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The Role Of Fintech In Development Of Banking Sector: A Systematic Review

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Abstract

Background: Fintech means Finance Technology and this study explored the transformative role of fintech in revolutionizing the global banking sector. With innovations such as mobile banking, block-chain, artificial intelligence, and automated payment systems, fintech had significantly enhanced operational efficiency, customer experience, and financial inclusion. Banks and financial institutions were realizing the value-addition in adopting and adapting the fintech innovations for mutual and customer benefits. Fintech had played a crucial role in fostering financial inclusion, Digital payment systems and mobile wallets had expanded financial access to underserved and unbanked populations, particularly in emerging economies. **Methodology:** The methodology involves a comprehensive review of existing literature reviews, twenty five (n=25) research papers from Scopus, WOS, and Research Gate (2020-2024), selected ten (n=10) relevant papers and excluded fifteen (n=15). The literature was filtered to ensure relevance, providing a solid foundation for analysing fintech's impact

on banking performance. **Findings:**Key findings included the need for clear regulatory frameworks to ensure data security, prevent fraud, and provide efficient grievance mechanisms. The study also examined Fintech adoption substantially boosts banking performance in India .**Conclusion:**This study highlighted that fintech adoption positively impacted on operational efficiency, profitability, and customer reach in the Indian banking sector, while challenges like cybersecurity and regulatory issues persist. Tailored strategies for different banking sectors and effective regulatory support were crucial for maximizing fintech's potential.

Keywords: Fintech, banking sector, financial performance

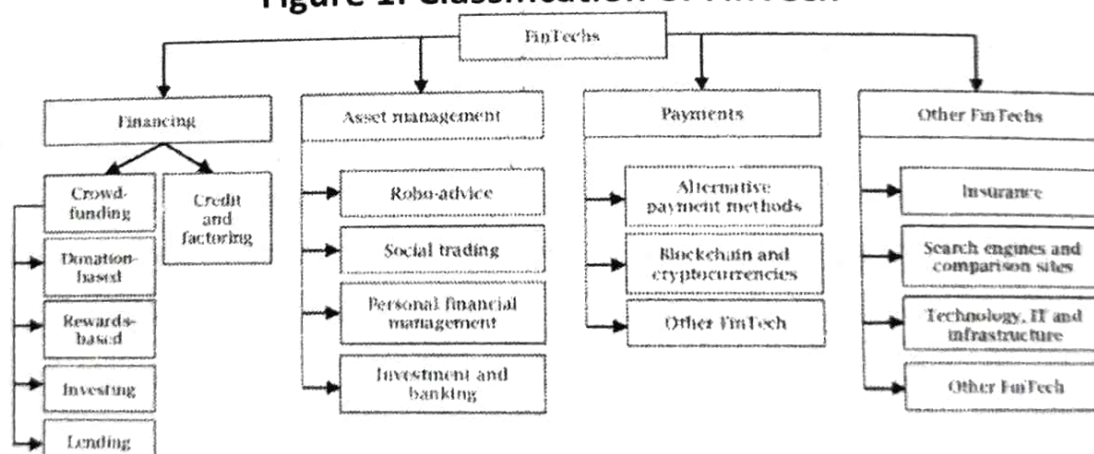
Introduction

A relatively new industry in India, the FinTech (Financial Technology) industry primarily deals with a wide range of applications of information technology in the finance and banking sector. Fintech is accelerating the pace of change and reshaping the banking services in India radically. Banks and financial institutions are realizing the value-addition in adopting and adapting the finTech innovations for mutual and customer benefits Verma, (2019). Fintech has played a crucial role in fostering financial inclusion, Digital payment systems and mobile wallets have expanded financial access to underserved and unbanked populations, particularly in emerging economies Narula, Gopal (2020). Fintech role in driving financial inclusion has been significant with mobile banking and digital payment offering digital wallets, peer-to-peer lending platforms, and real-time payments, and expanding access to financial services for previously underserved populations for solutions enabling access to financial services for worldwide Narula et al., (2023).

The COVID-19 pandemic acted as a catalyst for fintech growth, rapidly pushing financial services online as physical interactions became limited. The demand for contactless payment systems, mobile banking apps, and digital wallets flowed as consumers and businesses required seamless and safe methods to conduct transactions Koutsou et al., (2021). Between 2020 and 2024, fintech has experienced rapid growth, driven by several technological advancements and evolving consumer demands. The COVID-19 pandemic notably accelerated this growth by increasing reliance on digital financial services as people and businesses adapted to lockdowns and physical distancing measures. Digital payment systems, mobile banking, and block-chain based technologies such as crypto currencies and decentralized finance (DeFi)

platforms became more widespread Pereira et al.,(2021), Zhang , Liu,(2022). However, despite the many benefits, fintech adoption also brings significant challenges for consumers. One of the main concerns is **cybersecurity**. As consumers share sensitive financial data over digital platforms, the risk of data breaches and identity theft increases. Cyber-attacks targeting fintech companies are growing in frequency, and users may face the loss of personal or financial data Luo et al., (2023). Another issue is **data privacy**. Many fintech platforms gather large amounts of personal data, leading to concerns about how this information is stored, used, and shared. Lack of transparency and insufficient regulation regarding data usage exacerbate these concerns Baker, Miller, (2023). FinTech is a separate sector of the financial services industry consisting of entities other than traditional financial service providers, which use cutting-edge technology to provide existing financial services more effectively and create new ones that enables new value to be delivered to customers. This approach allows traditional financial service providers (banks and other financial institutions) to be excluded from the FinTech sector Harasim, (2021).

Figure 1: Classification of FinTech



Note: Adapted from uploaded by Hundal (January, 2024)

The objective of the study to conduct detail literature review regarding impact of fintech on banking performance and growth in India. With the help of existing literature, this research will study to adopt fintech is changing the role of banking sector in positive or negative way in India.

Methodology

This study will utilize a literature review approach which was primarily focusing on Scopus, WOS and Research gate from 2020 to 2024 period of time. The total twenty five (n=25) research papers were screened with ten (n=10) papers was selected and fifteen (n=15) papers was excluded for the study. The selection of literature will be conducted through a filtering process which was ensuring that only sources highly relevant to the research

objectives are included. By utilizing the electronic databases, this study aims to encompass a broad range of literature that addresses various aspects of fintech and its impact on banking performance, thereby providing a strong foundation for a comprehensive and current literature review analysis.

Findings:

Sr. No.	Authors and year	Findings	Conclusion
1	Melati (2024)	Empirical studies show that fintech innovation has a positive impact on bank performance. The implementation of financial technology, as shown by research results, can have a positive impact on a company's operational efficiency.	This research concludes that fintech adoption significantly enhances a bank's financial performance by improving operational efficiency, liquidity, profitability, and growth.
2	Tarawneh, (2024)	The findings highlighted two themes: fintech measures at bank and country levels, and profitability determinants. Using the TCCM framework, the study provided insights for future research and practical implications for academia and industry.	The study concluded on fintech's impact on bank profitability, categorizing fintech measures into bank-level (e.g., mobile banking, IT investment) and country-level factors (e.g., P2P, crowd funding). The study also identifies two key determinants of profitability.
3	Sharma (2024)	The 18-28 age group is the most active in using fintech services, with concerns about cyber fraud deterring older groups. Key adoption factors include convenience and automation, but technical issues, cybersecurity risks, and lack of knowledge prevent some users from fully embracing fintech services.	Banks have adopted fintech services to overcome geographical barriers and reach the unbanked, with customers in Guwahati preferring online services for their convenience. However, concerns like technical failures, privacy risks, and lack of knowledge hinder adoption, highlighting the need for education on service usage and cybersecurity.
4	Gong (2023)	The results show that commercial banks are increasingly investing in fintech, with a focus on effective risk control and recruiting fintech professionals. To ensure successful digital transformation, banks must establish stable regulatory processes and improve salary and benefits to retain technical talent.	This paper examines the positive and negative impacts of fintech on commercial banks, including benefits like risk control and challenges like data leaks. It recommends focusing on training and retaining fintech talent and establishing a secure regulatory system to prevent privacy breaches.
5	Baliga, Goveas (2023)	Banks saw fintech start-ups as partners, enhancing services and profitability through collaboration. Fintech adoption enabled data-driven decisions, improved	Fintech improves banking by providing cost-effective, automated services, boosting efficiency, and meeting evolving consumer expectations. Its impact

		efficiency, risk management, and a customer-focused approach.	on profitability helps banks optimize operations, cut costs, and maintain competitiveness in the digital financial landscape.
6	Varma, Parminder (2022)	The study highlight the need for integrating new technologies to boost efficiency and stability, while also pointing out the inadequacies of current regulations in facilitating this adoption. In the "Lending" theme, fintech innovations like P2P lending and crowd-funding improve credit risk management and efficiency, but concerns about the long-term sustainability of these models persist.	Incumbent banks collaborate with fintech firms to reduce costs, improve stability, and manage risks, particularly cybersecurity. This partnership approach challenges the disruptive innovation theory, as both banks and fintech aim to enhance performance through emerging technologies.
7	Basdekis, Christopoulos (2022)	The study shows that Greek banking consumers trust traditional banks more than fintech companies, with mobile transaction usage influenced by age and education. Security concerns are the primary issue for consumers when considering fintech services.	FinTech is revolutionizing the banking sector, with Open Banking unlocking new opportunities and driving innovation, while trust and security remain paramount for consumers. To stay ahead, banks must invest in technology and employee training, adapt to the digital shift accelerated by the Covid-19 pandemic, and focus on meeting the needs of the millennial generation.
8	Diyan, Basuki (2021)	The big four banks in Indonesia prioritize digital transformation through significant investments in technology and fintech, with a focus on IT systems and software development. Corporate governance, including ownership structure and board involvement, is crucial in shaping their strategies to compete in the digital era.	Fintech has revolutionized the financial sector with innovative, automated services, while banks have responded by adopting digital strategies and investing in fintech. Despite the disruption, banks maintain a crucial role, leveraging technology and governance to stay competitive.
9	Iman (2020)	Fintech adoption, driven by innovation and agility, reshaped the financial sector by offering products that challenged traditional banking models. Fintech faced high barriers in traditional banking, requiring regulatory understanding to navigate challenges and promote service democratization.	This paper highlights the need for a unified fintech definition and further analysis of its impact on the banking sector, focusing on adoption patterns, regulatory frameworks, and the integration of fintech into banking strategies, while considering cultural and market differences.

10	Almulla, Aljughaiman (2021)	The study analysis revealed that fintech firms' growth negatively affected commercial banks' performance but had no impact on investment banks. Robustness checks validated these findings, highlighting the adverse influence of fintech on bank performance.	This study revealed a negative association between fintech scores and bank performance, with commercial banks particularly impacted. The findings emphasize the importance of further research into the differences in performance between banks that adopt fintech and those that do not, especially within the Islamic banking sector.
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The reviewed literature highlights of the table no 1, the diverse impact of fintech adoption on banking performance and growth, specifically within the Indian banking sector. Several studies point to the positive effects of fintech on bank performance, particularly regarding operational efficiency and profitability. Melati, (2024) and Baliga&Goveas, (2023) highlight that the adoption of fintech significantly enhances a bank's financial performance by improving liquidity, profitability, and growth. Fintech services, such as mobile banking and automation, allow banks to expand their reach and improve customer satisfaction, particularly among younger consumers who prioritize convenience Sharma, (2024). This expansion was particularly important for banks aiming to reach the unbanked, a crucial demographic in India. Moreover, fintech partnerships enable banks to optimize operations, reduce costs, and deliver data-driven solutions to enhance decision-making processes. However, alongside these positive developments, challenges remain for banks in embracing fintech. A primary concern was the security and privacy risks associated with the digital transformation process. Gong (2023) emphasizes the importance of secure regulatory processes and robust risk management systems to mitigate the threats of data breaches. This concern was echoed by Basdekis,Christopoulos, (2022), who noted that despite the growing presence of fintech, consumer trust in traditional banks remains higher than in fintech companies, with security risks being the foremost barrier to fintech adoption. This issue was especially pertinent in India, where cybersecurity threats and privacy concerns can hinder the widespread acceptance of fintech solutions, despite their potential advantages in terms of customer experience and operational efficiency. The literature also highlighted a differential impact of fintech on various segments of the banking sector. Almulla, Aljughaiman, (2021) find that fintech's growth negatively affects commercial banks' performance, particularly those dependent on traditional banking models, while investment banks appear less impacted by fintech adoption. This suggests that the disruptive nature of fintech primarily affects commercial banks, which face greater challenges in adapting to new technologies, while

investment banks may not experience the same level of disruption. In India, where the banking sector was highly diverse, this differential impact may require tailored approaches to fintech adoption, with commercial banks needing to innovate more rapidly to stay competitive. In response to these challenges, many banks in India, particularly the "big four", have prioritized digital transformation and fintech adoption. Diyan,Basuki, (2021) reported that these banks were investing heavily in IT systems and software development to stay competitive in the evolving digital landscape. They emphasized the importance of corporate governance in shaping the strategies of banks to successfully navigate the challenges posed by fintech. Further, Iman, (2020) argued that the adoption of fintech services requires banks to overcome high barriers, including regulatory constraints, to ensure the democratization of financial services while maintaining traditional banking practices. Furthermore, a consistent theme in the literature was the needed for a stable and effective regulatory framework to support fintech adoption. Gong, (2023) underscores the importance of establishing strong regulatory guidelines to facilitate digital transformation while minimizing the risks associated with new technology. In India, where regulatory frameworks were evolving, clear and supportive policies will be critical in helping banks navigate the transition to digital banking successfully. Therefore, the literature suggests that fintech adoption presents both opportunities and challenges for the Indian banking sector. While fintech has the potential to enhance operational efficiency, expand financial inclusion, and improve profitability, it also raises concerns regarding security, regulatory gaps, and the need for tailored approaches to different types of banks. For fintech to drive positive transformation in India's banking sector, it will be crucial for banks to prioritize cybersecurity, invest in talent, and collaborate with fintech firms while ensuring regulatory support to overcome these barriers and realize the full potential of fintech

Conclusion:

This study highlights the diverse impact of fintech adoption on banking performance and growth, with a focus on the Indian banking sector. The findings indicate that fintech innovations positively influence operational efficiency, liquidity, profitability, and customer reach, particularly through mobile banking and automation. However, concerns around cybersecurity, data privacy, and regulatory challenges remain significant barriers to widespread adoption. The differential impact of fintech on commercial and investment banks suggests the need for tailored strategies for different banking sectors. Major Banks in India have responded by investing in digital transformation and strengthening their governance structures. Overall, while fintech presents both opportunities and challenges, it has the potential to significantly enhance the

performance and competitiveness of the Indian banking sector if managed effectively with proper regulatory support.

Further Research:

Further research is needed to explore the long-term effects of fintech on bank profitability, especially across different banking segments. Additionally, studies should focus on market-specific factors influencing fintech adoption in India, examine the role of emerging technologies like AI and block-chain, and evaluate the regulatory frameworks required to ensure secure and effective fintech integration in the banking sector.

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About the College

Himmatnagar Kelavani Mandal managed S. S. Mehta Arts and M. M. Patel Commerce College is one of the reputed colleges in Sabarkantha district. The college was established in the year 1965. In Himmatnagar, this college is known as 'MOTI COLLEGE'. It is affiliated to Hemchandracharya North Gujarat University, Patan. At present, the college has nine departments with the well qualified staff. The college offers UG and PG Programs in English, Psychology, Gujarati, Economics, Sanskrit and, Commerce.

The vision of the college is to provide quality education to all, especially to lower strata of society and having less privileged background with a view to improving the society, to prepare a community of responsible youths with higher education and thereby build up healthy society and nation, to motivate the students towards bright career building and work towards a harmonious social order and, to equip the students to face challenges with courage and commitment.

The mission of the college is to become an institution of academic excellence since its inception. Furthermore, to impart knowledge which is empowering and value based in nature, to increase self-confidence among the students and lead them towards their holistic development, to create a vibrant academic atmosphere which focuses on teaching, learning, and research programmes.

ABOUT THE CONFERENCE

One day national conference on "Research and Innovations in Multidisciplinary Subjects" (RIMS 2025) is the first national event organized by the IQAC of S. S. Mehta Arts and M. M. Patel Commerce College, Himmatnagar (Dist. Sabarkantha). Through this conference, the academicians and researchers will be able to present their innovative ideas in various subjects of arts, commerce, management and science at the national level.

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