

1. What is Traditional Banking?

Traditional Banking refers to the process of carrying financial transactions at offline bank branches, either depositing or withdrawing funds from your respective accounts. This system allows the customers to meet the bankers personally, communicate and discuss their financial issues with them, and get effective solutions to boost their income levels.

2. What is Fintech?

Fintech also known as financial technology is used to describe new technology that seeks to improve and automate the delivery and use of financial services. At its core, fintech is utilized to help companies, business owners, and consumers better manage their financial operations, processes, and lives.

3. Examples of Fintech

Fintech has been applied to many areas of finance. Here are just a few examples.

- Robo-advisors are apps or online platforms that optimally invest your money automatically, often for little cost, and are accessible to ordinary individuals.
- Investment apps like Robinhood make it easy to buy and sell stocks, exchange-traded funds (ETFs), and cryptocurrency from your mobile device, often with little or no commission.
- Payment apps like PayPal, Venmo, Block (Square), Zelle, and Cash App make it easy to pay individuals or businesses online and in an instant.
- Personal finance apps such as Mint, YNAB, and Quicken Simplifi let you see all of your finances in one place, set budgets, pay bills, and so on.
- Peer-to-peer (P2P) lending platforms like Prosper Marketplace, Lending Club, and Upstart allow individuals and small business owners to receive loans from an array of individuals who contribute microloans directly to them.
- Crypto apps, including wallets, exchanges, and payment applications, allow you to hold and transact in cryptocurrencies and digital tokens like Bitcoin and non-fungible tokens (NFTs).
- Insurtech is the application of technology specifically to the insurance space. One example would be the use of devices that monitor you're driving in order to adjust auto insurance rates.

4. Difference between Fintech and Traditional Banks

The major difference between fintech and banks is that the latter mainly focuses on managing risks, while the former puts key effort into managing the client experience.

Characteristics	Traditional Banks	Fintech
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Function	Banks are the institutes that are licensed to carry out financial services and focus on client security.	Fintech firms improve and automate the delivery of financial services by focusing on customer requirements.
Regulation	They are regulated by the national or central banks of the country.	There is no particular regulation for fintech companies.
Growth	Banks have limited market distribution.	Fintech companies have larger market distribution because of the new trends and technologies.
Risk	Strict regulations lower the risk factor.	Flexible nature makes it riskier than banks.

Function

Banks with physical branches and fintech companies differ significantly in their approaches.

Traditional banks

- **Physical Presence:** The traditional banking sector has developed a network of brick-and-mortar branches that require F2F interactions and identity verifications.
 - **Legacy Systems:** Outdated legacy systems restrict banks from rapid digitalization and might fail to meet modern client needs.
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Fintech companies

- **Client-Centric Focus:** Prioritize enhancing the client experience through accessibility, personalization, and functionality.
 - **24/7 Services:** Offer round-the-clock online financial services accessible via mobile devices and computers, allowing users to manage finances independently.
 - **Advanced Technology:** Use cutting-edge technologies such as big data, cloud computing, AI, and ML to innovate and provide new financial solutions, including crowdfunding, personal finance apps, and P2P insurance platforms.
 - **Agility:** Are not constrained by legacy infrastructure, enabling quicker adaptation and integration of new technologies and services.
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Regulations

In fintech vs bank the regulatory landscape is another major point that differentiates them.

Traditional banks

- **Strict Regulatory Standards:** Must comply with stringent legal obligations, requirements, restrictions, and guidelines.

- **Client Protection:** These regulations help protect clients' data and investments, ensuring transparency between financial institutions and their clients.
 - **Cost of Compliance:** Compliance can be expensive but is essential for maintaining control and stability in the financial system.
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Fintech companies

- **Regulatory Flexibility:** The lack of a single regulator allows agility and adaptability in integrating new services and solutions.
 - **Easier Integration:** Fintech companies can more easily introduce innovative products without the need to follow rigorous guidelines.
 - **Compliance Requirements:** Fintech firms adhere to specific regulatory requirements such as Know Your Customer (KYC), Anti-Money Laundering (AML), Anti-Money Laundering Directives (AMLD), and eIDAS to prevent financial crimes.
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Customers

Understanding the differences in customer targeting between traditional banks and fintech companies highlights their unique approaches and advantages.

Traditional banks

- **Target Audience:** One of the key traditional bank characteristics is targeting consumers with proven track records and robust credit ratings.
 - **Credit Record:** A decent credit record is essential for credit application approval.
 - **Client Reliability:** They prefer reliable clients who can manage debt and other financial situations and require proof of this capability.
 - **Experience and Trust:** Years of experience typically lend banks more credibility and trust.
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Fintech companies

- **Target Audience:** Tech-savvy audiences, including millennials and Gen Z, who prefer customized, mobile, and digitized services.
 - **Customer-Oriented Approach:** Focus on meeting the demands of a tech-savvy clientele through personalized experiences.
 - **Credit Accessibility:** Provide credit cards to people with poor financial histories or credit ratings, focusing on improving their scores.
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Growth Potential

A fintech bank uses new technologies while traditional banks still resort to archaic and time-consuming procedures and means

Traditional banks

- Traditional banks have sustained the financial market for the past many years and with fintech coming into the picture and evolving in such a way, they are adapting to changes in client requirements.
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Fintech companies

- The global fintech market is rapidly growing and digital transformation has become a big deal and it is bringing up new trends every day
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Risk Factors

Strict regulations lower the risk factor while flexible nature makes it riskier.

Traditional banks

- When it comes to legacy infrastructure, the stricter the regulations are, the more they help in lowering the risks.
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Fintech companies

- Fintech regulations have a flexible nature and this could make it riskier for the industry.
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In summary, traditional banks prioritize managing risks, and fintech companies prioritize enhancing the client experience. While conventional banks are constrained by slow processes and reliance on legacy infrastructure, fintech companies offer multiple business benefits:

- Higher customer satisfaction through intuitive interfaces and personalized services
 - Cost savings and improved operational efficiency with automation
 - Rapid product development with agile methodologies
 - Expanded reach through financial inclusion of unbanked and underserved demographics.
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5. Fintech vs Traditional Banks: Can They Work Together?

Let's dive into these benefits of developing a partnership with a fintech company.

- **Larger Consumer Base:** A fintech partnership allows each company to leverage the other's existing consumer base and broaden their reach as a whole. The fintech company receives the benefit of tapping into this new demographic and the bank can leverage the fintech's ability to reach younger consumers. It's a win-win for both.
 - **Brand Reputation:** If one of the partnering companies has a particularly good brand reputation, the other partnering company can capitalize on this when working together.
 - **More Functionality:** A partnership with a fintech company allows you to offer updated functions and features to consumers.
 - **Ease of Use:** When a bank forms a partnership with a fintech company, the bank can benefit from the fintech's technical expertise and knowledge to provide consumers with the best user experience possible.
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6. What are the Different Types of Fintech and Bank Partnerships?

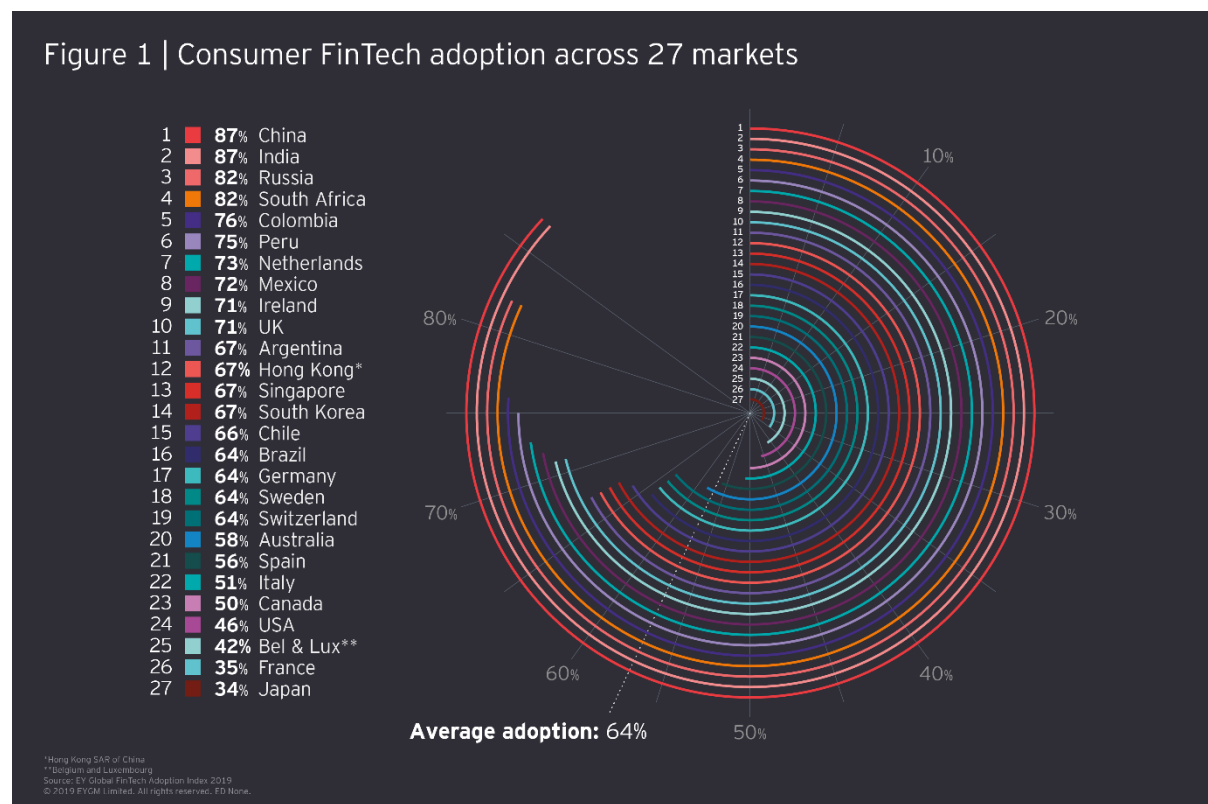
Fintech partnerships help your organization retain customers and grow your bond of trust. Here are 5 partnership models that you can consider when looking at fintech partners.

- **Referral Partnership:** With this model institution earns a commission for referring customers to your fintech partner.
- **Assisted Private-Label Partnerships:** A very common partnership where both institution and fintech partner bear responsibility and control over the customer experience.
- **Private-Label Partnerships:** Institution purchases the fintech solution, customizes it, and sells it to customers.
- **Small Business Loans:** This allows fintech companies to focus specifically on developing loan programs for small businesses.
- **Debit Cards:** Some partnerships involve banks distributing debit cards or offering a payment card program.

7. The adoption of FinTech services increased to 64% globally

Customer behaviour is evolving along with global developments, resulting in customers' increased willingness to use FinTech services.

Figure 1 | Consumer FinTech adoption across 27 markets



With this, fintech's substantial impact is evident in the anticipated annual growth of over 10% in the total transaction value of digital payments, poised to surpass \$8 trillion by 2024.

Another trend, embedded finance, is gaining traction, extending access to financial services for individuals historically underserved by traditional banking. Projections indicate that this sector will reach a substantial \$23.45 Bn by 2029.

8. What are Bank-Fintech Partnerships Examples?

Tradeshift & HSBC: Tradeshift, known as one of the world's largest business commerce platforms, joined forces with HSBC to develop a simple digital platform. The platform enables businesses to manage their global supply chains and working capital requirements from any device. This successful partnership not only generates significant revenues for both parties, but also simplifies international trade processes.

Stripe & Goldman Sachs: Stripe is a well-known US fintech company facilitating payments for businesses by partnering with many major banks. For example, its banking-as-a-service API (i.e. Stripe Treasury) runs through its partnerships with Goldman Sachs and Evolve Bank & Trust.

Revolut & Cross River Bank: In April 2022, Cross River Bank entered into a partnership with British-Lithuanian neobank Revolut to deliver more affordable access to credit for US Revolut consumers. The partnership will open up the first US-based consumer personal loans for Revolut customers thanks to Cross River's technology infrastructure.

N26 & Wise: N26 is a German neobank headquartered in Berlin. N26 partnered with Wise, the global technology leader in international payments, to offer international money transfers in over 30 currencies. This valuable partnership builds on a joint vision to disrupt the financial sector by making international money transfers easier and more transparent.

Citi & IntraFi: In 2022, Citi launched a new US deposit sweep solution through its partnership with IntraFi, known as the IntraFi Yankee Sweep. This product allows institutional clients with US accounts to sweep cash into demand deposit accounts at participating US branches of non-US banks.

DoorDash & Stride Bank: Food delivery company DoorDash was trying to help its drivers offset rising gas prices without passing them on to consumers. In 2022, DoorDash launched a prepaid business Visa debit card in partnership with Stride Bank that gave all U.S. delivery drivers 10% cash back on gas, resetting to 2% after the introductory period ended.

Rize Money and MX Technologies: Rize Money, an infrastructure provider for payments, now part of Fifth Third Bancorp, has previously partnered with MX, a financial data platform. The objective is to enable fintech companies to develop new financial products and services using a single combined API. Rize Money users could securely connect their bank accounts from over 16,000 financial institutions and fintech companies through MX's reliable data connectivity network.

9. Case study from Rabobank

Rabobank digitized its customer onboarding journey via a partnership with Signicat, a Norwegian FinTech

Back in 2017 the market for Digital Identity Service Providers was opening up after iDIN, the identification counterpart to iDeal, started to gain traction. To that extent and to provide a wider array of services, Rabobank partnered with Norwegian FinTech Signicat, a company that focused on providing digital identity services and solutions. At the heart of the collaboration was the creation of a more customer-friendly digitized experience for clients. Through what is now called Rabo Identity

Services, the partnership helps businesses to easily onboard their customers digitally, offering a range of digital identity services and log-in options.

Signicat offers a myriad of identity solutions, such as digital identifying and digital signing, compared to on top of iDIN. This, to this day still unique, offering proves to be extremely beneficial for both parties, combining the technological savviness of the FinTech with the well-regulated network of the bank.

The partnership takes the best of both worlds, offering Signicat's technical capabilities to a wider audience and providing the relatively small FinTech with a large amount of credibility. Even though the FinTech market has become an establishment in itself, large corporate clients still remain hesitant to enter into partnerships with small names. In this instance, next to providing Signicat with market knowledge and a platform to grow from, Rabobank provides an established, reliable brand, thereby making an indirect partnership between large corporates and FinTech companies like Signicat possible. This trend will continue, underlining the need for well-functioning collaborations between banks and FinTech companies.

10.Can Fintech Replace Traditional Banking?

The fintech market is rapidly growing, from \$294.74 billion in 2023 to an estimated \$1,152.06 billion by 2032. Fintech seems unstoppable: along with banking innovations, it brings new solutions and opportunities of high accessibility and cost-effectiveness. Moreover, recent scientific research confirms that financial technologies can quickly respond to challenges in critical situations.

For traditional banks, global financial crises highlighted the importance of digital transformation. Established in the pre-internet age, their business models don't adapt well to the rapidly developing digital society. Changes in consumer behavior, like a growing preference for digital payments, form expectations of financial services that challenge traditional banking. So, whatever a conventional bank perceives as a risk, fintech regards it as an opportunity to upgrade or create.

No matter how progressive fintech is, it can't fully replace establishments that have existed for centuries. And being much longer in the game, traditional banks have a well-proven reputation, permanent regulatory framework, and valuable expertise in the service industry. Fintech companies may look or even act like banks, and still, they aren't set up like them.

To sum up, banks and fintech are confidently shifting from a competitive to a much more collaborative ecosystem, where they can combine the best of both potentials.

11.Current Trends and Future Predictions in the Fintech Industry

Fintech is set for substantial growth, fuelled by technological innovation and consumer demand for user-centric, mobile-first financial solutions.

With a strong focus on AI, cloud computing, blockchain, and open banking, fintech companies transform finances, offering more secure, efficient, and personalized services.

Let's detail the trends and predictions from the recent fintech market report.

Key Current Trends in the Fintech Industry

- **Adoption of AI and Machine Learning (ML).** AI and ML technologies increasingly detect and prevent fraud, analyze customer behavior, and personalize financial services. AI-powered chatbots and virtual assistants enhance user satisfaction and engagement with real-time support.
 - **Growth of Cloud Computing.** Cloud computing enables fintech companies to scale their services on demand, manage costs effectively, and avoid significant upfront investments in infrastructure. Cloud technology's flexibility allows fintech firms to develop, deploy, and update their solutions quickly, fostering innovation in financial services.
 - **Blockchain Technology.** Blockchain provides a secure, immutable transaction ledger, reducing fraud and ensuring transparency. This technology is particularly beneficial for financial transactions and regulatory compliance. It allows for real-time auditing that enhances stakeholder trust.
 - **Rise of Open Banking.** APIs facilitate collaboration between fintech companies and traditional financial institutions, allowing for the sharing of data and services. This integration enables fintech firms to leverage banks' data and infrastructure to offer innovative, value-added services that enhance customer experience.
 - **Increasing Demand for Digital Payments.** There is an accelerated shift to digital and contactless payment methods, which fintech companies meet through advanced payment processing solutions. The proliferation of digital wallets and mobile payment options continues to drive the adoption of fintech solutions.
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Future Predictions for the FinTech Industry

- **Expansion in Emerging Markets.** The Asia Pacific region is expected to grow significantly, driven by high mobile penetration and the need for accessible financial services in underserved areas. Fintech solutions will continue to expand globally, bridging the gap in financial services access, particularly in Africa and South America.
 - **Enhanced Cybersecurity Measures.** With the rise in digital transactions, fintech companies will invest heavily in advanced cybersecurity technologies to protect financial data and build customer trust.
 - **RegTech Development.** The development of regulatory technology (RegTech) solutions will help financial institutions comply with complex regulations more efficiently, reducing the burden of manual compliance.
 - **Sustainable and Ethical FinTech.** There will be an increasing emphasis on environmental, social, and governance (ESG) factors. Fintech companies are expected to develop products that promote sustainability and ethical financial practices.
 - **Personalized Financial Services.** Using big data and analytics will allow fintech companies to offer highly personalized financial products and services tailored to individual customer needs and preferences.
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