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Fintech's Impact on Economics Structure of India's Banking

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ABSTRACT

FinTech has transformed the banking industry's products, models, and institutions. It has also caused numerous issues while enhancing banking performance, posing a significant challenge to the financial industry. From the standpoint of economic structure, this study examines the impact of Fintech on the banking industry. FinTech is a "head effect" along with a "long tail effect" of the banking industry's market needs. It has reduced the level of banking products and strengthened the differentiation of products in terms of market barriers in new access; in terms of finance functions.

Keywords: FinTech, Economic structure, Banking industry, Banking regulation.

INTRODUCTION

Fintech and finance have a long history together, with information technology beginning to play a vital part in the financial industry in 1930 when the first generation of telephones was introduced. In the past, there was a combination of financial and technological processes that came under scrutiny, and many of these were new to the financial technology business. Although practitioners and academics have given little attention to the term "FinTech,". In the 1990s, the Financial Services Technology Consortium was dubbed "FinTech." Fintech became well-known in the financial business in 2010 after the financial crisis of 2008. Academics have characterized FinTech in a variety of ways. The three most important dimensions are technical qualities, financial functions, and physical institutions (Alt, Beck, and Smits, 2018; Gai, Qiu, and Sun, 2018). According to Arna's (2016) FinTech development stage separation, the fintech may be gap into three stages. FinTech1.0 refers to the use of digital technology between 1866 and 1967. The financial services industry is primarily concerned with information and transaction transmission; the second is the FinTech2.0 era, which runs from 1967 to 2008 and is characterized by the digitization of the financial industry as a result of advances in digital technology and communication; and the third is since 2008. New start-ups and technology companies are competing with existing financial institutions in the FinTech

3.0 age by delivering financial solutions, providing financial services to businesses and individuals, and using information technological innovation (Arner, Barberis, and Buckley, 2016). FinTech in banking is an example of the third phase of FinTech. FinTech is currently having an impact on traditional financial institutions not only internally, but it is also supporting banking sector change from the periphery with greater intensity and degree than ever before. The focus of financial regulatory reform has been on these issues. India stands now in making up an efficient economic regulatory structure based on banking regulations along with behavioral surveillance. One of them, "behavioral monitoring," have got recently gotten a lot of attention. Another important aspect of behavior regulation is how to observe the behavior of banking economic participants to establish a fair and competitive economic environment. The economic structure is a state expression of Economic interactions among Economic entities, according to the industrial organization theory. It is influenced by economic conduct and performance, and it has an impact on future economic actors' behavior and performance. As a result, this research looks into the analytical framework of FinTech's impact on the banking industry from the perspective of economic structure, to gain a better understanding of the current state of the banking industry under FinTech and the supervision that goes along with it, based on the advancement of FinTech's third stage. As a result, the research examines the impact of fintech on the banking sector from an economic standpoint to gain a better understanding of the current situation of the banking business as it relates to fintech and the advancement of fintech.

FINTECH'S IMPACT ON INDIA'S BANKING INDUSTRY

FinTech's impact on India's banking sector can be divided into two categories. FinTech start-ups help the banking sector grow by competing with established banking institutions on the outside. First, FinTech's technology and financial innovation components encourage internal banking industry innovation and reform. Through the above two approaches, FinTech has altered the banking industry's economic concentration, entry obstacles, and product differentiation. First, the banking, as indicated in Figure 1. FinTech's functional innovation elements aid this mechanism, and FinTech's arrival can help minimize economic concentration. FinTech's technology components have changed how banks create, resulting in a shift in entrance barriers in the banking business. Product differentiation is generally affected by technological and institutional variables, whereas production differentiation is mostly impacted by differences in financial functions. Financial stability and economic competition are inextricably linked in the banking industry's economic structure. This study will present empirical data for the development of banking regulatory policies from this perspective.

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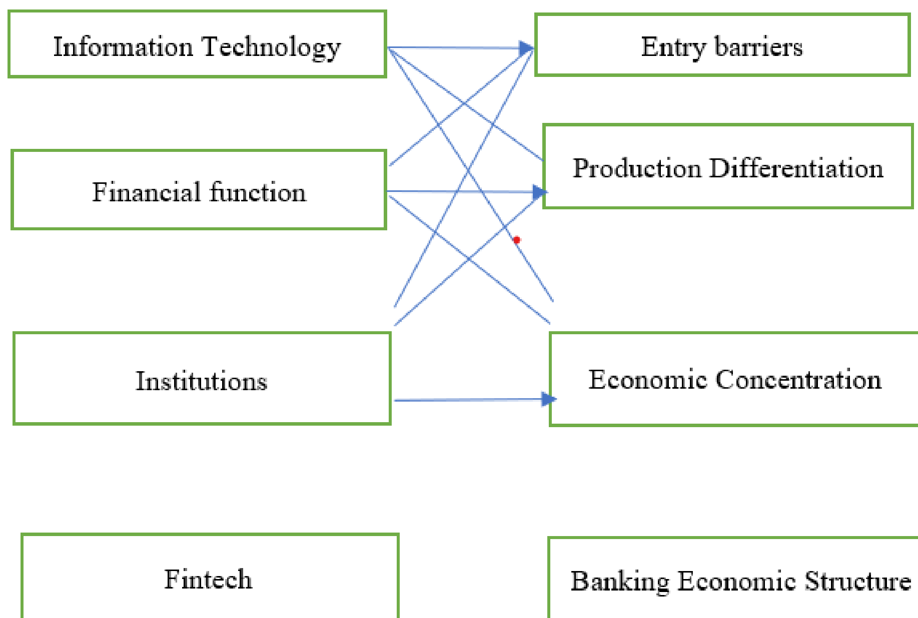

Fig.1 FinTech's economic impact on the banking industry

FinTech's Impact on the Banking Industry's Economic Concentration

The economic share of banking institutions is referred to as banking concentration. The more concentrated the economy is, the higher the economic share of the top few institutions. Factors such as pre-industrial need, access difficulties, lowest economic scale, economic scope, and economic need all influence changes in economic concentration. Product diversification and growth rate Two levels of supply and demand impact the size and economic share of institutions in the banking industry.The size and economic share of institutions in the banking business are influenced by two levels of supply and demand. FinTech disrupts the banking industry's economic concentration by altering the aforementioned factors. Simultaneously, the impact on banking's economic concentration varies by bank type, area, and business. On the supply side, FinTech has altered the manufacturing procedures of a variety of banking institutions. The banking business model has been altered by new financial products or services. As a result of FinTech developments, traditional interbank competition, FinTech businesses, and traditional banking competition have intensified. Generally speaking, the banking industry's economic concentration has decreased. Traditional banking institutions' economic share has been fragmented, particularly small-scale banks' economic segment, showing a considerable end result. This result of India's banking industry's economic-oriented transformation. The rise of FinTech, on the other hand, has increased competition in the financial sector. FinTech companies have surpassed traditional banking institutions in terms of market share, affectingassociatedsectors. However, since the turn of the century, the banking industry's Economization has progressed, and the amount to which FinTech has contributed to the fall in Economic concentration requires more empirical verification. FinTech, on the other hand, has some cost implications, such as financial system , capacity, and system budget. FinTech has allowed traditional banks to broaden their business and diversify their offerings, allowing them to retain the initial strong capital for development. Building a solid FinTech system will put you in a better position in the FinTech battle. Traditional large banks have been able to increase their

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business scope and diversify their services thanks to FinTech, which has allowed them to keep their initial strong capital for development. You will be in a stronger position in the FinTech struggle if you build a good FinTech system. FinTech contributes to this by expanding the financial economy's focus and increasing the economic share of large banks. The economic focus of FinTech firms is slowly expanding, and the economic structure is slowly exhibiting a top impact. According to a prior study, FinTech has a stratification effect on banking. It delivers multi-scenario and individualized financial services to fulfill the needs of capital suppliers and demanders who require economical, rapid, and safe financial services. FinTech can thus help traditional banking institutions minimize their economic concentration. concentration.

FinTech's impact on the barriers to entry in the banking industry

The interaction between incumbent firms engaging in the banking sector and entities entering the market is what the entry barriers for the banking industry are mostly about. Attempting to enter the banking industry, banks or financial institutions confront not only economic and policy entrance hurdles but also very high social barriers. Innovation and application of information technology are at the heart of FinTech. As a result, technical advancements are primarily responsible for the most visible changes in banking entrance barriers. As a result, the focus of this section is on FinTech's impact on the banking economy's entrance hurdles as well as policy. This is where the barrier is broken. FinTech has a major impact on economic entry barriers in two ways. Changes to current economic barriers, such as technical and information superiority barriers, are one type of change. The introduction of new economic barriers is the other factor. Overall, banking industry's technical barriers have been reduced as a result of FinTech's growth and development, as well as the verticalization of the company. Despite this, there are certain differences amongst banking services. FinTech has lowered the technical barriers to entry for businesses with low technical content that can be out, such as network lending, financing, and risk management, however, a financial revolution in technology has raised the problem to enter new businesses for services that require difficult and professional technology. FinTech has reduced the barriers to information domination and enhanced information competitiveness in the banking industry. To gather user information and deliver corresponding services promptly, is challenging for new enterprises to do so. FinTech has created a new set of entrance hurdles, primarily in the area of information access. When FinTech start-ups attempt to compete with established banks in the process of entry, access restrictions are primarily caused by port accessibility.

FinTech's influence on the banking industry's production distinction

In the economic world, production differentiation refers to the differences in product features. The two sorts of product characteristics that can be detected are horizontal and vertical differences. Businesses in the economy are actively generating to obtain economic autonomy, while the external environment is the source of these inequalities. The confluence of the two factors, namely economic share and concentration, results in the evolution of economic structure. Changes like these are part of the economic structure study. FinTech has changed the characteristics of products offered by the banking business in current years as a powerful external factor. When it comes to vertical banking business differentiation, FinTech has two opposed outcomes. FinTech has, on the one hand, steadily destroyed some of the original production differentiation. Establishing internet banking, intelligent networks, and other technologies that improve service efficiency while simultaneously widening the

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scope of the bank's physical operations and creating competition among national banking institutions can help banking institutions provide cross-regional distant services. Consumers now have access to cross-regional financial services that are instantaneous and rapid. FinTech innovation has, in this regard, minimizing the physical product distinctions between banks.

FinTech, on the other hand, has widened other product distinctions, owing to technology differences in production, such as software differentiation. Fixed assets or intangible assets will also be used by financial institutions to deliver diversified service goods, increasing the distinction of banking commodities. This is mostly a bank-created behavioral technique based on the scope economy. To gain greater Economic strength and occupy a larger Economic share under Internet conditions, it is critical to develop varied software and supply personalized items. As a result, the banking industry is gradually transitioning toward a customer-centric sales approach. Because of the subjective variances in client demand, FinTech has developed a variety of business and service models, displaying substantial channel differentiation preferences. In banking, vertical product differentiation refers to product disparities resulting from changes in customer first choice. Consumer demand difference in the information age is most commonly expressed through channel preferences, tailored preferences, reputation preferences, and pricing preferences. Consumer choice variations in terms of reputation and price are two of the more conventional and consistent ones. As a result, traditional banking institutions have developed competitive means and technology. When it comes to acquiring representations and settings, new FinTech companies have several difficulties. The banking business offers a varied range of financial product improvements in response to customer channel preferences. Customer network preferences have impacted how FinTech companies gain consumers even more. FinTech firms excel in acquiring consumers via various channels and creating easy, suitable, customized, crystal clear, and separated customer practices in the banking industry. In reaction to customized distinctions among buyers, data technology employs big data to classify users, allowing for the provision of products or differential prices, as well as gaining a competitive edge among various client groups. However, user exclusion and pricing discrimination are examples of unjust practices that would result, in harming customers. This necessitates additional consumer protection requirements.

INDIA'S BANKING INDUSTRY'S REGULATION PROBLEMS UNDER FINTECH

India's banking business has grown significantly as a result of fintech's influence. However, there are several issues with banking regulation that are causing delays in the development process. These concerns include the financial system's stability, the protection of customer rights, and the justice of economic growth. Based on the previous section's research of changes in the banking economic structure, this section examines and highlights the problems that exist in the banking industry as a result of fintech, as well as the challenges that the banking industry faces.

Network information security challenges are complicated by the system

FinTech has information technology attributes, hence there are risks such as scientific risks, operational risks, and technological systemic risks. These dangers are categorized as network and information security concerns. The foundation for assuring the innovation and development of internet finance is information security. It faces security concerns from new scenarios, new technologies, and new forms, in supplement to the usual Net technological threats. First, the safety

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measures in place to enable new technologies in the banking business, such as big data, cloud computing, and artificial intelligence, aren't ideal. Second, new kinds of internet finance are still in their infancy, such as third-party payment and peer-to-peer (P2P), and FinTech security management is still in the research and discovery stage, leaving it vulnerable to unanticipated attacks. As a result of the rapid growth of the internet finance industry, substantial internet, work, and information security challenges have emerged as a significant factor impeding the industry's healthy and stable development. Simultaneously, FinTech's adoption has improved the importance of financial organizations and the difficulty of the financial system, increasing the sensitivity and spread of these risks. People should be able to identify and supervise hazards more quickly and correctly as a result of the use of evolving information technology.

Banking concentration risk network contagion

FinTech has tightened and complicated the banking industry's inter-institutional relationships. Banking concentration has altered over time, resulting in significant network contagion. First and foremost, FinTech's widespread adoption in the banking business shows the industry's reliance on data web technology and apparatus. As a result, the network connection will hasten the breakout and spread of concentration dangers. To expedite the process. Second, FinTech companies are gradually exhibiting the "head effect," increasing economic concentration. The financial stability of the financial industry will be influenced by the financial instability of a single large-scale FinTech firm. Systemically important financial institutions, as well as some large FinTech firms, have recently been recognized as the focus of risk monitoring by the national regulatory policy. Finally, since they have greater economies of scale and scope, FinTech companies at the top of the Economic are more likely to engage in industry processes, effect collection sales, and erect integration. Even though a majority of FinTech businesses' business goals exist "long tail" Economic and even SME institutional consumers, a FinTech company with a significant Economic share usually have a large number of consumer groups to achieve economies of scale and scope. As a result, when consumer confidence swings or falls sharply, particularly in the information network organization, consumers tend to multi-home, affecting other platforms to which they belong, posing regional or large-scale systemic problems

The issues of monopoly and competition in the banking industry

FinTech has altered as well as created new barriers to entry. Excessive competition and monopolistic consolidation have been seen in the banking business. FinTech has lowered the barriers to traditional financial institutions gaining monopoly power. Although a huge number of FinTech companies have entered the banking industry, the degree of entry and the obstacles that occur in various business areas differ. FinTech will drive monopolization in business areas with high entry barriers. FinTech has heightened competition in low-entry-barrier industries. Consumer finance, personal loans, and retail banking, for example, have attained full specialization and segmentation, and the barriers to entry in these links have broken. Small FinTech companies can quickly enter the market and establish economies of scale thanks to the decentralized economic structure, which boosts economic competitiveness. Such institutions, on the other hand, can readily skirt financial supervision laws and regulations, leading to regulatory arbitrage, illicit speculation, and "beating and running." It suggests extremely significant financial risks, particularly in the situation of India's fiscal governing framework, which yet has to be addressed. There has been a

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bubble bursting of all sizes of P2P platforms since the emergence of the P2P field in 2013, with a total of 1,741 problem platforms as of 2018. Overall, the development of P2P is primarily a business model development, with technology requirements being relatively minimal. The construction of a platform that complies with regulatory requirements can be used to finance funds. In an economy with a large number of competitive entities, regulators confront significant regulatory costs. As a result, access regulation should be reinforced in business areas with low entry barriers to avoid excessive oversight.

Unfair competition's digitalization and the harm it does to society

The banking industry's inter-institutional competition has become more informative and sophisticated as a result of FinTech's effect. Their performance has also changed due to unfair competition and anti-competitive behavior. On the other side, the system technology that enables it can be used to create unfair competitive behaviours including monopolistic cooperation, price discrimination, and scene fraud, and characterising and recognising these behaviours is getting increasingly difficult. Existing regulations are unable to detect and recognize this factor. On the other hand, as businesses become more virtualized, the old distinct rivalry based on physical locations has increasingly gone. Many financial services are delivered via the internet, and the Informa utilization of delivery techniques and product brands has aided the growth of improper contests. The shape is also other modest. Some FinTech organizations or financial institutions, for example, use their network to make unlawful transactions, leak client data, hijack bank trust, cause cash removal issues, move capital, and engage in other misbehavior, and customers are tough to recognize in advance. These have harmed financial stability as well as consumer rights. High-risk and high-yield financial products are required to adhere to tight investor appropriateness standards and increase information disclosure obligations, according to this element of the legislation.

Economic Boundary Ambiguity in the Banking Industry

In traditional financial services, the distinctions between different sorts of businesses are distinct, as is the primary duty. Even though certain financial institutions operate in a mixed- mode, they can discern between different business units. In the Internet age, however, a single firm frequently necessitates several lawful sections of labor to complete.

Banking Institutions' Information Islanding

As a result of fintech's effect, traditional financial institutions' competitive advantages, such as regional advantages, are rapidly eroded. Various banks have launched online and mobile services to attract and retain customers by providing different services based on technology. Furthermore, a single banking institution will build multiple service platforms for various kinds of commodities, credit cards, funds, and capital management, each having its software APPs for customers to use. These situations are frequently caused by the original banking organizations' organizational model, which results in the utilization of internet services to build information. This is an island that exists not just between banks, but also between banks and other islands.

DISCUSSION & CONCLUSION

This paper demonstrates how digital innovation is causing economically significant changes in the production of financial services, with repercussions for the financial industry's industrial structure.

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Connectivity and computer advancements can assist boost efficiency and competition. Financial services have seen an unbundling of distinct products and services in many circumstances. Simultaneously, the financial frictions and factors that prompted the need for financial intermediaries in the first place have resurfaced. The financial sector may be moving toward a market structure that resembles a barbell, with major multi-product institutions coexisting with smaller specialty institutions.

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