Emergent Role Of Fintech In Financial Landscape: A Perspective On Banking Industry

Dr. Mohit Kumar, Prof. Supriya Agrawal, Prof. Fatima Aliza

Abstract— FinTech has been a pivotal force behind most of the transition taking place in the financial arena in India and worldwide in last few years. It is potentially one of the game changing disruptive forces which have transformed the financial ecosystem leveraging the throughput of banking and financial services. The advent of financial technology has given much needed impetus to the otherwise struggling financial institutions, which have been able to cut down a lot on redundant costs. Resultantly, the institutions have been able to maximise operating efficiency and reduce costs to a large extent. The technology backed financial landscape has been improved over a period of time with results being evident in its profitability and other allied ratios. This research paper discusses a probable role which financial technology has played in the profitability of the financial institutions specifically banks in Indian context.

Index Terms— Banking Sector, FinTech, Financial Institutions, Financial Technology Financial Technology, Operating Efficiency, Profitability.

1 INTRODUCTION

Over a period of time, the growth and development of financial sector has played an instrumental role in sustaining the economic engines on the right track. The technology has been one of the key enablers in the financial system unlocking its potential in a major sense overhauling the redundant traditional financial activities and bringing in a system of agile and much needed flexible systems. The traditional systems in financial sector saw the growing inefficiencies in terms of bad debts, and asset mismanagement. This paved the way for a number of opportunities which could overcome the limitations of the system and gave rise to technology led financial advancements. There has then been a consistent rise in the Financial technologies and efforts have been made ever since to create synergies between financial institutions and financial technologies to leverage the existing systems using shared resources. A new vision thus has been created intending to strengthen financial setup in the country. The paper is an attempt in a similar direction whereby it puts in a fresh perspective as to how the financial technology has been able to have an impact on banking sector whereby the financial technology has proved to be a boon. FinTech basically is a way to use and apply the same in design and delivery of financial products and services. This became an imperative in a modern day financial world where huge volume and value of transactions involving cash were taking place. Hence, it was necessary to create a system to keep a track of all the transactions and financial technology eased the requirement with a system and a practice that could be replicated and duplicated with accuracy promised like never before.

This revolutionised the way finance world operated and also transformed the banking sector dynamics. Technology has had a role to play in the overall shift in the mindset and perspectives towards overall products and services creation. The finance including banking sector has underwent a sea of change due to infusion of technology. The technology backed financial products and services have gained widespread acceptance and also have been able to scale up given the technology factor. The implications of FinTech in banking industry are immense and can’t go unnoticed. FinTech has experienced tangential growth in the country impacting the financial kaleidoscope. Each and every facet in the financial system where technology has reached has also undergone some transformation which includes from opening of bank account from the comfort of your house to make a fund transfer seamlessly from anywhere and everywhere at most odd hours regardless of banking holidays. There has been a huge level of financial support in building up a robust financial technology system. The massive support in terms of only is an indicator of the thought process behind it. Over a period of time, the advent of financial technology has been able to create better return on investments in projects in India as compared to the world around. The number of firms and businesses impacted by financial technology has been huge and the unprecedented growth in the FinTech can be seen due to factors such as the consistent backing by the government which has introduced a number of policies such as Startup India and also provided massive support to indigenous technological systems in terms of tax cuts to ensure that the focus shift takes place in this sector. Further, the presence of digital framework and systems have also meant that there has been a radical and seamless shift from conventional traditional systems to technological ones which were massive breakthroughs in the processes and functions across. The regulators have also been able to take an optimistic view of the overall dynamics of the system and the vision of the government with a view to leverage the technology for enhanced output and efficiency. This meant that a balance needs to be maintained between both sides of the coin where the promotion of the economy is a factor to be taken care of along with ensuring that the flexibility or the ease is not
compromised with dishonest practices and integrity remains a certainty. Another important factor which scaled up the engines of financial technology was the increase in demographic dividend in youngsters who preferred using technologically advanced gadgets and systems over conventional ones. Further, they prefer speed, convenience and execution and nothing can be possible without technologically advanced systems in financial system where billions can be transferred in seconds and with least hassles and a lot of ease. One of the reasons which can be attributed to the fast paced digital transformation is also the fact that the current banking sector was slow and sluggish and was not able to plug in holes of inefficiency such as errors of time, volume and accuracy. The audit and verification became humongous and needed to be taken care of which gave place to FinTech. The new systems provided a place for instantaneous checks and also managed to create a system which was complete in itself. It was able to promise and deliver financial products and services to the demanding customers across the segments of the society. The support has been unflinching from various quarters of the planning providing with much needed governmental and regulatory support as well as infrastructural support too. The presence of FinTech is a marked change in the overall financial space in Banking and financial services industry and it has been able to carve out niche over a short span of time. This also has led to rise in new products and services altogether in the product portfolio of banks and financial players whereby FinTech is playing the role of facilitator and making sure that the innovative products and services are not only useful but also viable over a longer period of time. With the increasing use of financial technology, there has been also an equal emphasis on gradual phasing of older financial products and services which have led to redundancy and inefficiency. The role of technology now has a strong grip in the financial systems and nothing can be visualised without the technology backing. It has been able to provide important space to new emergent players in the domain where they have been able to compete and complement wherever possible and essential weeding out errors and inaccuracies. This is a classic example of disruption in financial arena where metamorphosis can be seen across all levels of financial products, financial institutions, financial services, financial markets. The firms deploying FinTech are more customer centric and focussed bringing out plethora of products and services customised to meet the requirements of customers. They rely on customer satisfaction and more focussed product selling as compared to other financial institutions which are traditionally operating. One of the breakthroughs recently that has transformed the financial lifestyle is the introduction and ever increasing usage of digital wallets after demonetisation. This has further changed the equations existing in financial setup and further has influenced the customer behaviour leading to transformational changes in financial behaviour rather than transitional ones. The older traditional setup in banks also posed a huge challenge in terms of its acceptability by its employees and further the susceptibility to frauds. The solutions provided by FinTech ensure that the all sections receive the financial services including those who remained out of the purview from a long time. The acceptance and usage of the FinTech enabled services and products have increased penetration in the economy.

2 OBJECTIVE

2.1 Review Stage

This paper has been written with the objective of finding out any impact of FinTech on profitability of selected banks.

3. SCOPE AND METHODOLOGY

3.1 Problem statement

The rising impact of FinTech has compelled banks to change their way of working and also manage the healthy competition they have to face from the financial and non financial institutions offering financial products and services at competitive rates with seamless ease. This implies that banking firms need to invest in FinTech to ensure that the quality is achieved and innovative products and services are offered to their customers to facilitate their customer centric mission and vision. This will also help various start-ups and banking sector firms in improving the financial landscape which is an imperative need. Every banking entity needs to keep itself updated and upgraded with competing standards and requirements to face and handle ever rising competition.

3.2 Sources of Data

The study is a mix of exploratory research to begin with and descriptive to further the design process. The sample of banks were selected using judgemental sampling considering what all banks could be taken into objectives of research. Nature of Data: Secondary sources of data were collected from annual reports of banking firms.

3.3 Research Objectives

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

3.4 Research Hypothesis

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

4. LITERATURE REVIEW

Dapp (2014) in his paper discussed that FinTech has evolved as result of the development and improvement of technological advancements like mobile devices, big data analysis, cloud processing, data storage etc. King (2014) highlighted the post 2008 crises era where many bank employees were relieved of their jobs and he argued that the founders of FinTech companies are those former banking professionals as they have the relevant knowledge and skill sets which can be implemented in in connecting the traditional financial services with the new age technological innovations thereby leading to new business models. Lee (2015) discussed that the terminology "FinTech" is a newly coined word which is derived from combination of two words, "financial" and "technology". FinTech is a modern era terminology, where new age internet technologies and traditional financial services function together by establishing business activities based on the current technological
advancements leading to new business models which are highly pliable, secure and efficient.

Hemmadi (2015) discussed that banks and other financial service provider which function with the help of FinTech assistance have better affordable and cost effective products and services. There is also a buzz by experts that with FinTech association, one day, banks may be only used for depositing money and rest of the jobs will be automatically taken care of.

Milne (2016) in his article discussed the future aspects of revolution changes brought in by FinTech. It was also discussed that customers are benefited through FinTech, based upon the banking platform they use and discussed how vital is the role of the government for being supportive in formation of supportive policy intervention and its role in successful implementation of technological developments.

Buitenhek (2016) emphasised on understanding the concept and application of blockchain technology in banking industry. This article highlights about how the financial service industry apply the blockchain concept as mainstream and thereby boosting the speed of transactions in entire industry. The block chain is an efficient process of constant updation of ledger of public transactions.

Lohia (2018) in his article analysed the rendezvous of Financial Technology and Banks for their profitability. With the inception of FinTech there has been an extreme development of Banking sectors business model and these developments in banks by investments in FinTech have recorded positive gains from this alliance. FinTech provides assistance to banks in developing their product offering and thereby creating more value for the banks and helps in generating more profitable ways for the deployment of capital as well.

Sur (2018) in his article discussed that the new technological revolution has an impact on the banking sector in all aspects. According to the article, the functions of payments, clearing and settlement of the banks hugely comprise of FinTech service providers. Along with the positives which the banks benefit from FinTech they also get exposed to a wide variety of risks and its implications for which banks need to be aware prior developing their business models based on FinTech technologies.

Pozzolo A. F (2018) in the paper studied the performance of FinTech in terms of either competition or whether it is enhancing the services rendered by traditional banks. It stated that FinTech is adding to the efficiency of banks performance by reforming the traditional ways and thereby also leading to customer satisfaction. It was also discussed that raw information is better managed and interpreted by the banks which are FinTech operated. Also inclusion of FinTech in the financial markets is developing at a faster pace.

### 5. DATA ANALYSIS AND INTERPRETATION

#### Analysis 1:

**5.1 Banks and Fintech Investments**

<table>
<thead>
<tr>
<th>NAME OF THE BANK</th>
<th>YEAR OF INVESTMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC BANK</td>
<td>2014</td>
</tr>
<tr>
<td>ICICI BANK</td>
<td>2009</td>
</tr>
<tr>
<td>AXIS BANK</td>
<td>2013</td>
</tr>
<tr>
<td>BANK OF INDIA</td>
<td>2009</td>
</tr>
<tr>
<td>STATE BANK OF INDIA</td>
<td>2015</td>
</tr>
<tr>
<td>CANARA BANK</td>
<td>2014</td>
</tr>
</tbody>
</table>

The above table shows the years in which investments have been made. The sample includes three private and three public sector banks. The investment made was as early as 2009 and as late as 2015.

#### Analysis 2:

**5.2 Private Sector Banks and FinTech**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC BANK</td>
<td>ROE %</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>19</td>
<td>21</td>
<td>22</td>
<td>20</td>
<td>19</td>
<td>18</td>
<td>18</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>NET PROFIT (Rs. 00' Crores)</td>
<td>22</td>
<td>20</td>
<td>39</td>
<td>52</td>
<td>68</td>
<td>87</td>
<td>106</td>
<td>128</td>
<td>151</td>
<td>185</td>
<td>223</td>
</tr>
<tr>
<td>ICICI BANK</td>
<td>ROE %</td>
<td>8</td>
<td>9</td>
<td>11</td>
<td>13</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>11</td>
<td>10</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>NET PROFIT (Rs. 00' Crores)</td>
<td>35</td>
<td>46</td>
<td>60</td>
<td>76</td>
<td>96</td>
<td>110</td>
<td>122</td>
<td>121</td>
<td>191</td>
<td>77</td>
<td>42</td>
</tr>
<tr>
<td>AXIS BANK</td>
<td>ROE %</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>20</td>
<td>19</td>
<td>18</td>
<td>18</td>
<td>17</td>
<td>7</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>NET PROFIT (Rs. 00' Crores)</td>
<td>18</td>
<td>24</td>
<td>33</td>
<td>42</td>
<td>52</td>
<td>62</td>
<td>74</td>
<td>83</td>
<td>39</td>
<td>4</td>
<td>50</td>
</tr>
</tbody>
</table>

The above table considers the private sector banks and compares them in last ten years. It is seen that FinTech was first introduced in ICICI Bank. Further, it is also seen that massive investment took place in the Financial Technology in Axis Bank and HDFC Bank later in 2014 and 2015 respectively. Consequently, the results can be seen in terms of Net Profit and Return on Equity figures where HDFC bank has benefitted drastically and sustained it as well. On the other hand, Axis bank has not been able to sustain the recurring advantages over last few years. Similar could be stated about ICICI bank which did exceedingly well utilising the advantages of Financial Technology in first few years but could not capitalise it in later years.

#### Analysis 3:
5.3 Private Sector Banks and FinTech

Table 3: Private Sector Banks and FinTech

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BANK OF INDIA</strong></td>
<td><strong>净利润(净收入)</strong></td>
<td>30</td>
<td>27</td>
<td>25</td>
<td>27</td>
<td>20</td>
<td>20</td>
<td>12</td>
<td>11</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td><strong>STATE BANK OF INDIA</strong></td>
<td><strong>净利润(净收入)</strong></td>
<td>100</td>
<td>117</td>
<td>106</td>
<td>137</td>
<td>151</td>
<td>169</td>
<td>122</td>
<td>84</td>
<td>21</td>
<td>2</td>
</tr>
<tr>
<td><strong>CANARA BANK</strong></td>
<td><strong>净利润(净收入)</strong></td>
<td>30</td>
<td>10</td>
<td>40</td>
<td>33</td>
<td>20</td>
<td>20</td>
<td>12</td>
<td>11</td>
<td>7</td>
<td>6</td>
</tr>
</tbody>
</table>

The above table considers the Public sector banks and compares them in last ten years. It is seen that FinTech was first introduced in Bank of India. Further, it is also seen that investment took place in the Financial Technology in Canara Bank and State Bank of India later in 2014 and 2015 respectively. It might be inferred that all the banks need to further do well and streamline processes to eliminate inefficiencies which are highlighted in the form of negative Net Profits and negative Return on Equity.

6. CONCLUSION

It can be said from the study that banks have started taking initiative towards financial technology and it can be seen as the only way to again establish trust among its customers. The financial technology is still very new considering the time when the investments were made in banking firms. The impact in terms of profitability and its operating efficiency is still to be seen in case of public sector banks. It is however evident in case of private banks where the financial technology has played a pivotal role in shifting the engines of traditional to radical processes. The traditional public sector banks cannot afford to ignore the growing role of FinTech as it a definite game changer and would continue to change the operating processes. It is hence the currency of the financial system where in each facet of the economy relies on FinTech for its sustenance. Therefore, it becomes imperative that financial technology acts as a facilitator with the traditional banking systems to scale up to the next level of organic growth in financial ecosystem.

REFERENCES


