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Fintech Startups and Their Influence on the Transformation of Traditional Banking in India

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Abstract

The traditional banking industry has been significantly transformed by the rise of financial technology (FinTech), which has revolutionised the delivery, regulation, and accessibility of financial services. Financial technology encompasses a broad spectrum of digital innovations, including but not limited to smartphones, online payment systems, blockchain technology, artificial intelligence-driven financial services, and peer-to-peer lending platforms. This article discusses how FinTech firms have reshaped conventional banking in India. This research explores how FinTech companies have leveraged technologies like data analytics, blockchain, AI, and mobile banking to disrupt the banking sector and compel traditional banks to digitize their operations. It also investigates the opportunities arising from collaborations between banks and FinTech firms.

Keywords: Financial technology, Banking, Innovation, Financial services, Digital payment

Introduction

The term "FinTech," which stands for "Financial technology," has become somewhat of a cliché. Many innovative technologies and business strategies have been highlighted as potentially revolutionising the financial services industry. It is a completely new industry that emerged from traditional financial businesses. Various high-tech innovations are used by FinTech companies to provide financial services. The simple act of replacing paper-based procedures with software and apps is an example of FinTech in action. An AI surge is sweeping through the banking and insurance sectors. Almost every financial technology company has started adopting AI strategies to improve efficiency, reduce costs, and increase value. In the next decade, artificial intelligence will make it easier to optimize wealth, manage risk, generate higher revenues, and facilitate trading, banking, lending, and other vertical FinTech services.

From its humble beginnings in P2P lending and crowdfunding to its more modern iterations in blockchain technology, cryptocurrency, and automated investing, the scope of financial technology has expanded significantly. According to a survey by Capgemini and LinkedIn, 50.2%

of customers say they work with a non-traditional organisation in their financial transactions. Presently, investment in FinTech is not diminishing, according to most informed market watchers. Although FinTech companies received \$54.4 billion in 2018, a year-over-year increase, the number of deals closed fell from 2219 in 2015 to 1187 in 2018, according to FinTech Global, a publication based in the United Kingdom.

Financial technology has a wide range of potential uses, including but not limited to: trading and exchange (FX), digital wallets, mobile and retail banking, capital markets, risk and compliance, security and privacy, financial advisory services, and insurance companies. FinTech companies can reduce costs through innovation and adaptation, unlike traditional banks, which have high overhead and commitments. They are much more compact, nimble, and inexpensive than traditional financial institutions. In short, financial technology represents the latest advancement in the financial services industry. Major industry players are developing new products that could disrupt traditional financial markets. Several startups have shown interest in this sector, but some of the world's central banks, including Credit Suisse and HSBC, have developed

their own versions. Fintech companies utilise advanced technologies like artificial intelligence and big data to process customer payments.

One of the fastest-growing industries for new businesses aiming to compete with established banks is financial technology (Fintech), which emerged after the 2008 financial crisis. With the help of fintech companies, banks can reduce costs and gain a competitive advantage. Four major consumer sectors have been targeted by fintech startups. The first is the Business-to-Business Segment (B2B), which includes prominent regulated financial service providers with lengthy sales cycles and diverse value chains. The second sector comprises clients of financial institutions, consultants, traders, investment managers, enterprises, and SMEs, and is also known as business-to-business. The third sector is defined by the Business-to-Consumer (B2C) segment.

This sector involves small businesses seeking value and alternative funding options, and banks exploring these prospects in innovative ways. Additionally, the B2C segment includes consumers who look for the best deals for their financial needs and prefer internet banking over traditional methods. Since the 2008 global financial crisis, trust in banks has declined, prompting more people to turn to Non-Banking Financial Companies (NBFCs). As a result, customer experience has become a key focus for the banking industry. This creates opportunities for banks to reduce financial and regulatory barriers while improving consumer satisfaction through innovation and partnerships with startups.

The banking and financial services industries depend on FinTech's tools and software to operate efficiently. To challenge traditional methods used by banks and other financial providers, new companies have emerged to develop and supply these technologies.

Fintech companies in India

India has one of the world's most rapid growing financial technology markets. In the financial technology sector, India is home to 636 firms. India's fintech market is projected to reach USD 109.06 billion by 2031. In the financial technology industry, the leading businesses are:



Fig 1: Fintech Companies in India

Paytm

Paytm, meaning "pay via mobile," is among India's earliest and most well-known mobile payment and financial service providers. It offers a range of services, including customer

and business banking, lending, insurance, and payments. Users can make payments in-store at grocery stores, restaurants, parking facilities, pharmacies, and educational institutions using the Paytm QR code. It also enables online services such as recharging cellphones, paying utility bills, and booking tickets for events, movies, and vacations. Furthermore, Paytm facilitates trade transactions and disburses loans to small businesses.

Bharat Pe

BharatPe provides businesses with digital payment solutions based on Quick Response (QR) codes, enabling customers to pay using a variety of UPI apps via a single QR code. Along with simplifying cashless transactions, BharatPe also partners with licensed banks to offer small and medium traders working capital loans. The firm assesses a customer's creditworthiness and enables them to obtain a loan quickly and without providing collateral by analyzing data from their payment platform. In addition to enhancing merchants' liquidity, this integrated solution supports business continuity, financial inclusion, and India's digital payment ecosystem.

Lending kart

In 2014, it was established. Using big data analytics and machine learning algorithms, the business can detect fraud, assess a customer's creditworthiness, and disburse loans in under 3 days. Its data science and data engineering teams create data models for the main lending operation.

PhonePe

More than 440 million people use PhonePe, making it one of the most popular Fintech firms in India. This program is available in 11 Indian languages and allows users to send and receive money, pay bills, invest, buy insurance, and even buy digital gold. PhonePe is able to issue and operate a semi-closed prepaid payment system thanks to an RBI license, and Cloud Flare uses its services to protect mobile transactions.

Zerodha

When it comes to wealth management, it is the leading fintech firm. We may buy stocks, mutual funds, and other assets all from the comfort of our computer using this online platform. What makes this app so special is that it allows users to deposit commission-free mutual funds into their Demat account. This technology makes market data easier to understand and presents it visually.

Razorpay

Razorpay is a company that helps businesses with digital payment processing and payment gateways. Its main goals are introducing UPI-based transactions and supporting India's digital transition. Businesses can better manage their finances and organise online transactions using tools like subscription services and payment platforms.

Cred

In India's fintech sector, CRED is among the top businesses. Customers' perceptions of credit card bills are shifting thanks to this platform's user rewards. The reason is that it takes a novel method to pay down credit card balances.

Role of fintech startups in disrupting traditional banking

Startups in the financial technology industry have revolutionised the banking industry in several ways:

Improved Accessibility

New financial technology companies have used digital technology to radically alter how people access financial services. Many customers find it cumbersome to visit banks in person for traditional banking, particularly those in underserved or far-flung locations. By contrast, fintech companies provide their services through digital mediums, such as mobile applications and websites, allowing clients to transact at any time and from any location. Many people and small companies don't meet the high standards of conventional banks; thus, this accessibility is really helpful for them. And by making banking accessible to underserved and unbanked communities, fintech has democratized access to financial services. Innovative fintech technologies, such as digital wallets and mobile banking, help businesses fill this vacuum by providing essential financial services like loans, savings accounts, and payments without relying on physical infrastructure. The increased participation of individuals in the formal financial system has contributed to economic growth and stability.

Cost Efficiency

Fintech firms have a distinct edge over more conventional banks in terms of operational expenses. There are substantial running costs associated with the physical infrastructure that traditional banks have, such as branches and ATMs. Cloud computing, automation, and digital-first initiatives are used by fintech organizations to simplify operations and decrease overhead expenses. A key differentiator for fintech firms is their ability to offer lower rates and fees by eliminating physical branches and legacy infrastructure. Fintech companies can focus on improving the user experience and creating new financial products. This helps customers since they pay less for transactions and earn more interest on their savings.

Innovation in Products and Services

New financial technology companies are transforming the financial services industry by creating innovative products and services in response to changing customer preferences and technological advances. Examples include online payment systems, Robo-Advisors for automated investment management, and peer-to-peer lending platforms. A deep understanding of clients' needs and requirements, combined with agile development techniques enabled by technology, drives these innovations. While traditional banks may struggle to meet customers' unique needs due to their impersonal, one-size-fits-all approaches, fintech firms leverage data analytics and machine learning algorithms to deliver personalised financial solutions.

Enhanced Customer Experience

Fintech disruption is around the customer experience. Startups in the financial technology sector place a premium on user-friendly interfaces and user-centric design to streamline financial operations. Fintech companies enable consumers to make well-informed decisions by providing personalised suggestions and fast insights into their financial

health through seamless service integration and real-time data analytics. Another area where fintech businesses really shine is customer service. They use digital channels such as chatbots and AI-powered assistants to provide help at all hours of the day and night. Customer pleasure, loyalty, and confidence in the fintech brand are all enhanced by this level of accessibility and response.

Agility and Speed

Startups in the financial technology sector are known for their agility and ability to quickly adapt to market and regulatory changes. Fintech firms succeed in a fast-evolving industry where innovation and adaptability are key, unlike traditional banks that may be hindered by rigid legacy systems and bureaucratic processes. Due to their nimbleness, fintech companies can frequently launch new products and services, test theories, and improve their offerings based on immediate customer feedback. By proactively managing compliance requirements and working with authorities, they also navigate regulatory environments more effectively.

Partnerships with Banks

While fintech firms challenge the traditional banking model, they often collaborate with more established banks to improve their services. The combination of the regulatory certainty and consumer trust of conventional banks with the technical expertise of fintech companies creates a strong partnership. Financial institutions can use fintech technologies to enhance client interactions, streamline internal processes, or provide specialised financial products. By combining their strengths and addressing each other's weaknesses, these collaborations boost customer experience and strengthen market positioning for both parties.

Financial Inclusion and Empowerment

Startups in the financial technology sector have played a key role in expanding access to banking services for underserved communities. People and companies in this sector may lack physical access to a bank, have poor credit histories, or be unable to afford the fees associated with traditional banking services. Fintech companies provide banking access to underserved populations through innovative approaches, including online payment systems, alternative credit scoring methods, and microfinance platforms. For example, in underdeveloped nations, millions of people may use their cellphones to perform basic financial transactions, eliminating the need for traditional bank facilities.

Disintermediation of Financial Services

Startups in the financial technology sector have decreased the need for middlemen in financial transactions, thus disrupting the traditional banking industry. Traditionally, banks have acted as intermediaries for savers and borrowers by accepting deposits and lending them out for profit. In contrast, fintech companies have introduced P2P lending platforms that connect lenders directly with borrowers, removing the intermediary of traditional banks. Borrowers, including individuals and small businesses, can benefit from low interest rates offered by P2P lenders, while lenders, or investors, can earn substantial profits. This

disintermediation makes lending more open and efficient by significantly reducing borrowing costs. Additionally, blockchain technology enables Decentralized Finance (DeFi) systems that eliminate middlemen by automating transactions through smart contracts. Fintech firms aim to develop a more accessible and efficient financial system rooted in decentralization, openness, trust, and peer-to-peer interaction.

Data Privacy and Security

Data security and privacy have become major concerns as fintech has grown. To offer customers more tailored services and improve their overall experience, fintech companies often collect large amounts of financial and personal data. Despite the benefits of targeted marketing and product customisation, there are worries about data privacy breaches and unauthorized access. Fintech firms invest heavily in cybersecurity, encryption, and data protection laws such as the General Data Protection Regulation (GDPR) in Europe and the California Consumer Privacy Act (CCPA) in the US to address these risks. These legislations enforce strict data-handling standards, such as data anonymisation, consent management, and breach reporting, to protect customer information. Advances in biometric authentication also enhance security by reducing reliance on traditional passwords and PINs. By prioritising data privacy and security, fintech companies can secure their long-term success and growth in a highly competitive market, building trust with consumers and regulatory authorities.

Impact on Traditional Banking Revenue Streams

When it comes to important sectors like payments, lending, and wealth management, the fast expansion of fintech companies has shattered the income streams of conventional banks. People nowadays value speed and ease of use more than long lines at the bank, which may explain the meteoric rise of digital payment systems and mobile wallets. Borrowers seeking alternatives to conventional bank loans are also drawn to fintech lenders for their competitive interest rates and expedited loan approval. To keep up with the competition and keep their clients, conventional banks are working to innovate and improve their digital products. Traditional banks rely on fees for services like account maintenance and overdrafts to generate substantial income. However, fintech is challenging this model by emphasising fee transparency and reducing operational costs. To remain profitable amid rising consumer demand for fast, cost-effective financial products, conventional banks must embrace digital transformation and improve client engagement.

Shifting Consumer Expectations and Behavior

By providing streamlined digital experiences and tailored financial solutions, fintech entrepreneurs have transformed consumer behaviour and expectations. Fintech services that offer simple interfaces, quick funding, and real-time financial data are especially appealing to millennials and Gen Z. Due to this demographic shift, traditional banks are reevaluating their customer interaction strategies and increasingly focusing on digital initiatives to meet their

customers' evolving preferences. In response to fintech competition, many traditional banks now offer mobile banking apps with features such as budgeting tools, peer-to-peer payments, and remote deposit collection. Millennials and Generation Z value transparency, sustainability, and social responsibility in financial matters, which aligns with fintech's emphasis on financial education and empowerment. Fintech companies foster financial literacy by teaching individuals how to save money, invest wisely, and borrow responsibly. This approach gives people greater control over their financial lives and supports them in pursuing their personal beliefs and goals.

Opportunities Created by Fintech in India's Banking Sector

Financial Inclusion: Promoting financial inclusion presents a significant opportunity for fintech in India. Although mobile phone and internet usage increased in India during 2020 and 2021, nearly 190 million people still lacked bank accounts. An increasing number of individuals, especially in underserved or rural areas, can access financial services through fintech solutions like mobile banking apps, digital wallets (such as Paytm and PhonePe), and UPI (Unified Payments Interface). Fintech growth is supported by government initiatives that promote digital payments, including the Pradhan Mantri Jan Dhan Yojana (PMJDY) and Direct Benefit Transfers (DBT). As a result, underserved communities in India now have better access to digital payments, credit, and investment opportunities thanks to mobile technology utilised by fintech companies.

Digital Payments and UPI Growth

With the introduction of the UPI platform, digital payments in India have skyrocketed. Launched in 2016 by the National Payments Corporation of India (NPCI), UPI enables real-time, instantaneous transfers between bank accounts using cellphones. With a total value surpassing ₹170 lakh crore (approx. \$2.3 trillion) in 2024, UPI transactions skyrocketed from 2.3 billion in FY 2017–18 to over 90 billion in FY 2023–24. With the advent of UPI and other mobile wallets, such as Google Pay and PhonePe, electronic payments have become much more accessible. More and more Indian customers are turning to digital payment methods like UPI, which has reduced their reliance on cash, especially during the COVID-19 epidemic, as reported in the RBI Annual Report 2024.

Lending and Credit Access

When it comes to helping underprivileged people and small companies get the loans they need, fintech is a game-changer in India. People with a poor or nonexistent credit history have historically faced resistance from traditional banks when applying for loans. Microloans have been made available to underprivileged communities through fintech lenders like LendingKart and Capital Float, as well as peer-to-peer (P2P) platforms that use alternative data, such as social media activity and transaction history, to assess creditworthiness. Alternative credit scoring, P2P lending, and small-ticket loans are driving this expansion because they serve borrowers who have not had access to conventional banking services.

Wealth Management and Investment

Even in India, fintech has transformed how people manage their wealth. By providing affordable, technology-driven solutions to everyday investors, robo-advisory platforms such as Grow, Zerodha, and Upstox have democratised access to investing. For example, fintech investment platforms have played a significant role in the rapid growth of India's mutual fund industry. These platforms make wealth management more accessible by offering customers quick access to financial products and personalized advice based on data analytics and algorithms.

Block chain and Cryptocurrency

Although still in its early stages, blockchain technology and cryptocurrency are rapidly integrated into India's financial landscape. Potential uses for blockchain include secure digital identity management, international remittances, and supply chain finance. Despite ongoing legal challenges, platforms such as Ethereum and Bitcoin are seeing significant growth in user adoption. The Indian government is considering Central Bank Digital Currencies (CBDCs) as a potential asset class, and recent debates over crypto regulation are likely to influence the country's financial environment.

Conclusion

Traditional Indian banking has been fundamentally transformed by the rise of FinTech. Financial Technology (FinTech) companies have revolutionised the accessibility, convenience, and personalisation of financial services through innovative technological solutions. According to the survey, most consumers view FinTech as superior to traditional banks in terms of speed, efficiency, and suitability for everyday financial transactions. However, traditional banks still play a crucial role in services like loans and other long-term financial offerings. By effectively managing regulatory challenges, minimizing risks, and providing innovative solutions to meet the evolving needs of a digital economy, fintech will continue to influence the future of finance.

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