Effectiveness of FinTech Software on Indian Financial Institutions

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Kamsala Pooja
T Manjunatha
Visvesvaraya Technological University
(kamsalapooja@gmail.com)
(tmmanju87@gmail.com)

Fintech software have grown widely during last decades and generated great impacts on traditional financial institutions and led to huge alteration in the ways of providing the financial services. The constant development of the financial services has stepped into new stage, where new entrants impact even more challenges escorted by threats. Questions started to appear about the future of the financial institutions, since the new entrants provide the same services of officials in an effortless manner. The aim of this study is to extend the existing knowledge about the current and potential effects of FinTech software on financial institutions.

Keywords: Fintech, Financial Institutions, Financial Services, Crypto Currency.

1. Introduction

Financial Technology (FinTech) is currently a matter of hot debate in the financial industry as the banking and financial institutions embraces technological innovations. In Indian bank and financial institutions facing lot challenges Banks will face increased dependency on tech it may be brings cultural changes also one of the challenge. This study concentrates on Fintech introduction to banking after that effectiveness of banking and financial institutions on Indian context. Dispite of that FinTech provides significant opportunities in terms of exploring new markets, enhancing market participants' interactions and improving efficiency. India has also experienced the marvels of financial technology in the banking and finance sector. For India, which is a cash-driven country, this is a step towards creating a cashless society. With a range of FinTech services, it has changed the way the people carry out daily transactions and handle their money. This dynamic transformation brought upon by the association of technology and the financial sector has opened a gateway for the FinTech ecosystem in India. Indigenous firms playing a significant role in the development of this massive industry include Gpay, Paytm, Phonepe, Mobikwik, and Free charge. At its nascent stage, this sector seems to be growing at a very rapid pace with market full of startups and support from the banking sector and the Government. According to a report by the National Association of Software and Services Companies (NASSCOM), there are about 400 firms in India with a large amount of foreign investments invested in FinTech market. Many researcher have made study on Fintech **Moayad Almoustafa Alterkawi (2019)** found that what impact fintech companies are having financial institutions in Sweden and the future research related to improvement of better service providing to customers. **Ahmed Taha Al Ajlouni and Monir Al-Hakim (2018)** found that challenges and opportunities faced by FinTech in banking industry. Explaining various scenarios describing the potential impacts of fintech on banks. **Nirvikar Jain (2018)** found that valuation of fintech for startup companies and also stated the methods which were using in traditional banking sector before introduction of fintech. **Zavolokina, Liudmilaet al.** found that there used explorative and descriptive approach to address the term "FinTech". The results of this paper show that FinTech is emerging in the financial industry. **Ms. Smrity Baiju, Prof. Ch. RadhaKumari (2017)** study found that the evolution of digital payment system, the countries where the system is under total implementation have been brought to light along with the government programs towards digitization and the latest developments that have intensified the need for digitization in India. **Chuen (2015)** found that there are five factors that affect a Fintech's success rate: low margins, light assets, scalability, innovation, and ease of compliance. **Schueffel (2016)** found that FinTech are companies that apply technology to improve financial activities. **Deutsche Bank Research (2014)** found that FinTech as modern technologies for enabling financial services, such as Internet-based technologies in the e-commerce field, mobile payments, or early-stage crowd-based financing of young companies. **Haddad and Hornuf (2016)** found that the economic and technological determinants of Fintechs in 69 countries. They show that financial markets witness more Fintechs when the latest technology is available in the economy because young companies require these technologies for their products. They also find that Fintechs occur more frequently in countries with a more fragile financial market.**Moayad Almoustafa Alterkawi (2019)** have observed that the development and the increase number of FinTech companies that provide similar financial services of the traditional financial institutions. Therefore, the tension that caused our interest is to investigate what impacts have FinTech companies on the traditional financial institutions in Sweden. Hence, we concentrate this study on increase number of fintech companies that provide financial services of traditional financial institutions to examine the effectiveness of fintech software on Indian financial institutions.

2. Objective

1. To analyze the effectiveness of FinTech software in Indian Financial Institution.

3. Methodology

In this research work based on secondary data we are focusing on the traditional bank concepts and its formation into the new segmental format here a conventional commercial banks efficiently valued on parameters like Net interest margins**,** Return on assets and Return on equity. We are planning to follow author James Chen from U.S. Federal Reserve.

1. A positive net interest margin indicates a bank invests efficiently and effectively, while a negative return implies it doesn't invest efficiently. It can be calculated by subtracting interest expenses from interest income, then dividing that figure by the average earning assets.

$$\text{Net interest margin} = \frac{(\text{Investment returns} - \text{Interest expenses})}{\text{Average earning asset}} \qquad \text{….1}$$

2. Return on assets: The return on assets shows the percentage of how profitable a company's assets are in generating revenue. ROA can be computed as below: This number tells you what the company can do with what it has, i.e. how many dollars of earnings they derive from each dollar of assets they control

$$\text{Return on assets} = \frac{\text{Net income *100}}{\text{Total assets}} \qquad \text{....2}$$

3. Return on equity: Return on equity is a measure of the profitability of a business in relation to the equity, also known as net assets or assets minus liabilities. ROE is a measure of how well a company uses investments to generate earnings growth.

$$\text{Return on equity (ROE)} = \frac{\text{Net income *100}}{\text{Equity}} \qquad \text{…3}$$

4. Data Specification

Our study is based on Effectiveness of Fintech software on Indian financial institutions. We planned to take ten public and ten private institution in Indian context and time period from ten years before implementation of Fintech and ten years after implementation of Fintech for our upcoming project.

5. Results and Discussions

As the report given by The U.S. Federal Reserve tracks we found that the average of net interest margin of all U.S. banks each quarter. It calculates the figure using data collected by the Federal Financial Institutions Examination Council (FFIEC). The central bank reported the average net interest margin of all U.S. banks at the end of the first quarter of 2019 was 3.36%.Net interest margins for the top three U.S. banks for the quarter ending Mar. 31, 2019 were:

JP Morgan Chase: 2.88%
Bank of America: 2.64%
Wells Fargo: 3.1%

The average of the top three 2.87% was below the national average. Capital One, which ranks among the top 10 banks in the country, though, had a net interest margin of 7.22%. And they have also checked that how savings accounts, credit card, auto loan and other loans proving to customers. It shows that efficiency has improved after introducing fintech into bank and financial institutions on an average of 2.87%.

6. Conclusions

In this paper we conclude that Fintech software in India is expected to grow into an $8 billion market by 2020. It is estimated to grow by 1.7 times. By introducing Fintech in to banking and financial institution in less than five years. As fintech innovate there are new use cases that are enabled with the help of technology, which can potentially expand their market. A simple example could be a drastic reduction in cash balances that customers keep, as fintech enable low-value peer to peer P2P payments. A real example in the fintech world is from wallet startups like Paytm using P2P transactions for enabling low-value payments to settle transactions amongst friends, splitting bills and making payments to small businesses. The opportunities of fintech would be Improved and more efficient banking processes, innovative uses of data for marketing, risk management purposes.

7. References

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