



Critical Analysis of Fintech for Retail Banking Optimization with reference to leading Private Banks in India

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Abstract: The study aims at analysing the adoption of Fintech for the optimization of Retail banking segment of the leading Private Banks in India. The private banks have traditionally confined their business to the urban clustered and have more focused on the wholesale and NRI banking services. The rural presence of Private Banks in India is significantly lower than their public counterparts. With the advent of Fintech, Private banks have got an avenue to reach the prospective retail customers that have been earlier leaning towards the public banks. The usage of Fintech has pushed Private Banks to offer Zero Balance Basic Savings account to the customers online through app or website with minimum documentation. Banks even leverage the fintech to analyse the credit profiles of the customers and offer Credit Cards, Home Loans, Salary based Credit to the prospective clients. The study has found significant surge in the retail banking outreach of the private banks post adoption of fintech. Also, many retail brands have partnered with the Private Banks to launch co-branded credit card to target certain retail segments. Fintech has also enabled private banks to facilitate the customers to avail various utility services, such as recharge, bill payment etc. directly from the bank account through app or web interface. The marketing techniques of the private banks in terms of offers, discount through their debit and credit cards on e-commerce sites like Flipkart, Amazon has increased the presence and acceptability of private banks manifold in the retail banking segment. Fintech has also entailed advanced features like fraud prevention, usage diagnostics which has also helped private bank to gain popularity among retail customers.

Key Words: Fintech, Private Bank, Digital lending, Mobile Banking, Credit Card, M-Wallet, Retail Customers.

1. INTRODUCTION:

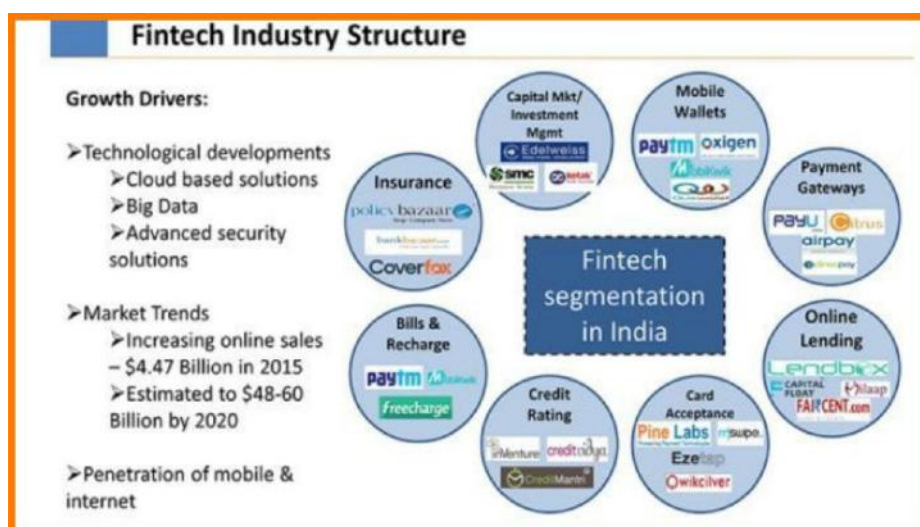


Figure 1: Fintech Industry Structure

The Indian Banking sector is traditionally dominated by the Public Sector Banks with their vast networks of Urban and Rural branches. The outreach of the Private and Foreign Banks is mainly confined to the urban clusters with primary focus on Wholesale Banking and High Net Worth Retail Customers. With the advent of fintech in the last few years, banking business has been revolutionized with increased outreach, easy access, improved service and Cost



efficiency. The state-of-the-art technologies in the financial sector has overhauled the face of financial service from online opening of bank account to digital lending to E-payment and remittance services. The cutting-edge financial technology has also helped the banks improve security features, assess creditability of borrowers, devise curated product to cater to the needs of varied classes of retail customers. Private Banks have taken this golden opportunity to shift their focus from wholesale to retail segments to capture the previously untapped market. As per the report of McKinsey, the Private banks in India that have embraced digital technologies have been able to augment their sales and revenues by 4% and 16% respectively through improved customer relationship and increased product cross-selling. The usage of fintech has also fostered research and innovation along with changing the behavioural pattern of the customers with higher inclination towards the ease and efficiency of digital banking. The recent addition of Blockchain and Cloud-based Technologies has enabled the Private Banks to revolutionize their domestic and foreign remittance services, Credit profiling and data security. All the leading Private banks in India are marching towards the digitization and have forged a competitive environment in retail banking segment.

2. REVIEW OF LITERATURE

Berger (2003) highlighted the impact of information technology in banking on the improvement of Customer service as a result of increased productivity of the banking system as a whole. He viewed that with the passage of time financial services Industries would turn out to be a specialized segment catering to the needs of Consumers based on their needs and preferences.

Frame et al. (2019) pointed out that the innovation in financial technology is set to transform the financial sector with the newly launched technologies, such as Peer-to-Peer Lending, Cryptocurrencies, Smart Contracts etc. The game-changing aspect of these new-age fintech application is the non-intermediated transactions, that could change the face of banking in coming decades.

Fuster et al. (2019) in their study has focused on the impact of fintech in banking business. They found out that the usage of financial technology has improved the productivity of Mortgage Lending in terms of both cost and time efficiency. Fintech has enabled to maintain a proper centralized record of mortgaged property and enabled quick and transparent disbursement of loan to the mortgager.

Buchak et al. (2018) in their paper has explained the variety and diversity of fintech products. They have classified the products provided by the banks that is driven by the financial technologies to overhaul the traditional banking functions, such as deposit, lending, remittances etc. However, the products offered by the Non-Bank Institutions have been kept out of their purview in explaining Fintech.

Thakor and Merton (2019) advocated that despite the usage of fintech, Banks have an inherent advantage over the Non-banks and P2P lenders in terms of lending. This advantage is attributed to the investor trust that the banks have garnered due to their low-cost deposit funding and brand images. Although there are problems of incentives and complex process, Banks still enjoy an edge over others in capturing the market even with the presence of fintech-based product and services.

3. RESEARCH GAP

After reviewing the research articles, following research gaps have been identified.

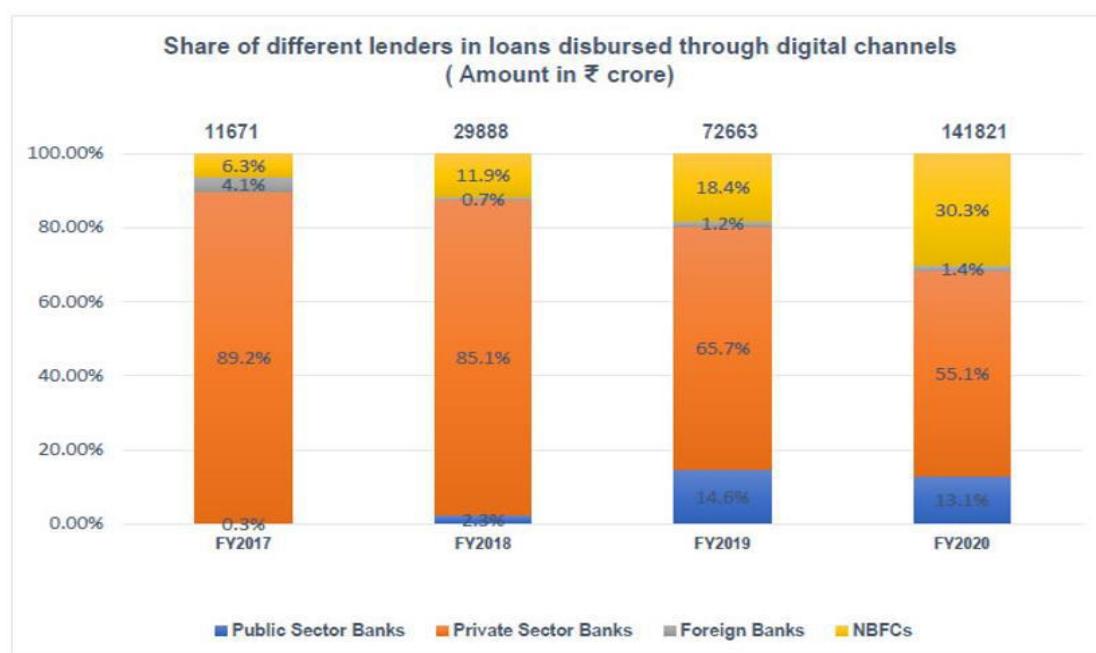
- Progress of Private Banks in the field of digital lending needs to be focused.
- The proliferation of fintech in terms of Mobile Banking and E-Wallets need to be explored.
- Channels of Retail Customer service that can leverage the fintech needs to be focused.
- Outreach of financial technologies needs to be examined both in terms of value and volume.

4. OBJECTIVES OF THE STUDY

1. To identify the extent of usage of financial technologies by the Private Banks to tap the Retail Customer base.
2. To examine the success of various products curated to serve the retail customers backed by the application of financial technology.
3. To check out the coverage of retail market segment by the Private Banks in terms of banking, lending and payment services.

5. DATA ANALYSIS

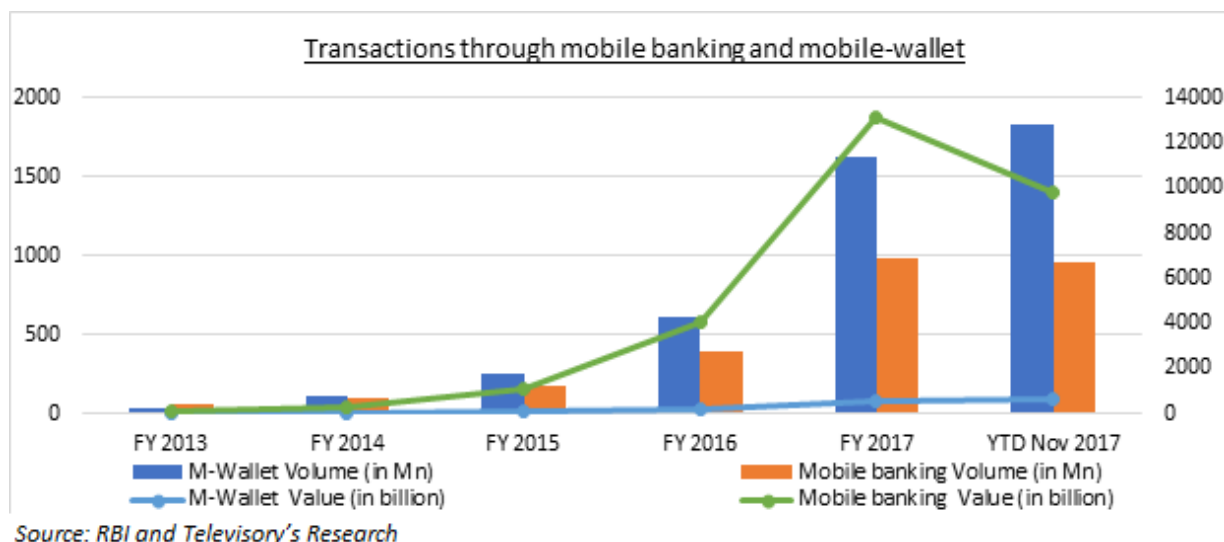
5.1 Fintech in Lending



Graph 1: Digital Lending through various channels

The above figure depicts that highest proportion of lending activities undertaken through digital channel were undertaken by the Private Banks in the last few years. The share of digital lending of Private banks were highest at 89% in 2017 and 85% in 2018. Although the share of digital lending of Private banks went down in 2019 and 2020 with the emergence of Public Sector banks and NBFCs in this arena, this sector is still being dominated by the Private banks, which are optimally leveraging fintech in growing their credit outreach to the retail customers.

5.2 Mobile Banking and E-Wallets



Graph 2: Transactions through Mobile Banking and M-Wallets

The usage of Mobile Banking and M-Wallets have increased significantly from 2013 to 2017. While in 2013 and 2014, the volume of Mobile Banking and M-Wallet was almost same, the picture changed from 2015. For the three years starting from 2015 to 2017, both types of digital usage have shown tremendous growth with the M-Wallets exceeding Mobile Banking in both volume and value.



#	App Name	Current Installs	Active App Users	Usage Time
1	Axis Mobile	2.19%	14.18%	00:03:51
2	ICICI Mobile Banking - iMobile	2.59%	12.08%	00:03:41
3	HDFC Bank MobileBanking	3.45%	10.33%	00:03:25
4	State Bank Anywhere	3.10%	10.15%	00:03:25
5	Kotak Bank	0.55%	15.91%	00:03:48
6	State Bank Freedom	0.88%	8.75%	00:04:13
7	Bank of Baroda M-Connect	0.34%	12.47%	00:03:14
8	Pockets - Wallet with card & UPI (by ICICI)	0.39%	10.71%	00:23:30
9	Federal Bank - FedBook Selfie	0.22%	13.14%	00:02:16
10	State Bank Buddy	1.00%	5.86%	00:06:04

India, Android Data, August 2016

Data By SimilarWeb

Table 1: Installation and Usage pattern of different application launched by leading Banks in India

The growth figures in digital banking services presented above is supplemented by the efforts made by various Private Sector Banks in launching Mobile Banking Wallets and Application to tap the Retail Payment and utilities segment. Kotak Bank App has recorded highest percentage of active users with Axis Mobile, ICICI iMobile, FedBook Selfie, HDFC Mobile Banking also holding a significant proportion of user base. HDFC App has seen the highest installation percentage. Wallets such as Pockets promoted by Private Banks (ICICI Bank) is also a forerunner in the digital service segment with the highest usage time of the customers. This is evident from the facts and figures that the Private Banks have well utilized fintech to capture the digital payment utilities segment for the retail customers.

5.3 Issuance of Credit Cards



*As of May 2017

Source: RBI

Table 2: Issuance of Credit Cards by leading Banks in India and corresponding Transaction Value

In terms of issuance of Credit Cards, Private Banks are also in forefront. As of 2017, HDFC bank issued 88 lakhs Credit Cards, which is highest number of Credit Cards issued by an Indian Bank and also highest in transaction value. Apart from the public lender, SBI, the top five spots are occupied by the other three private banks, namely ICICI, Axis and Citi Bank, having issued 43 lakhs, 35 lakhs and 26 lakhs of Credit Cards respectively. The top four Private banks together accounted for almost 80% share in issuance and 87% share in transaction value in the Credit Card segment.

6. CONCLUSIONS

From our above analysis, we have drawn out some conclusions on the usage of Fintech by the leading Private Banks in India to optimize their retail banking business.

- Private Banks have been forerunner in leveraging fintech in identifying, assessing, sanctioning and disbursing loans. They all along hold the highest share in digital lending among all the banks and NBFCs.
- With the growing demand of Mobile banking and E-wallets especially by the push of Demonetisation, Digital India, rollout of UPI, the leading private banks are seen to partner with various non-bank entities to launch M-wallets and also launching their own Mobile Banking Application to meet the demand of retail customers in making digital payment and utility services.



- Highest proportion of Credit Cards are issued by the leading Private Banks of India to extend their outreach to the affluent middle-class population. Not only in numbers, the Private Banks have also optimized the Credit Card business in value terms.

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