

Role Of Financial Technology in Indian Banking System: A Descriptive Study

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Abstract

Financial technology, also known as FinTech, has emerged as a transformative and ground-breaking force within the Indian banking system. By integrating innovative FinTech solutions into the banking sector, notable advancements have been achieved in both customer experience and operational efficiency. Leveraging cutting-edge solutions like mobile banking and digital wallets, previously underserved individuals now have the means to access essential financial services. One of the most significant contributions of FinTech lies in its instrumental role in combating fraudulent activities and bolstering security measures within the Indian banking system. Employing advanced technologies such as biometric authentication, artificial intelligence, and blockchain, security protocols have been fortified to safeguard customer data and proactively detect instances of fraud.

Keywords- Banking Frauds, Fraud Detention, Banking system technology, Fraud prevention system.

Introduction

The turning point that India's FinTech industry witnessed in 2015 marked a momentous shift in the landscape. Fast-forwarding to 2020, we observe how the FinTech sector has revolutionized various domains such as payments, insurance, lending, and wealth management, with its growth further accelerated by the unforeseen impact of the COVID-19 pandemic. Chishti, S., & Barberis, J. (2016) health crisis, despite its devastating repercussions, has also opened new avenues for FinTech companies like Paytm, Google Pay, Razorpay, Slice, and others to foster financial inclusion and mitigate the adverse economic consequences of the pandemic. The digital economy of India has witnessed remarkable growth in recent years, primarily propelled by the transformative potential of FinTech. By harnessing the power of financial technology, ground-breaking solutions have been devised that render financial services more accessible, affordable, and convenient for millions of

Indians. Traditional banking institutions, grappling with the challenge of extending their reach to far-flung areas, found it arduous to grant individuals residing in remote locales access to banking amenities. Puschmann, (2017), the advent of FinTech enterprises has surmounted this hurdle, leveraging technological prowess to construct a bridge of connectivity through the provision of digital banking services, conveniently accessible via smartphones. This revolution has imbued denizens inhabiting rural and underserved regions with newfound empowerment, enabling them to seamlessly inaugurate bank accounts, conduct transactions, and avail themselves of insurance services sans the exigency of a brick-and-mortar branch.

Au & Kauffman, (2008) domain wherein FinTech has made momentous strides is lending, traditionally entailing labyrinthine paperwork and stringent eligibility criteria, which, regrettably, rendered numerous individuals and small-to-medium enterprises (SMEs) bereft of credit opportunities. Enter FinTech platforms, which have orchestrated disruption by introducing innovative lending models, exemplified by peer-to-peer lending, fostering a direct channel for individuals to lend and borrow among themselves. These platforms employ sophisticated algorithms and data analytics to discern creditworthiness, expediting the loan approval process while fostering inclusivity.

Arner, D. W., Barberis, J., & Buckley, R. P. (2015). erstwhile underserved entities, side-lined by conventional banking conduits, now gain unfettered access to much-needed credit, a propellant for their growth and a panacea for their financial exigencies. The transformative influence of FinTech extends further, permeating the landscape of insurance in India. Capitalizing on digital platforms and harnessing the analytical might of data, insurance services have undergone a metamorphosis, rendering them more personalized, accessible, and cost-effective. Insurtech startups, at the vanguard of this evolution, leverage technology to proffer bespoke insurance products, empowering individuals to comprehend and select policies that precisely align with their specific requirements. Moreover, through the adept utilization of telematics and Internet of Things (IoT) devices, insurers gather real-time data pertaining to customer behaviour, facilitating dynamic pricing models. The FinTech sector's demonstration of digital resilience during the pandemic has further solidified its role as a crucial pillar within the Indian banking system.

Through online platforms, individuals and small businesses can access small loans to initiate or expand their ventures. This has empowered aspiring entrepreneurs and fueled economic growth at the grassroots level. This, in turn, drives financial inclusion and promotes socioeconomic progress. The emergence of FinTech has also revolutionized investment and wealth management practices for individuals. Traditional investment avenues often demanded substantial capital and involved complex procedures. However, FinTech platforms have democratized investment by providing user-friendly digital tools for investment. This accessibility to investment opportunities and expert guidance has empowered individuals to take charge of their financial futures.

Literature review

The advent of fintech solutions has ushered in a paradigm shift in the operational landscape of businesses, bestowing manifold advantages upon both financial institutions and customers alike. In recent times, these technological advancements have assumed a pivotal role in augmenting customer experiences, thereby engendering heightened contentment and allegiance among patrons of Indian banks.

Haddad & Hornuf, (2019) facet of fintech's impact on the Indian banking system resides in the endowment of instantaneous payments. Traditionally, customers had to endure protracted waiting periods for transaction processing. This expeditious and efficient process has metamorphosed the modus operandi of individuals and enterprises in carrying out their financial transactions, thereby begetting improved customer experiences. The integration of mobile wallets stands out as another noteworthy attribute that fintech solutions have ushered into the realm of Indian banking.

Malhotra & Singh, (2009) ubiquity of smartphones, mobile wallets have garnered escalating popularity among customers. These digital repositories enable users to stow funds, effectuate payments, and engage in sundry financial activities with a mere tap on their handheld devices. The assimilation of mobile wallets into the banking system has not only streamlined the payment process but has also furnished customers with augmented flexibility and convenience in administering their fiscal matters. AI-powered chatbots proffer incessant assistance by promptly addressing customer queries and concerns. These chatbots have the capacity to dispense personalized recommendations, guide customers through diverse banking processes, and even execute rudimentary transactions. By harnessing the potential of

AI, banks can furnish seamless customer service, thereby ensuring the efficient and effective fulfilment of their customers' needs. Given the colossal populace and a significant portion thereof being unbanked or underbanked, fintech has endowed greater access to financial services. Mobile banking applications and digital payment platforms have empowered individuals who hitherto had limited exposure to traditional banking services.

Parushina, Deminova, and Suchkova (2019) these technological innovations, denizens in remote areas can now effortlessly avail themselves of banking services, engage in transactions, and partake in the formal financial ecosystem. The embracement of fintech solutions within the Indian banking system has yielded heightened customer satisfaction and loyalty. Customers now wield enhanced authority over their finances, with unfettered access to real-time payments, mobile wallets, and AI-driven aid. The convenience and efficiency engendered by these technological strides have engendered a positive imprint on customer experiences. Banking institutions that wholeheartedly adopt fintech solutions have borne witness to bolstered customer retention rates, as customers exhibit a greater propensity to remain faithful to establishments that proffer enhanced services and seamless experiences. Through the automation of processes and the elimination of manual interventions, fintech empowers banks to reclaim valuable time and resources. The emergence of fintech solutions in the Indian banking landscape has triggered a profound transformation, enabling banks to streamline their operations with remarkable efficiency. Tedious manual tasks, previously prone to human errors and time-consuming endeavours, have been replaced by automated systems.

This remarkable automation not only heightens precision but also reduces overall processing time. Parushina, Deminova, and Suchkova (2019) banks can allocate their resources more astutely and concentrate on delivering superlative services to their esteemed customers. Moreover, fintech companies present enticing pricing models, which significantly contribute to cost reduction for businesses. These meticulously crafted models are specifically designed to offer cost-effective solutions that align seamlessly with the distinctive requirements of banks and financial institutions. By providing more affordable alternatives, fintech companies empower banks to optimize their expenditure and allocate resources with unparalleled efficiency.

Beyond the realm of cost savings, fintech solutions also enhance operational efficiency within the Indian banking system. By digitizing essential processes like account opening, loan approvals, and fund transfers, banks can expedite their operations and provide prompt services to their valued clientele. This heightened efficiency not only benefits the banks themselves but also elevates the overall customer experience. Customers can now relish seamless transactions, receive swifter responses to their inquiries, and gain access to a broader spectrum of banking services, all thanks to the remarkable advancements in fintech. As digital transactions and online banking gain prominence, the imperative of fortified cybersecurity measures becomes increasingly evident.

Fintech solutions have stepped up to the challenge by spearheading the development of advanced security protocols and encryption techniques. These sophisticated measures serve as the bulwark against unauthorized access and fraudulent activities, ensuring secure and impregnable transactions within the intricate fabric of the banking ecosystem. The influence of fintech on the Indian banking system transcends the realms of cost reduction and operational efficiency. This newfound empowerment not only serves the unbanked population but also acts as a catalyst for economic growth and development throughout the nation. With the advent of cutting-edge solutions and sophisticated tools, the realm of fintech has revolutionized security measures, rendering unparalleled protection and safeguarding businesses against perilous data breaches and cyber onslaughts. A paramount contribution of fintech to the Indian banking system lies in its implementation of avant-garde security facets.

Frost, Gambacorta, Huang, Shin, & Zbinden, (2019) state-of-the-art technologies, fintech solutions fortify delicate financial information and transactions with impregnable fortifications. Through the integration of robust encryption algorithms, impervious data storage, and multi-factor authentication protocols, fintech ensures an environment of serenity for enterprises, where their vital data and operations remain cocooned, impervious to harm. Fintech platforms diligently surveil and scrutinize banking activities, swiftly detecting any semblance of dubious behavior or unauthorized access endeavours. By harnessing the power of artificial intelligence and machine learning algorithms, fintech systems skilfully identify patterns that bear the telltale signs of potential threats, enabling banks to enact immediate preventive measures. These proactive measures endow banks with the ability to respond with alacrity to potential hazards, effectively minimizing the perils of financial loss or reputational damage.

Boutabba, (2014) mired in labyrinthine paperwork and burdensome physical verifications, KYC procedures suffered from inefficiencies and prolonged delays. By means of mobile banking applications and digital payment platforms, fintech has empowered individuals residing in remote areas, affording them seamless access to essential banking services. Fintech solutions play a pivotal role in transforming the operational landscape of the banking industry, bringing about substantial improvements in various facets.

According to Anagnostopoulos (2018), regulatory compliance stands out as an area where fintech has demonstrated significant benefits. In the Indian banking sector, businesses have greatly leveraged fintech solutions to gain a competitive edge in regulatory compliance. Consequently, Indian banks can avoid the hefty penalties associated with non-compliance. The automated nature of these technologies minimizes the likelihood of human errors, ensuring meticulous adherence to all regulatory guidelines. Beyond their compliance-related advantages, fintech solutions extend further benefits to the Indian banking system. These technologies provide enhanced security measures, safeguarding sensitive financial data and fortifying defences against fraud and cyber threats. Leveraging advanced encryption techniques and robust authentication processes, fintech fosters a secure banking environment, bolstering customer confidence in digital transactions. This inclusive approach empowers individuals and fuels economic growth. By intricately weaving fintech solutions into their operations, Indian banks can not only achieve regulatory compliance but also unlock a realm of benefits that fortify their overall performance, security, and inclusivity. It plays a pivotal role in empowering both customers and financial institutions through its innovative solutions.

According to Nicoletti, Nicoletti, and Weis (2017), akin to any industry, it confronts its fair share of obstacles. Data serves as the cornerstone for the development of novel financial products and services. It furnishes insights into customer behavior, market trends, and risk analysis. They heavily rely on accurate data to make informed decisions, devise personalized financial solutions, and enhance the overall customer experience. Moreover, another formidable challenge lies in the realm of robust cybersecurity measures. Given the escalating reliance on technology for financial transactions, it becomes paramount to safeguard sensitive customer information and thwart fraudulent activities.

According to Kesharwani and Singh Bisht (2012), fintech companies must allocate resources towards advanced security protocols, encryption techniques, and fraud detection systems to safeguard the integrity and confidentiality of customer data. Collaborative efforts between fintech firms and regulatory bodies are indispensable in establishing stringent cybersecurity regulations that shield both customers and financial institutions from emerging threats. While regulations are indispensable for ensuring stability and fostering consumer trust, striking the right balance assumes paramount importance.

Simplifying regulatory processes, establishing sandboxes for piloting new products and services, and fostering open communication between regulators and fintech firms can streamline the compliance landscape and foster responsible growth. Fintech possesses the potential to bridge this divide by offering user-friendly and inclusive solutions. Collaborative endeavours between fintech companies and traditional banks can help reach underserved communities, impart financial knowledge, and provide convenient and affordable banking services.

Conclusion

In this descriptive investigation, the primary objective was to delve into the role of financial technology (FinTech) within the Indian banking system. The study's findings shed light on the significant and far-reaching influence that FinTech has exerted on various aspects of India's banking sector. Initially, it became evident that FinTech has completely transformed the delivery of banking services. This not only enhances customer satisfaction but also expands financial inclusion by extending banking services to previously overlooked or underserved individuals.

Streamlining processes through automation, such as loan approvals and customer onboarding, has drastically reduced paperwork and processing time, leading to swifter and more streamlined services. The study also highlighted the positive impact of FinTech on financial literacy and education in India. Overall, the findings of this study affirm the transformative role played by FinTech in the Indian banking system.

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