Fin Tech: A New Avenue of Banks to Enhance Customer Digital Experience (DX)

Landa Ramesh

***Abstract:** The rise of fintech startups and the broadening ambitions of the world's digital titans are putting increased pressure on traditional banks, insurers, and other players. Customers no longer expect their bank to provide the best digital experience (DX) amongst its peers, but amongst all the organizations they interact with. Due to a plethora of data, fintech startups have gained significant grip, by introducing innovative and successfully offering products and distinctive solutions for consumer demand, efficiently and conveniently at lower transaction cost. In view of increased number of digitally enlighten customer and rising adoption rate of finTecc, the banks and fintech firms should not view as a rivalry to each other but as collaborative partner on the grounds of their relevance and interdependence. The paper discussed the rationality behind collaborations of Banks with FinTech Startups, challenges and supportive Environment.*

***Key words:** FinTech, Bank, Collaboration, Digital Experience (DX).*

I. INTRODUCTION

Technological innovations have made it possible to create a million different experiences for a million different people. Customer satisfaction is moving around creating personalize the conversation, experience, and interaction has a higher chance of being successful. Overall, India's banked consumers rank, Digital Self-service as the most important attribute to their banking relationships, followed by Digital Payment. The impact of technology on finance is changing the world and FinTech (Financial Technology) became the forefront of the present global revolution. The role and relevance of banks and financial institutions are minimized by the digital disruption, and at the same time it helps them to provide better, speedy, and economical services to its customers. FinTech has changed the traditional concept and has led to digitization of every possible area of Banks. Traditionally, to get a loan to start a venture, customers need to approach a bank and go through all sorts of procedural hurdles to obtainrequired loan. However with advent of finTech startups, no longer does it takes months of meetings, paperwork, time and money to raise the capital to start a venture. Banks are looking to spin maximum benefits from deploying FinTech not only in their payment transactions but also trying to use FinTech in many ways across the whole value chain, in order to minimize organizational risk and to enhance customer service and satisfaction. In fact the emerging FinTech start ups are created a platform for new horizon where the banks and credit unions should find the appropriate blend of finTech solutions and traditional banking.

II. NEED FOR THE STUDY

Open banking ecosystem allow other institutions to access banking or financial information data in real-time, enabling them to integrate their respective systems, processing the data and offering more valuable insights and services through a software or application (app). Digital technology has transformed consumer habits and the usage of Smart phones, Apps, at greater extent, allow customers to access the variety of service instantly as per their convenient. Digital transformation is compelling the banks and financial institutions to change their business models and to adapt the new market reality and to rethink how they interact with their customers.

The emerging of global FinTech industry a decade ago, with its intensified growth and innovative applications, most of the banks and financial institutions has viewed them as a threat to their existence. Operations of Banking and Financial institutions now days at greater extent rely on Information Technology platform due to innovative service offerings, customer real time experience and response time, and also banks are drastically reducing costs and operational intricacy by relaying on third-party service providers. In order to leverage their potential, banks should take fuller advantage through entering into value-creating collaboration with FinTech Startups. In order to reap the full benefits of innovation, banks and FinTech firms need to be working together. They must go long term partnership otherwise, they may perish. At present, globally reputed banks are exploiting an innovative and multitude of approaches to collaborate with FinTech startups. Such partnerships result in slash their long-standing costs while shielding their market share by initiating innovative banking products for their customers. Collaborations with FinTech Startups, will really advantageous to the banking industry to create more delightful customer through enhanced and real time customer digital experience. Hence the paper entitled "FinTech: A new Avenue of the Banks to enhance Digital Experience (DX)" aims to analyze the rationality behind collaborations of Banks with FinTech Startups, challenges and supportive Environment.

Objectives:

1. To understanding the significance of Banks' collaboration with FinTech startups to meet the changing expectations of technological driven consumers.
2. To analyze the issues related collaboration as a new avenue in generating new business and enhance customer Digital Experience (DX).

Revised Version Manuscript Received on 15 May, 2019.

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3. To study the underlying challenges and supportive environments for such collaborations.

Material and Methods:

The study is purely based on exploratory cum analytical approach and secondary data. The data has been collected from various publications, Journals, reports such as follows:

1. Report of the Working Group on FinTech and Digital Banking, - RBI, November, 2017
2. The SAP Australian Digital Experience Report 2017.
3. World FinTech Report 2017, By Capgemini and LinkedIn, in collaboration with Efma.
4. 4th year, the annual FIS™ Performance against Customer Expectations (PACE) findings2018.
5. Global Fintech Report Q2 2018.
6. EY FinTech Adoption Index 2017

III. BANKS – DIGITAL TRANSFORMATION

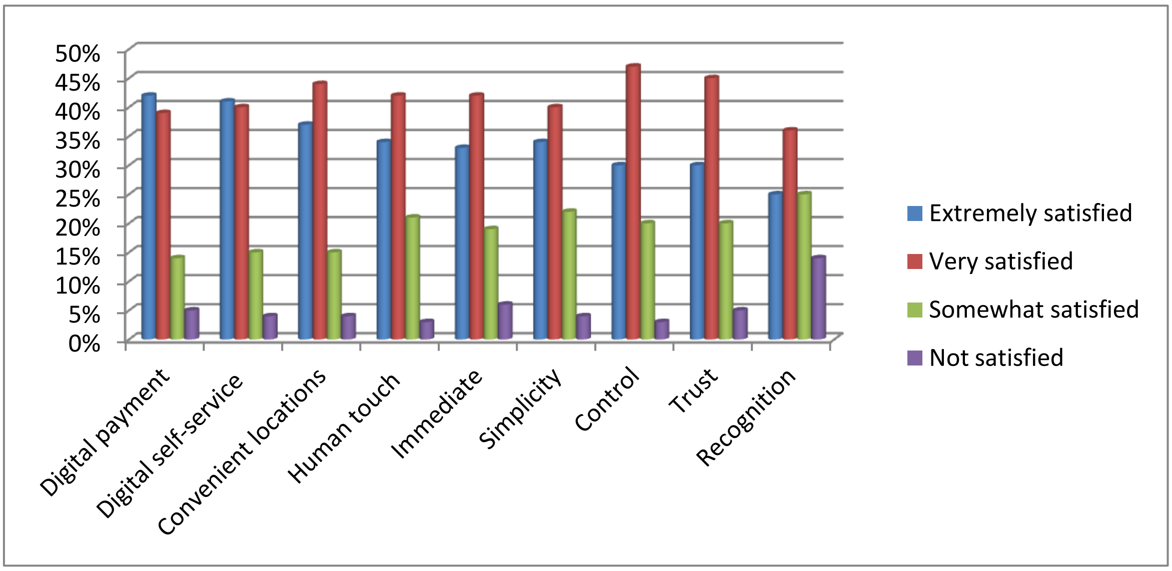
The fundamental feature of any bank is that they have a long - standing culture of branch- centric banking. Traditional Banking wait for the customer to enter into the branch with their problems, where the new digital technologies has made banks to move to be more proactive and to handle all the queries of customer through the digital channels. According to Fintech Adoption Index (2017), a survey to find out country wise digitally active population India at second place (52%) behind China (69%). Keeping in mind the speed with which India's payment landscape is developing, there is possibility of India takes over China in the not-so-distant future. According to Times of India, Digital payment transactions reached a number of 11.62 billion between April and November 2017, and are expected to increase to 18 billion in the coming fiscal year. It became possible because of the combination of cheap mobile data rates and the technological ease of digital payments. Overall, India's banked consumers rank Digital Self-service as the most important attribute to their banking relationships, followed by Digital Payment. Simplicity and Control are also important to all Indians but less so than digital banking. This highlights the country's rapid adoption of digital banking in its urban centers and consumers' desire to have convenient, immediate access to their financial accounts – all in all, a clear directive to India's banks to quicken rollouts of new digital capabilities.

Table1: Customer satisfaction with the bank services

Key Attribute	Extremely satisfied	Very satisfied	Somewhat satisfied	Not satisfied
Digital payment	42%	39%	14%	5%
Digital self-service	41%	40%	15%	4%
Convenient locations	37%	44%	15%	4%
Human touch	34%	42%	21%	3%
Immediate	33%	42%	19%	6%
Simplicity	34%	40%	22%	4%
Control	30%	47%	20%	3%
Trust	30%	45%	20%	5%
Recognition	25%	36%	25%	14%

Source: the annual FIS Performance against Customer Expectations (PACE) findings, 2018, page-7

Graph 1: Customer satisfaction with the bank services



Source: Table 1

In terms of the nine key attributes, Indian banks perform best in meeting customer expectations for Digital Payment followed by Convenient Locations and Digital Self-

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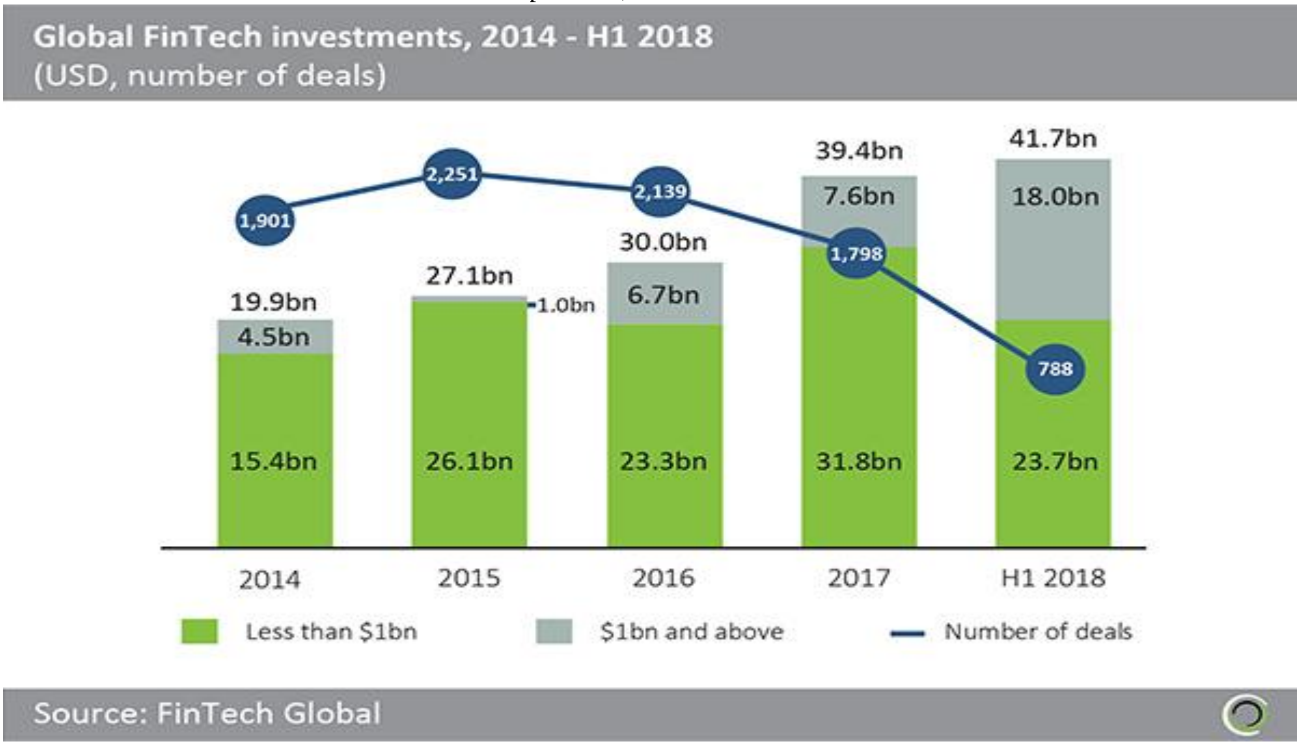
service. This shows that banks in India are doing a good job of understanding and meeting customers desires for digital banking.

IV. RATIONALE OF COLLABORATION OF BANK WITH FINTECH STARTUPS

1. Growing finTech innovation:

Fintech has astonished to the financial market and banks with its drastic an implausible growth, and attained many great achievements in recent past. Instead of customer physical presence in the banks to do all financial transactions, now, with the advent of Fintech innovative products, customers can operate all their transactions from any place and any time in accordance with their convenience and prompt way. The FinTech startups in India have grown a lot since its impetus and have witnessed the entry of multiple mature players, particularly in the area of payments transactions. Fintech offers services in the form of products, applications, processes and models, will really enhance the customer delight if these services are utilized properly by the Banks and Financial Institutions. The incredible growth of smart phones for mobile banking and investing services, is providing an impetus to the market and consumers also acknowledging their inclination towards FinTech products because of their enhanced, innovative applications in rendering financial service, particularly in areas of payments, loans and personal finance. The existence of number of start-ups in non-traditional banking sector has given stiff competition to the traditional banking and financial services firms. In response to customer changing preference bigger banks and financial institutions have also relying on finTech, in launching their own products and services to compete.

Graph2: growth of Global FinTech investment during 2014 to 2018(H1)



It can observe from the above Graph2 that the investments of Global FinTech have rised constantly between 2014 and 2017 from $19.9bn to $39.4bn and recorded Compound Annual Growth Rate (CAGR) of 18.5%. This tendency speeds up in the first half of 2018 when $41.7bn was invested across 789 deals.

2. Increasing awareness in customers

Recent times, due to evolved latest Information Technology, ICT facilities and Government initiations, customers are open to banking innovations and attract many private investors to invest. This impetus is creating an awareness among the public and leads to larger financial inclusion because all the people are connecting to the advance banking services and variety of financial products which will surely to play a key role in this transition. Collaborations effort of the banks with fintech startups will provide the perfect opportunity to leverage the full potential of the technology and will allow them to meet the demand of digitally savvy users.

According to EY FinTech Adoption Index 2017, in June 2017 digitally active consumers has risen considerably, from just one in seven digitally active consumers in 2015 to one in three in 2017. The report also reveals that in 2017, there are 84% consumers aware of the fintech facilities in comparison to just 62% in 2015. The same reports highlighted that the fintech adoption rate is expected to reach an average of 52% globally from the current rate of 33% in 2017.

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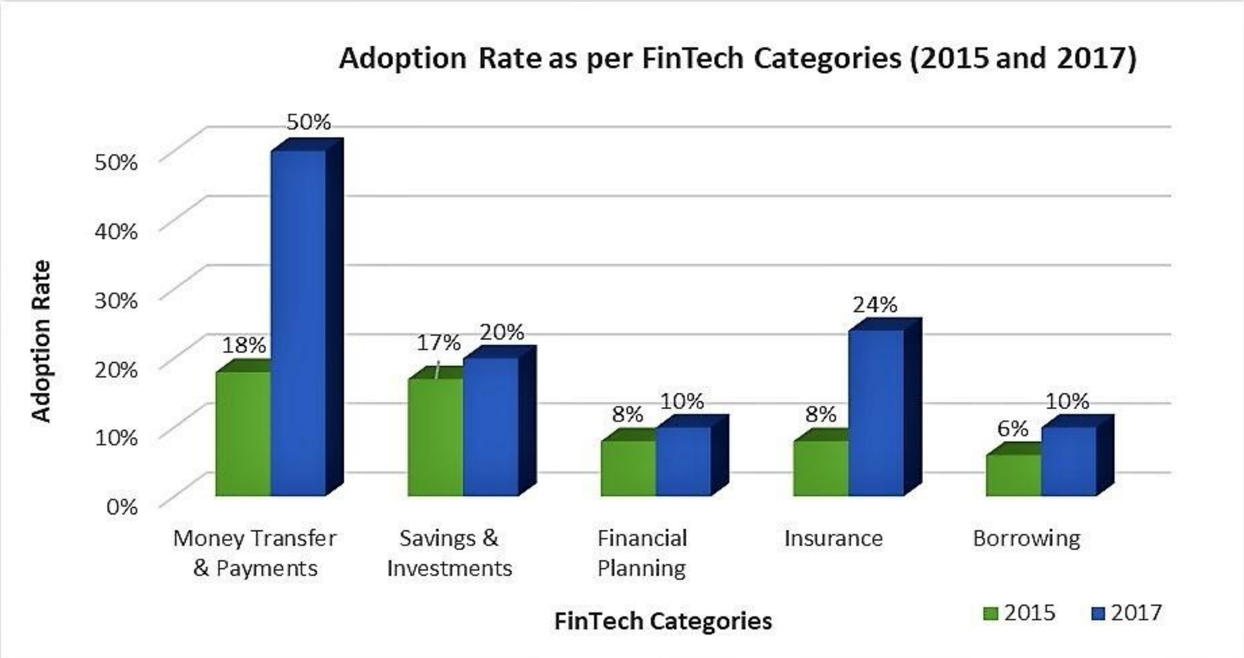
Graph3: Consumer Adoption rate as per FinTech Categories during 2015 to 2017



Source: EY FinTech Adoption Index 2017

It may be observed from the above Graph2 that the maximum usage of fintech is extending along the lines of payments and money transfers, with 50% of consumers choosing such services in 2017, in comparison to merely 18% in 2015. Such drastic growth in numbers could soon remove the boundaries between different financial services, laying down new standards for the industry during the process.

3. Win-Win situation

All three entities, banks, Financial Institutions and new finTech Startups are committed to serve the next generation banking experience to the consumer, which alone possible if these entities are collaborated. These collaborations can build based on win-win situation which provides the platform of mutually benefited and an even enhanced experience for the consumer than either institute can offer separately. The collaboration of bank with FinTech startup build remarkably worthwhile experience for both the collaborative partners and their customers through coalesce the customer knowledge, constancy, service assortment, and financial potency of traditional banks and with the data enrichment, user experience and modern platforms of finTech startups. On the other side the finTech firms that really desire to put up them keen on the structure of the financial arena, it is necessitate becoming facilitator, not competitor.

To sustain and move ahead of the slope, financial firms would benefit from the technical assistance render by the finTech startups. FinTech startups, their partnerships with financial institutions will provide access to funds for future growth and with joint efforts; their businesses will more likely be scalable and sustainable in the long run. In case of banks, such partnerships will be really rewarded in terms of lower costs, increased efficiency lesser redundancy and apt technical know-how.

Unified efforts can create an appropriate financial system that works for both the organizations. However such engagements should work with the highest integrity, strong level of security, and greater transparency to get the full benefits of the next wave of tech innovation.

V. SUPPORTIVE ENVIRONMENT FOR FINTECH STARTUPS IN INDIA:

In response to the constantly changing technological up gradation and customer expectation, a remarkable observation made by the government and the regulatory that the inevitable changes also has taken place in the Indian Fintech space.

1. The Government of India instigate ‘Startup in India’, a funding support initiative to support Indian startups through announcing of USD 1.5 billion to similar to the Venture capital funding, across various segments, including FinTech.
2. The Indian government has also announced income tax exemption for startups for the first three years which will be a relief for the Indian FinTech start ups.
3. In order to provide debt funding for startups Government of India started up ‘National Credit Guarantee Trust Company’ to provide credit guarantee mechanisms and also exempted the capital gain tax for investments in unlisted companies for more than 2 years.
4. In 2004 the government of India has launched the scheme of ‘Jan Dhan Yojana’, as a part of Financial Inclusion, with an objective of amplify banking penetration, by opening a bank account to every individual.

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With this initiation there are more than 240 million bank accounts were opened in the last 3 years, this trend will provide a good platform for finTech operations.

5. Though there is a constant rise of digital population in India, with around 370 million Internet users, still the internet penetration has recorded lower than forty percent.
6. Government initiatives a program of 'Digital India', aiming to penetrate digital services, as a result there is a sustainable growth of current FinTech startups and also endows with new market opportunities.
7. Initiation of Demonetization and encouraging cashless, has led to the emergency of new collaboration and the government has also announced tax rebates for merchants accepting more than fifty percent, if the payment made through electronic.
8. Aadhaar, a Biometric identification database, which holds the information of more than one billion, will be a gate way to implement finTech operations and to minimize the time and effort to do the first-time customer verification.

VI. CHALLENGING ENVIRONMENT FOR THE FINTECH STARTUPS IN INDIA:

1. The major challenges of finTech start ups are the absence of broad-based financial transaction infrastructure, particularly in rural areas of India, does not have bank accounts, credit score, ignorance of use of online transactions and Apps.
2. Obtaining loans from banks and financial institutions in India is moving around the regulations such as physical documents verifications related to identification, salary, legal representative copies of all documents, and signatures, and physical inspection of property which will be tedious and time-consuming.
3. High rate of Undocumented and unverifiable consumer data foster the risk of lending to non-traditional banking services even though they satisfy the norm of sufficient level of income.
4. In India, since, digital literate population is low, the currently designed non-traditional banking and financial services cannot facilitate to the vast majority of Indians and their service applications are limited only for the digitally literate population which constitute only 40 million and rest of the population remain untouched.
5. Lack of full-fledged credit schemes focused on woman entrepreneurs, social and crowd financing are areas that are to be required at large-scale disruptions.

VII. OBSERVATIONS

1. There is a technological evolution in Banks and financial services are rapidly has taken place, started with the introduction of credit cards in the 1950s, internet banking in the 1990s, online- payment technology, and the recent phenomenon is that finTech application, which really has made remarkable growth in the last 3 years.
2. Since the launch of online banking more than a decade ago banks have been leaders in providing great Digital Experience (DX). But as more and more services have been translated into the digital world, challenges have arisen in taking complicated processes and delivering them online, especially when they are based on aging technology.
3. Since the 'Cloud sourcing' is one of the areas where banks can share important resources (like software packages and analytics) in a cost-effective manner, however it may also leads to a possibility of high risks surrounding data security, privacy, money laundering, cybercrime and customer protection.
4. The numbers of consumers are increasing who are ready to incorporate technological innovations in their daily lives, mobile data is getting cheaper, government's initiation really boost up the private players to invest more in finTech startups.
5. . The high rate of growth in finTech applications may leads to more technology interdependencies between market players (banks, finTech and others) and market infrastructures.

VIII. CONCLUSION

Evolution of FinTech applications really helps non-traditional banking and proved as successful venture past few years. It also attracts more number of private players. Banks are setting a high standard for Digital Experience (DX) compared to other sectors. The challenge now is to continue lifting those standards when consumer expectations are also rising, and the emerging FinTech startups are providing more flexibility, better functionality in some areas, and aggregation of services. At this Juncture the banks need to adopt a tendency to increase investment in FinTech, rethink service distribution channels, especially the business-to-consumers models, and increase further standardization of back-office functions. Finally at present banks do not see fintech companies as disruptors anymore, but they are more like partners who paired-up to take on the challenges of a new digital India. This collaboration combines the strengths of both the administration of fintech with the strength and reach of traditional banking.

Conflict Interest: Nil
Source of Funding: Self
Ethical Clearance: It is a part of regular research study

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