

TRADITIONAL TO INCLUSIVE: HOW FINTECH STARTUPS ARE RESHAPING BANKING

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Abstract

In the unexpectedly evolving landscape of the financial era (Fintech), startups are revolutionizing the conventional banking sector by providing innovative solutions that cater to a much wider, extra inclusive target market. This conceptual research paper delves into the transformative impact of fintech startups on the banking industry, highlighting their function in promoting monetary inclusion and reshaping the way we understand and interact with economic offerings. The data is obtained from secondary resources.

Fintech startups have emerged as essential in this context as they use current technology such as artificial intelligence, blockchain and big data analytics to create innovative people-friendly and hands-on money products and services. Not only are these startups the most adept at disrupting the popularity quo, but they are also addressing the unmet needs of various buyer segments, including the unbanked, underbanked, and those looking for alternative financing alternatives.

Keywords: fintech, Inclusion, Startups, traditional banking, transformation.

INTRODUCTION

In the ever-evolving world of finance, the traditional banking environment has undergone a significant transformation with the emergence of financial age (Fintech) startups. These revolutionary companies are revolutionizing the banking area by using current technologies to create new financial products and services that cater to a much wider and broader target audience. This concept paper aims to explore the transformative impact of fintech startups on banking businesses, specializing in their role in selling economic inclusion and reshaping the way we perceive and interact with economic services.

According to the 2020 India Online Payments Survey, 31% of households reported having mobile banking apps on their smartphones. However, 32% of households reported using digital payments in their daily lives. According to statistics, online banking penetration in India is expected to be 45.02% in 2024. According to some research, India is said to be the hub of digital banking with the development of technology with the help of fintech startups. India is now home to some of the best fintech companies, which is necessary to transform the traditional banking system into fintech.

BACKGROUND

Traditional banks have been characterized at length using conservative practices and slow modelling of technological improvements. They primarily served a select group of customers, often neglecting the needs of disadvantaged groups of the population and those looking for occasional cash solutions. This has left a huge portion of the world's population ultimately unbanked or underbanked, with limited access to important monetary services.

Enter Fintech startups, a diverse group of corporations that have disrupted the banking landscape by introducing progressive answers to deal with these challenging situations. These startups have taken advantage of the rapid growth of digital technologies, which include artificial intelligence, blockchain, and large-scale information analytics, to create user-friendly, accessible, and cost-effective economic products and services. The rise of fintech startups has been driven by a number of factors, including increasing smartphone filtration and internet connectivity, increasing demand for digital financial offerings, and recognition of the need for monetary inclusion to achieve sustainable economic growth.

The traditional banking has many limitations such as limited operating hours, limited customer support, more paper work which lead to inefficiency, security risk, time consuming etc. On the other hand, the fintech Startups are basically those firms which are using new technologies to deliver financial services to the each and every corner of the world. In India, the fintech startups has pushed the banks towards technological revolution in traditional banking methods and has shown the growth of the country's economy as people are now using banking services more as it has been enabled by online payment modes, online banking and so on. easier for people to access their bank accounts from any corner of the country. The introduction of UPI, net banking, NEFT, RTGS, PayPal etc. has made work simpler and easier.

The role of fintech startups in financial inclusion:

Fintech startups have been instrumental in promoting economic inclusion by addressing the unmet wants of various customer segments, including the unbanked, the underbanked, and those seeking opportunities to finance opportunities. These startups have introduced progressive solutions that include cellular banking, virtual credit structures and peer-to-peer (P2P) transactions, allowing individuals and groups to become more actively involved in the global financial system. In addition, fintech startups have been able to bridge the space between conventional economic institutions and underserved populations by presenting custom-designed economic services and products that satisfy specific wants and alternatives. This has caused the expansion of financial literacy, gaining the right to access credit scores and overall financial empowerment for people who were previously excluded from the formal economic establishment.

This conceptual research paper aims to reveal the transformative impact of fintech startups on the conventional banking industry, focusing on their role in promoting economic inclusion and reshaping the way we perceive and interact with economic services. Because of the understanding of the difficult circumstances and opportunities presented by the fintech revolution, the banking zone can adapt and work together to create an extra inclusive and effective financial instrument for all. The post delves into the growth and segments of the fintech industry, examines the challenges facing conventional banks and explores the implications of the fintech shift for banking groups. In addition, the study will talk about the advantages that fintech startups maintain over conventional banks and reveal the wider socio-monetary implications of this technological transformation in the currency area. Everyone has access to a fairer and more attainable economic destiny it is miles important that we preserve the assistance and sale of fintech group improvement.

- This study aims to explore the main forces behind the boom in fintech organizations and the disruption they have caused to conventional banking techniques.
- Explore case studies and current global times that show how fintech businesses and traditional banks have effectively worked together to improve financial inclusion.
- To tell approximately what influence the fintech revolution can have on customer behaviour, the shape of the banking sector and, ultimately, the overall societal impact.

LITERATURE REVIEW

In the fast-moving fintech technology disruption of traditional banking has been the subject of research. This literature review discusses the findings of various authors who have provided insights into this broad and dynamic field.

Diyan Lestari, Basuki Toto, (2021) highlighted Rapid technological advances have changed customer behaviour and affected businesses, especially the banking sector. Optimizing technology is expected to increase productivity and performance. They examined fintech strategies for entering the financial services market and how banks are responding to their development. This qualitative study included in-depth interviews and content analysis. Additionally, This paper used both primary and secondary data to provide a valid investigation. This study showed that fintech supports new strategies to enter the financial services business, while banks are already ready to compete in the digital age. Banks used several techniques to win the competition, such as investments in software, hardware and financial technology.

Vinay kandpal, Rajat Mehrotra (2019) attempted to understand the cashless transaction system in growing India. As the market grows progressively globalised and the banking sector expands, more consumers are switching to cashless transactions. The cashless method is essential for today's society. In recent years initiatives to increase financial inclusion in India have resulted in mixed outcomes. Policy and regulatory efforts have significantly increased access to bank accounts. Banks and regulators face specific problems with newer technologies, particularly in terms of security. With cyber frauds on increasing, regulators and bankers would need to work collaboratively to ensure management systems are in place. The digital revolution has changed company processes throughout industries, including the financial and banking sector. Vinay and Rajat's findings the Indian government and regulatory agencies have created favourable environment for fintech in India, which is encouraging. To enable secure and transparent growth in this sector, rules and regulations must keep up with its rapid innovation.

Priyadarshini M, Daniel Gozman (2019) aptly highlighted the challenges of fintech startups development of dynamic capabilities at banks. As technology develops, traditional financial institutions are shifting to adapt to the digital economy. Fintech companies are disrupting traditional services, creating new business models and partnerships. However, there is still a lack of study on explore how banks are adapting to digital disruption and the resulting effects. Their research examines the capability development process in banks using a global survey and interviews conducted by a multinational law firm, aiming to bridge the gap. As a result, their findings provide insights on the banks must create flexible capabilities to adapt to digital disruption in the global financial ecosystem.

Yen H., Nhung T, Duong T.T, (2021) this study is conducted to examine the perspectives of banks and fintech companies in the collaboration process. In that process collaboration outcomes are often influenced by everyone's perspective. Partner selection features, including strengths and shortcomings, play crucial role in

influencing cooperation. The bank's rigidity in using current technology can result in excessive transaction costs and unable to meet consumer demands on time. Fintech's innovative and adaptive technology reduces transaction costs. The methodology used to conduct this research is of an interpretive perspective, A qualitative approach in depth interviews, and focus group was considered to gain a meaningful understanding. The study findings also include the benefits, challenges, advantages, and drawbacks of each party.

Luigi Wew. And Joe Lee, Michael (2020) aptly discussed the latest players in financial services, known as "fintech", are providing customer-focused services that are faster, easier and more convenient. FinTech's are seen as a valuable partner for large banks in their digital transformation, bringing technological improvements and innovation. All As the fintech industry advances, innovative technologies have disrupted the digital banking revolution and led to unprecedented collaboration and consolidation. they updated the transition to digital banking in financial technology and established banking institutions, indicating that access to future trends will increase dramatically in the coming years.

DISCUSSION

The emergence of fintech startups has added approximately a paradigm shift in the traditional banking region, with a focal point of selling financial inclusion and reshaping the way we perceive and engage with economic offerings. This segment will delve into the growth and segments of the fintech business, study the challenges facing traditional banks and analyze the results of the fintech shift for banking businesses. The dialogue will further reveal the advantages that fintech startups retain over conventional banks and the wider socio-economic implications of this technological transformation within the economic quarter.

1. Fintech industry growth and segments:

The growth and segments of the Fintech business are essential elements of the ongoing transformation in the banking sector. The fintech market has witnessed a major expansion due to the improvement of digital technologies and the growing demand for innovative financial answers. According to a recent file with the help of Statista, the size of the global Fintech market is expected to reach USD 309.98 billion by 2026, growing at a compound annual growth rate (CAGR) of 24.2% between 2021 and 2026.

The fintech industry is diversified into several segments consisting of digital banking, mobile payments, lending, financing and insurance technologies. Digital banking has revolutionized conventional banking by providing consumer-friendly, convenient and cost-effective economic products and services. Mobile accounts along with mobile wallets and P2P transactions have made money transactions more convenient and stable. Fintech lending, which includes peer-to-peer (P2P) lending and opportunity scoring, has multiplied access to credit for underserved populations. In the financing section, fintech startups have brought modern answers, such as robo-advisory and crowdfunding, which democratize access to investment opportunities. Finally, insurance technologies have disrupted conventional coverage by leveraging massive statistical analysis and system recognition to offer personalized coverage goods and improve risk control.

More specifically, the rise and diversification of Fintech into many segments has played a key function in reshaping the banking landscape, selling monetary inclusion and creating a more inclusive and greener financial device for all.

2. Provocations faced by traditional banks:

The upward pressure of fintech startups is not always just a transformation of the banking environment, but represents a very challenging situation for conventional banks.

Traditional banks, burdened by outdated infrastructure and inadequate structures, are struggling to keep pace with the rapid digitization of economic offerings. FinTech's are reborn virtual, delivering seamless and user-friendly mobile messaging that resonates with the latest tech-savvy customers. Traditional banks regularly rely on entirely fee-based revenue and legacy product offerings that fail to meet changing customer wants and choices. However, FinTech's are disrupting these models with progressive responses such as peer-to-peer lending, robo-advisors and personalized money tools that cater to interest segments and unbanked populations. Many conventional banks offer difficult online platforms and slow mortgage processing times, leading to client dissatisfaction. FinTech's prioritize personal pleasure, presenting an intuitive interface, instant mortgage selection and 24/7 customer support through chatbots and AI help.

Rigid rules can interfere with innovation and agility for traditional banks, making it difficult to compete with flexible FinTech's operating in areas of interest with far less regulatory oversight. Regulatory sandboxes and open banking tasks are slowly bridging this gap, however the average pace of change remains a challenge. Data breaches and cyber-attacks are a regular threat to all conventional banks and FinTech's. However, the complicated legacy structures of traditional banks may be more fragile, while FinTech's regularly prioritize protection from the ground up. Building trust and ensuring robust cyber security is essential for both players. Attracting and retaining proficient in technology talent is critical to competing in the digital age. FinTech's often offer aggressive salaries, flexible painting environments and interesting career opportunities, making it difficult for conventional banks to get the skills they want.

Maintaining physical branches incurs excessive overhead fees, but retaining them may alienate certain client segments. Finding the most desirable balance between branch networks and virtual services is a complex task for traditional banks. Legacy organizations often face internal resistance to change, making it difficult to embrace the quick and progressive way of life of FinTech's. Fostering a culture of experimentation and collaboration is essential for traditional banks to adapt and thrive.

3. Implications of the fintech shift for banking businesses:

Positive consequences

- Increased competition and innovation: Fintech startups use innovation to introduce new goods, services and technologies, forcing traditional banks to adapt and improve their services. This opposition favors customers with wider alternatives, lower prices and better availability. Fintech groups regularly favor user-friendly interfaces, mobile design and faster transaction processing, which is the main goal of an extra convenient and pleasant banking experience for customers. Fintech solutions such as mobile wallets and microloans are reaching unbanked and unbanked populations, selling monetary inclusion and financial improvement.
- Fintech startups use technology to automate tactics and reduce operating costs, allowing them to provide lower costs and compete with the pricing systems of traditional banks. Fintech uses information analytics to tailor economic products and services to individual clients, compiling their exact wishes and selling economic literacy.

Challenges and Considerations:

- Emerging technologies such as blockchain and cryptocurrency present regulatory challenges that require banks and governments to develop and update policies.
- With multiple reliance on generation, concerns about fact security and privacy invasions require rigorous responses and consumer considered design measures.
- Automation through fintech responses may cause job losses during the banking quarter, necessitating training and retraining programs for bank employees.
- Decentralized finance (DeFi) and various emerging models raise systemic financial stability issues and require careful monitoring and adjustments to capacity regulation

4. Perquisites of fintech startups over traditional banks:

Fintech startups have a number of advantages over conventional banks. These startups are more agile and can quickly adapt to new technologies and market characteristics. These startups regularly prioritize patrons wishes and capabilities, allowing them to create customized financial services and products. These startups typically have lower operating fees, which allows them to offer more competitive pricing and gain a much wider consumer base.

5. Socio-economic consequences of the fintech revolution:

The fintech revolution has ways of achieving socio-monetary implications, along with:

- Financial Inclusion:
Fintech startups play a key role in selling economic inclusion by helping to satisfy the unmet desires of various patron segments, including unbanked and underbanked populations.
- Economic growth:

Greater right of access to economic offers has led to better financial literacy, increased participation in the global economic system, and average financial empowerment for individuals previously excluded from the formal economic gadget.

- Job creation:

The rise of the fintech industry has brought about the introduction of the latest job opportunities, especially in software development, fact analysis and cyber security.

The fintech revolution has finally brought about major modifications in the conventional banking region, focusing on selling economic inclusion and reshaping the way we understand and interact with financial services. By knowing the challenges and opportunities this technological transformation brings, the banking region can adapt and work together to create a wider and greener economic gadget for all. The rise of the fintech industry, the challenges facing the use of conventional banks and the wider socio-monetary implications of this shift are all contributing to the ongoing transformation of the monetary landscape.

Case studies and recent examples showcasing how fintech businesses and traditional banks have collaborated to enhance financial inclusion in India.

UPI (Unified Payments Interface) collaboration: The engagement of fintech companies like Phone Pay and Google Pay with traditional banks like State Bank of India (SBI), HDFC Bank and ICICI Bank has significantly increased financial inclusion in India. UPI provides a seamless, universal framework for digital payments that enables even individuals without traditional banking infrastructure to participate in the digital economy.

Jan Dhan Yojana and Bank Correspondents (BCs): Traditional banks like Punjab National Bank (PNB) and Canara Bank have partnered with fintech companies to expand their reach in rural and underserved areas under the Jan

Dhan Yojana initiative. Fintech companies like Paytm Payments Bank and Fino Payments Bank have deployed BC to provide basic banking services including account opening, deposits and withdrawals remotely.

Current global trends:

India has recently seen an increase in fintech acceptance fueled by factors such as government initiatives, technological developments and changing consumer behavior. The COVID-19 epidemic has accelerated the digital transformation of financial services, with fintech firms and traditional banks working more closely together to address new challenges and opportunities.

Key trends include:

Digital banking platforms: Traditional banks are increasingly investing in digital banking services to improve the client experience and reach new populations. Fintech partnerships enable banks to provide new services such as AI-powered chatbots, robo-advisory and customized financial management solutions to meet the unique needs of Indian clients.

Open banking ecosystem: The Reserve Bank of India (RBI) has introduced regulatory frameworks such as Account Aggregator (AA) and Payment Aggregator (PA) to support collaboration and data exchange between banks, fintech companies and other financial institutions. This open banking environment enables a seamless flow of financial information resulting in better risk assessment, product customization and financial inclusion.

Block chain and digital identity: Fintech businesses use blockchain technology and digital identification solutions to improve the security, transparency and efficiency of financial transactions. Collaborations between traditional banks and blockchain companies such as Signzy and Elemental Labs focus on applications such as digital signatures, smart contracts and secure authentication, creating the foundations for a more inclusive and trustworthy financial system.

CONCLUSION

The emergence of fintech startups has created a transformative spark in the conventional banking industry, shifting the framework closer to inclusiveness and reshaping our relationship with economic services. This concept paper explored the multi-faceted effect of fintech, highlighting its function in selling financial inclusion, promoting innovation and making use of a nice socio-monetary alternative.

However, the journey is not without challenging situations. Traditional banks face pressure to adapt their legacy systems, overcome cultural resistance and manage regulatory uncertainty. Collaborations and strategic acquisitions can span the space and allow them to leverage the agility and client-centricity of fintech players.

The implications of this shift are somewhat complex. Greater competition fosters innovation, benefiting consumers through greater choice, lower costs and advanced person reporting. Financial inclusion is expanding as fintech answers reach unbanked and underbanked populations, empowering people and offering power to an economic boom. However, concerns about data protection, job displacement and systemic financial stability require careful consideration and proactive solutions.

Looking ahead, embracing the fintech revolution is not always just an option, but vital to a sustainable and inclusive financial future. By fostering collaboration, adapting to technological advances and prioritizing financial literacy, we can unleash the full capacity of fintech to create a fairer and more accessible money environment for all.

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