

## FINTech BANKING SHIFT

Traditional Banking refers to the system of financial institutions, such as banks and credit unions, that provide various financial services to individuals, businesses, and governments. Banking services mainly include accepting deposits, lending money, facilitating transactions, and offering various financial products like savings accounts, loans, and credit cards. Banking plays a crucial role in the economy by facilitating the flow of money and enabling economic activities.

### Functions of Banks

Banks offer a wide range of services, such as savings and checking accounts, loans (personal, business, and mortgages), credit cards, investment services, and electronic banking options like online and mobile banking. Some of the major functions of banks are mentioned below:

- Accepting Deposits
- Providing Loans
- Payments and Settlements
- Currency Exchange
- Safekeeping of Valuables
- Investment Services
- Internet Banking Services

Fintech is a term that comes from the union of words: finance and technology. This applies to those companies that use technology to provide financial services efficiently and reliably. In other words, a fintech company is a firm that uses technology to develop tools that digitize, automate, and improve financial transactions. All this is done to optimize the customer experience. It encompasses a wide range of applications, including mobile banking, online lending platforms, digital payment systems, blockchain and cryptocurrencies, and automated investment services. The primary goal of fintech is to make financial services more accessible, efficient, and user-friendly. FinTech firms are regarded as customer-focused businesses that work to democratize, streamline, and reduce the cost of financial procedures. In addition, they represent

great benefits for companies. Because they offer the possibility of automating processes, saving time, money and reducing human error. Similarly, by focusing on data, fintech companies are making it easier to make strategic decisions in favor of new customer needs and requirements.

### Function of financial technology:

- FinTech improves the traditional financial industry as it brings variations on an existing product or process that make it better, faster, and sometimes less expensive, rather than something completely new.
- It refers to the integration of technology into offerings by financial services companies to improve their use and delivery to consumers.
- It primarily works by unbundling offerings by such firms and creating new markets for them.
- Companies in the finance industry that use fintech have expanded financial inclusion and use technology to cut down on operational costs.
- Fintech funding is on the rise, but regulatory problems exist.
- Examples of fintech applications include robo-advisors, payment apps, peer-to-peer (P2P) lending apps, investment apps, and crypto apps, among others.
- FinTech finds new solutions to meet people's needs.

Fintech businesses work in a variety of fields and industries, including Detailed characteristics of fintech:

- Electronic payments are made through payment platforms that make it quick, simple, and safe for companies to sell and receive things online. These platforms facilitate the collection of funds through the authorized financial body, and today their use is crucial for the development of any e-commerce.
- Virtual Banking: This is the digital version of a bank that provides us with information to manage our money. With the help of these financial technologies, we can check our balance and transactions, send money, ask for loans, and pay bills, among other things.
- Crowdfunding is an internet funding platform that assists small enterprises in obtaining cash for their endeavors. Those who donate their money usually do so for ideological reasons without expecting anything in return.
- Online investment: This type of financial technology includes those tools that give us the opportunity to invest in various portfolios of financial products and services to generate passive income.
- Personal Finance: These resources help us handle our own funds in an efficient manner. They allow us to organize and plan expenses, receive financial advice, make forecasts, etc.

- **Cryptocurrencies:** These are internationally administered currencies that exist only in digital form, but are used in the same way as any physical currency.

The fintech sector is actively developing and will continue to do so

## **IMPACT OF FINTECH ON FINANCIAL SECTOR:**

In recent years, the financial services industry has undergone a profound transformation driven by technological innovation.

Financial Technology, or FinTech, has emerged as a disruptive force, challenging the traditional norms of banking and reshaping the landscape of financial services globally. This article explores the multifaceted impact of technological advancements on the established practices of the banking sector. These innovations have given rise to a spectrum of new financial products and services, altering the way consumers manage their finances and how businesses conduct transactions. As FinTech startups and established financial institutions alike embrace these technological advancements, the traditional banking sector faces both unprecedented challenges and opportunities.

### **Disruption of Traditional Banking Models**

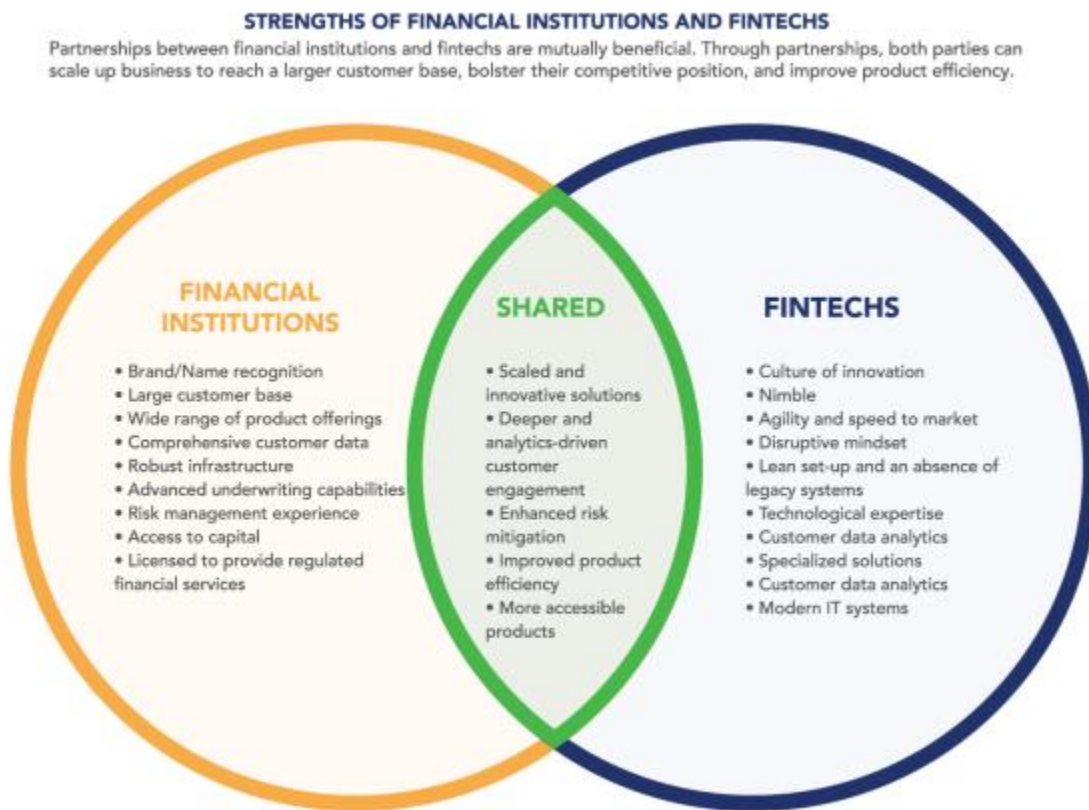
- **Digital Banking and Customer Expectations** The advent of FinTech has redefined customer expectations in the banking sector. Digital banking solutions, including mobile apps and online platforms, offer customers unprecedented convenience and accessibility (Brown & White, 2018). As a result, traditional banks face the challenge of adapting to these changing customer preferences to remain competitive.
- **Blockchain and Decentralized Finance (DeFi)** The implementation of blockchain technology has led to the rise of decentralized finance, challenging the traditional centralized banking model (Smith & Johnson, 2019). Decentralized applications and smart contracts provide users with greater control over their financial assets, disrupting the intermediaries traditionally associated with banking.

### **Opportunities and Challenges for Traditional Banks**

- While FinTech poses challenges to traditional banking models, it also presents opportunities for innovation and collaboration. Traditional banks have the chance to integrate FinTech solutions into their operations, enhancing efficiency, reducing costs, and providing innovative products and services (White & Miller, 2020).

- The rapid pace of FinTech innovation has raised regulatory challenges for both traditional banks and FinTech startups. Governments and regulatory bodies grapple with developing frameworks that foster innovation while ensuring consumer protection and financial stability (Jones & Robinson, 2021).

In conclusion, the symbiotic relationship between FinTech and traditional banking models is a key focal point in the contemporary financial landscape. As FinTech continues to evolve and disrupt traditional norms, it is imperative to explore the implications for both financial institutions and consumers



### Collaboration and Integration Strategies

- Partnerships Between FinTech and Banks To leverage the strengths of both sectors, strategic partnerships between traditional banks and FinTech firms are becoming increasingly prevalent (White & Brown, 2020). Collaborations aim to combine the stability of traditional banking with the innovation of FinTech.

- **Internal Digital Transformation** Traditional banks are investing in internal digital transformation initiatives to modernize their infrastructure, enhance agility, and deliver innovative services (Johnson & Smith, 2022). This involves the integration of FinTech principles within traditional banking frameworks.

## COLLABORATIONS BETWEEN BANKS AND FINTECH

- **Tradecraft & HSBC:** [Tradecraft](#), 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.

## What Are the Factors Driving a Greater Bank-Fintech Collaboration?

Five factors are driving further industry change and creating even greater need for bank-fintech partnerships:

- Mobile Adoption
- Remote Work
- Evolution of Community Banks
- Industry Collaboration
- Regulatory Modernization

How far is this collaboration trend going?

[PwC](#) sees 82% of current financial service providers increasing partnerships within the next five years.

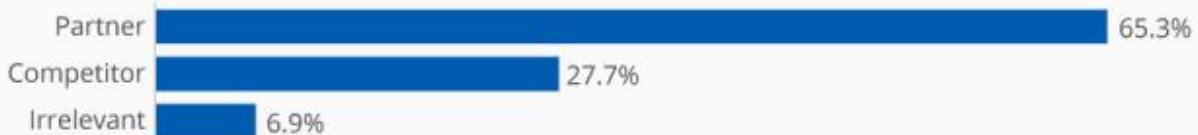
## If You Can't Beat The Fintechs, Join Them

Number of major investments in VC-backed Fintechs by banks (Q3 '15 – Q3 '16)



### Competitor, partner or irrelevant?

How banking executives view Fintech firms\*



## INDIAN BANKS COLLABORATION WITH FINTECHS

- SBI has 10-12 active fintech partnerships, scouting for 75 more fintech partner for Yono 2.0 launch
- 2-[HDFC Bank](#) partnering with fintechs to integrate with corporate ERP, offer embedded banking in corporate ecosystems journey
- [ICICI Bank](#) issued 4.2 million plus credit card in partnership with [Amazon](#) Pay during Q1FY24

A recent report by venture capital firm Elevation Capital and McKinsey & Company said a whopping 70% of overall digital payment transactions currently are being captured by fintechs and 50% of active broking accounts on NSE are held by fintechs. Accordingly, banks—at least the mid and large sized ones—have become acutely aware of the challenges that fintechs pose to their market share in the payments and lending space, and thus have pro-actively shored up their fintech partnerships.

Virat Diwanji, Kotak Mahindra Bank Group President shared similar views saying banks and fintech relationship has improved significantly over a period of time and wherever there is a value addition that fintechs can provide, banks would be more than willing to partner. Such partnerships work best in the areas of improving customer experience, last-mile reach, fraud control and customer service. The question on customer ownership under bank-fintech tie-up still continues to simmer as there are no easy answers.

### Emerging Challenges and Risks

- **Cybersecurity Concerns** While FinTech integration offers substantial benefits, the research underscores the emergence of new challenges. Cybersecurity concerns are a prominent issue, with the increased digitization of financial transactions making banks more susceptible to cyber threats (Robinson & Wang, 2018). Institutions need to invest in robust security measures to protect customer data and maintain trust.
- **Regulatory Compliance** Furthermore, the study identifies challenges related to regulatory compliance in the evolving FinTech landscape. The rapid pace of technological advancements often outpaces regulatory frameworks, leading to uncertainties and potential compliance risks for banks (Brown & Robinson, 2020). Policymakers and financial institutions must work collaboratively to address these challenges.

## Future Directions and Implications

The impact of FinTech on traditional banking models is dynamic and multifaceted. The ongoing transformation suggests a need for continued research and analysis to adapt to the evolving landscape. Future studies should explore the long-term implications of FinTech adoption on financial inclusion, regulatory frameworks, and the overall stability of the banking industry. The results of this review highlight the significant impact of FinTech on traditional banking models, leading to a paradigm shift in customer interaction, operational efficiency, and cost structures. While opportunities abound, challenges and risks necessitate careful consideration and strategic planning for both financial institutions and regulators.

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