International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 09 Issue: 06 | June - 2025 SJIF Rating: 8.586 ISSN: 2582-3930

The Impact of FinTech on Traditional Banking Models

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Abstract

This study explores how FinTech (Financial Technology) is transforming traditional banking in India. Over the past decade, rapid technological advancements have led to the emergence of FinTech platforms that offer faster, user-friendly, and more affordable financial services compared to conventional banks. Through a structured questionnaire survey, this research examines customer preferences, behaviors, and perceptions toward FinTech versus traditional banking. It investigates how banks are responding to these changes through digital transformation and partnerships. The findings reveal that younger demographics favor FinTech for daily transactions due to convenience and speed, whereas traditional banks retain trust for large-value and long-term services. The study concludes that FinTech is not replacing but reshaping traditional banking, urging collaboration and innovation. Key recommendations are provided for banks, FinTech companies, regulators, and consumers to ensure a secure, inclusive, and efficient financial ecosystem.

Introduction

The global financial landscape has undergone a paradigm shift with the rise of Financial Technology (FinTech). In India, this transition has been accelerated by increasing smartphone penetration, government initiatives like Digital India, and evolving customer expectations. FinTech innovations such as UPI, mobile wallets, robo-advisors, and neobanks offer faster, cheaper, and more personalized alternatives to traditional banks. Conventional banking, once reliant on branch networks and bureaucratic procedures, now faces disruption and the need for rapid adaptation. This study focuses on how Indian consumers interact with FinTech services and how banks are responding to this shift. The objective is to assess the scale of disruption, consumer preferences, and the strategic responses from traditional banks.

Literature Review

Existing literature identifies FinTech as a disruptive force in the financial services industry. Arner et al. (2016) termed FinTech the 'Fourth Industrial Revolution' in banking. Gomber et al. (2018) highlight how FinTech allows the unbundling of banking services, enabling customers to pick and choose services from different providers. Zetzsche et al. (2020) point out that banks face a digital dilemma – either adopt emerging technologies or risk irrelevance. Indian studies show the role of RBI's UPI, Aadhaar-enabled payments, and regulatory sandboxes in promoting FinTech innovation. While FinTech offers better user experience and convenience, concerns around cybersecurity, regulatory compliance, and data privacy remain. This research builds on these foundations to offer empirical insights into Indian consumer behavior and institutional adaptations.

Research Methodology

This study follows a descriptive and exploratory research design using primary data collected via a structured questionnaire-based survey. The survey targeted individuals between 18 and 50 years old from urban and semi-urban areas in India. The questionnaire included multiple-choice, Likert scale, binary, and open-ended questions covering demographics, service usage, perceptions, and preferences. The sample consisted of 100 respondents, chosen using purposive non-probability sampling. Data was analyzed using Excel and SPSS tools, applying statistical techniques such as correlation, regression, and descriptive statistics to interpret user behavior and sentiment.

Results and Discussion

The survey results show that 93% of respondents are aware of FinTech platforms. Google Pay, PhonePe, and Paytm are the most used apps. 45% of participants prefer FinTech for regular transactions, while only 25% stick to traditional banks. Key factors driving FinTech preference include speed (average rating 4.6/5), ease of use (4.7), and innovation (4.8).

Traditional banks scored higher on trust and security (4.3). Younger consumers (ages 18– 35) and those with higher incomes prefer hybrid models, combining the trust of banks with the agility of FinTech. The regression analysis revealed that speed, convenience, and cost- efficiency are the most influential factors affecting FinTech adoption. However, users still rely on banks for high-value and formal transactions, indicating coexistence rather than replacement.

Conclusion

FinTech has significantly altered the financial services landscape, creating opportunities for innovation and inclusion. This study concludes that FinTech is not a replacement for traditional banking but a complementary force. Consumers increasingly prefer FinTech for convenience and user experience, while traditional banks maintain relevance through trust and regulation. A hybrid model is emerging where collaboration and digital transformation are key. Banks must evolve by investing in modern technologies, and FinTech firms must prioritize security and compliance to gain long-term trust.

Recommendations

1. Traditional Banks: Accelerate digitization, invest in UX/UI, and collaborate with FinTech firms.
2. FinTech Companies: Focus on transparency, security, and outreach to underserved demographics.
3. Regulators: Introduce a FinTech-specific regulatory framework and promote digital financial literacy.
4. Consumers: Practice cyber hygiene, compare services, and stay informed through credible financial education.