The Impact of FinTech on Traditional Banking: A Comparative Study of Consumer Behaviour and Financial Performance

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Enrolment Number (23GSOB2010298)

MBA 2023-2025

UNDER THE GUIDANCE OF
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Abstract

In recent years, Financial Technology (FinTech) has emerged as a revolutionary force reshaping the landscape of the global banking sector. With its promise of efficiency, cost reduction, and personalized services, FinTech has attracted a vast user base, particularly in developing economies like India. This study investigates the comparative impact of FinTech on traditional banking, with a dual focus: (1) analysing consumer behavioural changes, and (2) evaluating differences in financial performance indicators. The research integrates both primary data from structured questionnaires and secondary data from RBI, Statista, and global consulting reports. Results reveal a significant shift in consumer preferences towards digital banking, driven by convenience and interface quality, yet tempered by security concerns. Financially, institutions embracing digital innovation tend to exhibit better customer retention and cost efficiency. The paper concludes by recommending hybrid banking models and robust digital literacy programs to bridge the adoption gap and enhance financial inclusion.

Keywords: FinTech, Traditional Banking, Consumer Behaviour, Financial Performance, India, Digital Finance, Hybrid Banking

1. Introduction

1.1 Background

The financial services industry is undergoing a structural transformation catalysed by FinTech—an umbrella term for technological innovations that enhance or automate financial services. In India, FinTech innovations such as mobile wallets (e.g., Paytm, PhonePe), Unified Payments Interface (UPI), and robo-advisory platforms have gained significant traction. Their emergence has fundamentally challenged the conventional banking ecosystem, compelling traditional banks to reevaluate their operating models.

This shift is particularly pronounced in India, a market characterized by rapid smartphone penetration, a young population, and supportive regulatory frameworks such as Jan Dhan Yojana and Digital India. These initiatives have created fertile ground for the proliferation of digital financial services, often bypassing traditional bank branches. As a result, customer engagement strategies, service delivery models, and revenue mechanisms have been significantly disrupted.

1.2 Rationale for the Study

While FinTech's are lauded for their innovation and agility, traditional banks continue to hold the upper hand in trust and regulatory backing. Hence, understanding the evolving relationship between these two segments is essential. This study aims to bridge a research gap by comparing consumer preferences and financial outcomes across both models. It also explores whether FinTech is a threat, a complement, or a potential collaborator to traditional banking.

2. Literature Review

The academic and practitioner communities have extensively documented the disruptive potential of FinTech. Arner et al. (2016) classify FinTech development into three phases, with the current phase driven by smartphones, artificial intelligence, and API integration. This period, known as FinTech 3.0, has seen the democratization of banking services, reducing reliance on physical infrastructure.

Gomber et al. (2017) argue that FinTech firms outperform traditional banks in operational efficiency due to their lean structures and minimal compliance overheads. However, they caution that this efficiency often comes at the cost of regulatory exposure and limited consumer trust.

In India, the adoption trajectory has been particularly steep. According to the EY FinTech Adoption Index (2019), India ranks among the highest in global FinTech usage (87%), fueled by the growth of UPI and Aadhaar-based KYC systems. The KPMG Pulse of FinTech report (2021) further underscores a surge in digital payments and peer-to-peer lending, with major FinTech startups receiving large-scale funding.

Despite this, Frost (2020) notes that FinTech startups face challenges in cybersecurity and scaling infrastructure. Deloitte (2020) introduces the idea of "phygital" banking, where traditional banks incorporate digital touchpoints while retaining physical branches. This hybrid model offers an optimal blend of trust and convenience.

Hence, the literature supports the need for empirical validation of two hypotheses: (1) whether consumers perceive better service from FinTech platforms, and (2) whether traditional banks that collaborate with FinTech's outperform those operating independently.

3. Research Objectives and Questions

3.1 Objectives

- To evaluate the shift in consumer behaviour due to FinTech adoption.
- To compare financial performance metrics between FinTech firms and traditional banks.
- To assess the impact of hybrid models on customer satisfaction and institutional profitability.
- To identify key trust, security, and usability concerns among digital banking users.

3.2 Research Questions

1. How does FinTech adoption affect consumer banking preferences?
2. Is there a measurable difference in customer satisfaction between FinTech and traditional platforms?
3. Do traditional banks that adopt FinTech tools perform better than those that do not?
4. What are the primary factors influencing consumer trust in digital financial services?

3.3 Hypotheses

- H1: Consumers using FinTech platforms report higher satisfaction levels than those using traditional banks.

- H2: Banks that adopt FinTech solutions exhibit better cost efficiency and customer retention.
- H3: There exists a significant correlation between digital literacy and FinTech adoption.

4. Research Methodology

4.1 Research Design

The research employs a mixed-methods approach combining descriptive and exploratory analysis. Descriptive research is used to quantify consumer preferences and institutional performance metrics, while exploratory elements aim to understand qualitative nuances behind trust, satisfaction, and usability.

4.2 Data Collection

Primary Data: Collected via structured questionnaires targeting 100 individuals across urban and semi-urban areas. The survey focused on usage frequency, satisfaction, perceived security, and platform preference.

Secondary Data: Drawn from reputable sources including RBI publications (2020–2023), PwC reports, McKinsey & Company, Deloitte, Statista, and peer-reviewed journals.

4.3 Sampling Strategy

A purposive sampling method was adopted to target digitally aware respondents. The study population included working professionals, students, and small business owners. While this limits generalizability, it ensures rich, experience-based insights.

Sample Size: 100

Sampling Regions: Delhi NCR, Mumbai, Bengaluru, Sonipat, Ambala

Target Demographic: Ages 18–45, regular users of banking services (both digital and traditional)

4.4 Analytical Tools

- Quantitative Analysis: Conducted using SPSS and Microsoft Excel. Tools include:
- Descriptive statistics (mean, standard deviation)
- Cross-tabulation and correlation matrices
- Chi-square tests for independence

Qualitative Inputs: Extracted from optional open-ended questions and analyzed thematically

4.5 Ethical Considerations

- The study adheres to ethical norms by ensuring:
- Informed consent for participation
- Anonymity of responses
- Use of data solely for academic purposes

5. Data Analysis and Interpretation The data was collected from 100 respondents using structured questionnaires distributed via online forms and direct surveys. Below are selected results with interpretations:

5.1 Platform Usage Preferences

- 34% use both FinTech and traditional banks equally
- 32% primarily rely on traditional banks
- 24% prefer FinTech platforms exclusively
- 10% do not use any formal financial services

Interpretation:

This suggests that while FinTech adoption is increasing, many consumers still rely on or trust traditional banks. The 34% hybrid users indicate a shift toward a "phygital" model.

- 5.2 Satisfaction Levels
- 35% are very satisfied with FinTech services
- 30% are moderately satisfied
- 25% express dissatisfaction
- 10% are neutral

Interpretation:

Although a majority report positive experiences, a significant portion still faces issues such as service reliability or lack of customer support. FinTech platforms must improve consistency.

- 5.3 Branch Visit Reduction
- 62% have reduced branch visits due to FinTech
- 20% still prefer physical branches
- 18% do not use digital platforms at all

Interpretation:

Digital platforms are effectively replacing in-person banking for many users, particularly in urban areas. However, access and trust issues persist for others.

5.4 Security Perception

- Only 14% feel fully secure using FinTech platforms
- 54% feel “somewhat secure”
- 22% feel insecure
- 10% avoid FinTech due to fear of fraud

Interpretation:

Security remains a top concern for users. FinTech providers must enhance transparency, data protection, and fraud prevention mechanisms.

- 5.5 Reasons for Using FinTech
- 38%: Faster transactions
- 28%: Cashbacks and rewards
- 20%: Better app interface
- 14%: Lack of time for bank visits

Interpretation:

The primary driver for adoption is speed and usability, with rewards also being a key motivator. Convenience continues to outpace traditional value metrics like personal service.

6. Discussion

The results confirm a transition in consumer behavior where digital tools are becoming preferred for routine financial activities. However, traditional banks are still favored for large transactions, loans, and insurance—indicating that trust and regulatory assurance are critical.

Key Themes:

- **Hybrid Adoption:** Many users prefer a mix of traditional and FinTech services. This supports the emerging trend of hybrid banking models.
- **Demographic Divide:** Younger, digitally literate users are more likely to adopt FinTech, while older or rural users show reluctance due to limited access or low digital literacy.
- **Security Concerns:** Data privacy and cyber fraud remain significant barriers to FinTech adoption. Regulatory frameworks and cybersecurity infrastructure need strengthening.
- **Performance Gap:** FinTech firms outperform traditional banks in UI/UX and cost efficiency, while banks retain customer loyalty and higher trust scores.

These findings align with global research by Deloitte (2020) and EY (2021), which show that digital transformation, when paired with customer-centric models, improves both engagement and profitability.

7. Conclusion

This study offers evidence that FinTech platforms have significantly influenced consumer expectations and banking habits. They have introduced a new level of convenience, personalization, and efficiency, challenging the traditional banking model. However, full FinTech dominance is unlikely due to persistent trust and security concerns.

Key Conclusions:

- FinTech is **complementary, not a replacement** to traditional banking.
- **Consumer trust** remains stronger with traditional banks, especially for high-stakes services.
- **Security and user experience** are key battlegrounds for FinTech firms.
- **Hybrid models** represent the most sustainable path forward for financial institutions.

Managerial Implications:

Banks must accelerate digital transformation while FinTech firms must build user trust. Policy makers should create balanced regulations that encourage innovation without risking consumer security or market stability.

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