then we have to fill the challen which they will provide then stand in the que and wait for a long time for that particular transaction to be done. But with the fintech services we can send the money from where we are and it will be done within fraction of second. So, this shows how much this fintech services has been useful for us. Fintech sector in India has seen a rapid growth of fintech companies over the

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past 5 years with its market size projected to grow to 2.4 billion dollars in 2020 from 1.2 billion dollars in 2014.

Overall investments in Fintech companies stood at roughly 2 billion dollars in 2018, the number of deals increased to 132 in 2018 from 103 in 2017. Some of the fintech companies are paytm, Bill desk, Pine Labs, Incred, Mobikwik, Razorpay, Lendingkart, coverfox, Bankbazar, policybazar, capital float, Of business, Mswipe, paysense etc.

Fintech is a broad concept that includes a wide variety of activities and industries, from the advancement of emerging technology to the commercialization of financial services. . Payments, clearing and settlement, deposit, lending and capital raising, insurance, investment management, and market support are the five general categories that the Financial Stability Board (Financial Stability Board, 2017) divides Fintech activities. These five categories include almost all of the services offered by conventional financial institutions. New Fintech companies are threatening market shares and profit margins of the incumbents in virtually all business areas. Fintech represents a serious challenge for the traditional banking business model. (Vives, 2017). As the fintech services is increasing rapidly most of the customers prefer this fintech services instead of the traditional banking system. So, this fintech has become the huge threat for the banking sector. The bottom line is that FinTechs improve financial market competition, offer services that conventional financial institutions can't or won't provide, and expand the pool of consumers of those services. However, they will not be able to take on any of the roles that banks already perform. FinTechs, in most situations, provide a more convenient way to do the same old stuff. Banks, on the other hand, are well prepared to embrace technical advances and do old things in different ways.

Objectives

The main objective of this paper is to analyse the impact of fintech services on banking and to frame a conceptual model for effective implementation of fintech services throughout the

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country and also to find out strategies to cope up with the increased competition arises from the emergence of fintech services and recommendations for regulators and banks to ensure reduction of risks associated with development of FinTech.

Literature review

FinTechs provide the same services as banks, perhaps more effectively due to technological advancements, but in a unique and unbundled manner. (Anagnostopoulos, 2018).Crowdfunding platforms, for example, convert savings into loans and investments in the same way that banks do. (Havrylchyk, 2018). Unlike banks, however, the information they use is focused on big data rather than long-term relationships, and service access is only decentralised via the internet platforms; risk and maturity transformation is not carried out; lenders and borrowers or investors and investment opportunities are matched directly. There is disintermediation in this case. These are pure FinTech activities. However, these pure FinTech unbundled activities have limited scope. (Philippon, 2016). For example, it is difficult for platforms to offer to their clients diversified investment opportunities without keeping part of the risk on their books, or otherwise securitizing loan portfolios. The global trends in the development of the FinTech industry have shown that the volume of investments in this area in 2018 was USD 111.8 billion, which is almost 6 times more than in 2013. (Zveryakov, M. 2019).

Fintech is the technology which has been using by the people instead of traditional banking sector. The banking sector of India is witnessing conflicts in all situations. Though it gains the métier as one of the fastest growing large economies in the world, simultaneously, it is also fighting with numerous encounters which are related to resilience & strength. These also comprises of the diverging & complex regulations, disruptive models, legacy systems & technologies, new competitors, & an often a restive customer base with expectations which are increasing. This appears to be restricting investment and growth in the industry. One of the major challenges the banking industry faces is distressed loans stressed assets. High non-performing assets and a slow deleveraging and repairing of corporate balance sheets are seen testing the banking system's resilience. In an effort to harmonies Indian regulatory standards with globally

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accepted norms, the RBI recently launched a revised framework. The move puts the Indian regulatory framework for stressed assets on par with the international norms. The financial services industry in India is moving towards digitisation, driven by a shift in expectations of consumers who prefer more personalised services. Consumer expectations are changing primarily because of the increasing penetration of smartphones and internet. This has led to a rapid rise in the financial technology (FinTech) industry in India. Financial services in India are moving from the traditional 'one size fits all' approach to a more personalised service approach. Further, the Government of India and regulators led various initiatives for technology-enabled inclusion. FinTechs play an important role in this movement. The adoption of FinTechs' products among customers has increased significantly as they provide personalised services and superior customer experience via digital channels. This fintech services have the positive impact on the economy and even on the banking sector. Everyone prefers the fintech services than the traditional services which include too many stages for the work to be done. So as per me the fintech has the positive impact on the banking sector. As the growing technology the banking sector is also preferring this services even the banks are adopting this new technology into their banking services even for them this fintech services has come down the huge burden which is on the banking sector. The banking sector has the huge advantage due to the introduction of this Fintech services because even their work has become easy.

Analyses of impact of fintech services on banking

Growing importance of the technologies and innovations changed the complete banking systems in India and as well as all over the world. Now a days financial technologies (Fintech) have become the most integral part of the banking system and banks has started to compete beyond the financial services that is competing with the non-financial services like Payment service. Some of the members see the boom of fintech services as threat to the traditional banking system. And others believe the boom in fintech services as the opportunities as it provides the more flexibility to the banking system. (Inna Romānova, Marina Kudinska 2016).

The main developments of the fintech service application are lending, financial advising, payments system and insurance. Through all this fintech has the potential to lower the

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intermediation cost and broadens the access to financial services. Peer to peer (P2P) lending platforms provide the credit without the intermediation of banks where the companies or individuals will invest in small business, this has become famous in the US. But banks as well as the MasterCard still dominate the market for payment transactions, but payment innovation often comes from nonbanks like Google, phone pay etc. it is worth that mobile banking system has the great impact on the banking system.

Impact of fintech on banking market structure;

Despite the fact that bank system is adopting the new technologies fintech competitors are encroaching on the traditional business of banks. New competitors are able to use the codifiable information to erase the traditional relationship between customer and bank based on the knowledge gained by the customer and bank relationship. But in order to avoid the compliance cost most of the new entrant banks will ask for the banking license. Traditional banks mostly focus on the product whereas fintech will focus on the customers. True disruption may come from the full-scale entry of top digital internet companies. Actually, companies such as Amazon, Apple or Google are already active in fintech, but have not entered the market in a resolute way. Their potential is very large because they have access to massive amounts of customer data and they may control the interface with them when it comes to financial services.

In summary, fintech has a large and potentially welfare-enhancing disruptive capability. However, in order for the new technology to deliver the benefits for consumers and firms without endangering financial stability, regulation needs to rise to the challenge.

A conceptual framework for fintech innovation

The different areas that fintech has which is considered as “fintech ecosystem”. This fintech ecosystem is described to understand the landscape of fintech innovations. Fintech ecosystem is the different areas in financial services and functional areas like risk management, regulations, and funding. And as well as the technologies which are driven by the innovations in financial services. This are referred to fintech ecosystem. The first is payment technology and other important area is digital banking, Lending, there is also area which is referred as a InsurTech which is the application technology for insurance industry and the last fintech ecosystem is

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PropTech which is short for property technologies. Which also includes financial regulations Funding Valuation, Distributed Ledger Technology / Blockchain, IoT (Internet - of - Things), AI (Artificial Intelligence), Big Data Analytics, Cybersecurity Open Source Computing / API's Cloud Computing etc.

How financial institutions are embracing fintech to evolve and grow.

The financial services industry is undergoing a paradigm shift. Emerging technologies like artificial intelligence (AI), machine learning, the Internet of Things (IoT) and blockchain, combined with ever-changing customer expectations and preferences, are redefining how financial institutions deliver services.

1. **The fintech imperative**
   The great swift in evolution of fintech services has made the traditional banking system to face the new reality. The services or the product which are provided by the financial institutions are no longer in option in this new digital world. The competitors are evolving too not only the fintech services even the large tech giants and other global companies are knocking the door of this financial markets by providing the financial services the customer wants.
   Consumers expect more from their financial services providers Over the past 5 to 10 years, there has been a rapid shift in how consumers view financial services companies. Many consumers want financial institutions that are able to respond quickly to their needs with products tailor-made to them. The challenge of competing priorities Financial institutions have long felt the pressure to both modernize their infrastructure and respond to changing customer demands and expectations. The increasing pressure from both customers and organizational stakeholders, combined with a proliferation of technology options and competition from maturing fintech, has moved fintech to the top of the growth agenda for leading financial institutions. Executives at these organizations realize that sticking to the status quo is likely the greatest risk to the future success of their business.

2. **Building the right foundations.**
   Achieving business success typically starts by developing a focused and clear business strategy. What financial institutions have learned is that getting the most value from fintech requires the same degree of focus and attention. It’s very difficult to make the most of fintech opportunities organization-wide without clearly assessing where a financial institution is today and where it wants to be in the future.

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The challenge typically lies in what comes first. Technology is the source of innovation for many financial institutions, but it is easy to get wrapped up in the excitement of a new technology and forget about making sure it can be used to benefit customers and organizations. It's not unusual to find new technologies being championed within a financial institution because they are interesting and compelling. People will try to find problems for the technology to solve, rather than starting with a problem and looking for a viable solution.

3. **Fintech integrating**

Financial institutions are addressing fintech on a continuum. Some are adopting a defensive approach, viewing it as a means to protect what they already have. Others are on the attack, looking to grow. This means financial services companies are choosing to build fintech solutions in-house, sourcing third-party fintech solutions, partnering with fintech companies in order to develop and tailor specific solutions or acquiring fintech companies outright to accelerate their move into the space. There is no one right way to proceed. Rather, financial institutions are exploring all options along the continuum simultaneously with an eye to the future and business objectives.

- **Building:** option allows organizations to define the scope of their innovation initiatives, design tailor-made products and create buy-in among users over the course of the innovation initiative. However, very few financial institutions have the time, resources, capacity and agility to be able to focus on fintech innovation efficiently and effectively. Sourcing many fintech companies are looking to sell or license their technologies to financial institutions. The benefits include: reduced cost of innovation and access to established solutions, talent and innovation capacity.
- **White-labeling:** for financial institutions looking for custom solutions, there are a growing number of fintech and other technology companies with the capacity to white label a product or service for them that they can then brand and sell.
- **Partnering:** over the past 2 years, there has been a distinct trend toward collaboration and partnership with respect to how financial institutions approach fintech opportunities and challenges. The resource intensity of the build approach and the challenges of procurement (integration, culture misalignment, risk management, the time needed to achieve synergies) are likely the reasons many financial institutions have focused instead on a partnership or collaboration model for fintech innovation — a trend expected to accelerate in the future.

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4. The road ahead

The past 5 years have introduced a level of disruption never experienced before. The ability of emerging fintech companies to quickly gain traction in the global financial services market is forcing financial institutions to evolve to remain competitive. They must adopt the customer-centered innovations and back-office solutions that will help them provide a more tailored, value-added customer experience**.**

Financial institutions that take the time to define their fintech strategy and align it to their business goals will be best positioned to help forge the future of financial services.

Fintech (short for financial technology) is regarded as a recent phenomenon, but the use of technology to assist financial services is far from new. Financial services is an industry that pioneered credit cards in the 1950s, internet banking in the 1990s, and contactless payment technology after the millennium. Yet, fintech's place in the public conscience has really taken off in the past three years:

- This word has gained traction as startups outside of the financial services industry have begun to play a larger role in the ecosystem. This emergence is the result of three major trends:
- **Technology:** Financial services have historically needed fixed assets to scale, which has served as a barrier to entry for newcomers. Upstarts can now operate complex operations remotely thanks to technical advances. Neobanks, for example, depend solely on technical infrastructure to work. UK-based Revolut has amassed 1.5 million customers without any kind of live customer-facing function.
- **Customers:** Customers are seeking more from their banking services in the wake of the 2008 financial crisis and other scandals. Consumers can now scrutinise their providers more closely thanks to technology, and upstarts are using it to deliver safer and more reliable customer support, free of the constraints of outdated technology. **Regulation:** Increased regulatory oversight on banks post-2008 is estimated to cost the six largest US institutions $70 billion per year. Citigroup alone employs 30,000 within its compliance division. Aside from complying with regulations, restrictions on lending have both increased the fully-loaded borrowing costs to consumers and diminished banks' ability to offer it. This has allowed startups who, because they are not de facto banks, step in and offer compelling alternatives.

The narrative that the fintech landscape suggests is that startups are using technology to disrupt incumbent banks. Yet, there is no reason to suggest that banks are facing their own Kodak or Blockbuster Video moment. They still remain widely used, profitable, and cash-rich businesses. What this article will address, though, is how they can respond

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better to this "fintech v/s banks" movement as, in my opinion, their response so far has been suboptimal..

Strategies for banking coping with the fintech services:

1. **Fight or Flight**

   The figure below shows a framework by MIT Sloan that categorizes responses to disruptive innovation, two factors affect the incumbent's response, motivation, and ability based on current actions, banks sit in the top left quadrant. They have displayed low motivation despite their high ability to respond to fintech. They have the wealth and staff numbers to tackle the disruptive potential of fintech startups, but their responses have been either dismissive or passive. Regarding the former, not a week goes by without a financial services chief scoffing at Bitcoin or robo investing. In terms of being passive, banks have mostly engaged with fintech through soft-touch accelerators or direct equity investing which, in its purity, is a form of outsourced innovation.

In my view, if a bank really wants to respond to the fintech movement constructively, they need to increase their motivation and either fight or flight. By fight, I am referring to ripping up the norms of the industry and trying something completely different. The rails of banking are old and confusing; manual and institutionalized processes that were built up in the pre-internet age have formed around them and become the status quo. These have increased the prices and bureaucracy that consumers face. Even now, only 7% of credit products in banks can be handled digitally from end to end.

One advantage that banks hold over fintech startups is that they know the keys to these rails through historical processs knowledge. Improving them will provide banks with efficiency gains that can be passed through to consumers via better pricing. A better service will also win transaction rents from fintech startups, who will use the service. Considering that upstarts are following a mentality of "unbundling" the bank, it's reasonable to suggest that they would be content to rent a newer form of infrastructure, so long as it's malleable, transparent, fast and provides good value.

With their vast financial resources and technological prowess, this is achievable for banks. Although it's a risk y move, firstly for the cost and secondly for the "prisoner's dilemma" aspect of going against peers and trying something different. If they do not participate in this change, someone else will and the industry will eventually move to new rails.

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Flight

Before they went full-service and became conglomerates with investment, commercial and retail arms, banks were good at what they did. Sound credit practices grew from branch managers granting mortgages to local customers that they knew and saw at regular occurrences.

A contrarian response to fintech, but one that is worth consideration, is that banks acknowledge the inevitability of the unbundling of financial services and retreat back to their roots—using their infrastructure to be "enablers" of financial services, such as custodians for deposits, and also applying their scale to revert to the form of human interaction which is being shunned by fintech. One example of this focus is Metro Bank, a new UK bank that opened in 2010 with a simple portfolio of services and the first new bank in 100 years to offer branch infrastructure. It has since IPOed and opened 41 branches.

Retreating from the empire-building of conglomerate banking is a hard pill to swallow. If the unbundling of financial services does succeed, conglomerates will represent bloated generalists in the system. Spinning off consumer banks and the return of investment bankers back to the boutique model will afford each entity the time to focus on what they do best and survive through specialization.

2. Reasses the Goals of Investing in Fintech Startups

I referred earlier to the outsourced innovation aspect of financial services' current response to fintech; 63% of them have set up accelerators or startup venture funds. US banks alone have invested a staggering $3.6 billion in 56 different fintech startups. Conversely, only 7% of banks have done the hardest job of setting up their own fintech R&D offshoot to create proprietary solutions:

Some could call investing in the enemy a Machiavellian touch of genius, but it could also be called overly-passive. For all the wealth and resources that banks have, to be relying on fledgling startups to drive the innovation of their industry strikes me as misguided. Likewise, accelerators are easy to set up, but as data shows, have varying degrees of success. Despite the PR karma and confirmation bias of "being involved" through running a fintech accelerator, operating it with an internally-lead syllabus could skew the insight the startups receive, compared to an independent program.

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3. Change the Cost Culture of Cross-Subsidization

A focal moment in banking is the yearly budgeting process, in terms of defining revenue targets and, equally, costs that will be apportioned to divisions. Everything from rent to the flowers in reception needs to be shared out. While egalitarian cost accounting methods bring transparency to this process, continually rising costs place more pressure on short-term goals of reaching yearly targets at the expense of long-term planning. Cost increases arrive all the time—Brexit alone is estimated to increase bank costs by 4%.

Cross-subsidization is evident in products too, whereby some products have a higher return on investment than others for strategic reasons. There is a reason why student bank accounts come with large overdrafts and free concert tickets—it's because banks want to attract new customers who, ten years down the line, will be purchasing houses with lucrative long-term mortgages.

Banks operate in vertical silos where each team performs specific functions and, if a deal requires multiple services, multiple teams are involved. Because each team has its own cost structures and profit targets, they each require their "piece of the pie". A 2017 leak received by the Guardian of a Banco Santander report demonstrates this for money transfer, where three teams in Santander combined to earn €585 million in annual revenue from the service. When compared to the transparent and cheaper fees from Transferwise, it shows a stark contrast:

For large banking operations, you would expect cost economies of scale to kick in and synergies to coexist between teams, I would argue that this is not the case. The nuanced nature of banking means that uniform rollouts of bank-wide programs, such as the use of specific software, or even graduate training programs that take a "one size fits all" approach, may not be suitable for teams in their specific needs. Likewise, the siloed nature of budgets and targets means that synergies that sound good on paper often don't transpire in reality.

4. Align Compensation to Important Emerging Skill Areas

In 2007, almost 40% of MBA graduates from top US schools were entering the finance industry. These numbers have now shrunk to below 30% and the tech industry is poised to become the most popular sectorial choice. Various banking scandals have contributed to banks losing their veneer and, despite still being a very well-paid industry, some of the larger technology companies now pay more to graduates:

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Stock options are regularly offered within banking compensation, but it can be argued that stock options in the tech industry offer greater potential upside. For example, Amazon has a price-earnings ratio of 256, 11 times higher than that of Goldman Sachs.

Targeted wage increases and a more compelling bonus plan could quickly rectify this. In addition, decentralized teams and longer-term budgeting may help to stem the qualitative reasons for talented staff leaving for the intellectual rigours of a tech company.

There are a number of fintech business models which are already popular among consumers, banks, SMEs and corporates among others. The list includes:

1. Payment Gateways
2. Digital Wallets
3. Digital Insurance/ InsurTech
4. Digital lending
5. PoS
6. Payments banks
7. Tech companies in financial services
8. Transaction delivery
9. Neo banking
10. Alternative credit scoring
11. Alternative insurance underwriting
12. Wealthtech
13. API-based bank-as-a-service platforms

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Indian FinTechs have contrasting dynamics when compared to other countries

The Indian FinTech market has witnessed significant moments in the last five years and the growth has been on an upward trajectory. According to a report by PwC, there were around 2000 FinTechs founded in India between January 2013 and October 2018.

Following are the comparisons of the fintech markets of India with other countries:
Firstly India compared with the china, In 2018 India ranked the 2nd place in globally on the Fintech adoption, with the % of fintech users at 57.9%. Although India's adoption rate lags behind China's 83.5%, it has surpassed that of developed countries, which stands at 34.2%. The Investments into FinTech companies in China, including venture capital, private equity and mergers, amounted to US$2.5 billion across 32 deals in the first half of 2019, down from the US$16.3 billion across 77 deals seen in the first half of 2018. Coming on to India, according to a report by IBS Intelligence, about 11 FinTech start-ups managed to raise around $ 365 million in July 2019 that brings up the total investments coming into this sector at $ 1.16 billion, which is almost equal to the entire year's FinTech funding at $ 1.4 billion in 2018.

Secondly India compared to UK, according to EY report the UK FinTechs are planning to expand internationally with Asia & Continental Europe seen as the two most important regions. Since the 2017 Census, continental Europe has remained the most important destination, though Asia has now overtaken North America. The report has stated that the average total investment raised by firms grew from £15 million in 2017 to more than £20 million in 2019 a increase of 33%. When it comes to Indian FinTechs it focused on tapping the unbanked sectors, trying to create credit opportunities for the new customers who do not have access to traditional banking. However, this is not the case with the FinTechs in the UK, where the target audience is primarily the existing customers, who are already availing their services.

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Bottom line

As reported on ETMarkets, Howard Davies, Chairman, Royal Bank of Scotland said, "The FinTechs are trying to acquire customers and the banks are trying to acquire their technology and there would not be one answer to that. In different areas and in different countries with different banks, some will lose and some will win. But that is where the competitive dynamic is. What banks have got to do is to harness these new technologies to their existing customer base and be able to reduce their cost of delivery, which is going to be a challenge."

Discussion

As per the above information collected we can see that fintech as taken over the traditional banking system. It has given the positive impact on the society and for the banking system too. So this fintech services has given the easy access to our banking system. So everyone prefers this fintech services this has become the used all over India. And everyone prefers this over the traditional banking system. Even the banks are adapting to the changes and using the all kind of technology in their system. In this fintech services we will have the more alternatives and the cost is also less and this fintech services will give the maximum security so there is no need to worry about the security of our information. And one of the main advantage of this fintech services is its speed and the convenience to use and its transparency to use. This fintech services also help to the economic growth. Small business people prefer the fintech because it provides all kinds of services like capital, loans, financial adviser etc. fintech services is most important in this era because of its unique capability to improve the daily lives of the people.

Conclusion

To conclude this paper it has been seen fintech services as the positive to the society. FinTechs provide indeed the same services as banks, possibly more efficiently because of technologies, but in a different and unbundled way. For example, like banks, crowdfunding platforms transform savings into loans and investments. Yet, differently from banks, the information they use is based on big data not on long term relationships; access to services is only decentralized through

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internet platforms; risk and maturity transformation is not carried out; lenders and borrowers or investors and investment opportunities are matched directly. There is disintermediation in this case. These are pure FinTech activities. However, these pure FinTech unbundled activities have limited scope. For example, it is difficult for platforms to offer to their clients diversified investment opportunities without keeping part of the risk on their books, or otherwise securitizing loan portfolios.

Technology has enabled customers to scrutinise their providers more closely, and upstarts are using it to offer safer and more efficient customer service, free of the constraints of obsolete technology

Whether it's creating a common language between institutional banks and small businesses so they can access financial services, or facilitating quick sachet loan disbursals at moderate interest rates, fintechs today are powering various pieces of important machinery: the Indian economy. 2020 was a good year for the fintech industry: online brokerages gained momentum, enabling mom-and-pop investors to buy equities, IPOs, ETFs, mutual funds; UPI payments skyrocketed; more and more people switched to online banking in a bid to socially distance themselves and keep themselves safe; and insurance buys increased.

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