Traditional banks and Fintech Startups

1. Digital Finance Evolution and Impact on Banking

The evolution of digital finance highlights how innovative technology has challenged traditional banking, especially after the 2008 financial crisis, revealing flaws in traditional banks' practices. FinTech startups have capitalized on these weaknesses, offering more agile, customer-focused services and reshaping the financial landscape. The digitization of financial services has transformed business processes, creating opportunities for customer acquisition, loyalty, service customization, revenue growth, and cost reduction. While traditional banks have adapted, their core functions remain unchanged, but the execution has evolved to align with digital advancements.

2. Characteristics, functions and features

The range of products offered by financial institutions has broadened, with significant changes in delivery methods and product portfolios. Key differences between traditional and digital banking models include timing, customer service, costs, and geographical reach.

Distinguishing features	Traditional model	Digital model
Customer service time frame	Limited. Service is carried out only at a clearly defined time	Unlimited. Possibility of round-the-clock access
The speed of customer service	Depends on the qualification and experience of the Bank employee	Immediate
Approach to service	Flexible, however, is limited to a small variety of service channels	Flexible and carried out through any convenient channel for the client
Maintenance cost	High, taking into account the bank's costs for the personnel and maintenance of departments	Low, often services are provided free of charge
Scope of service	Limited branching of the branch network and staffing	Unlimited, can go beyond the geographical location of the banking institution
Status of the operator in the service process	Functions of the operator is performed by an employee of the bank	Functions of the operator are performed by the bank's client
The procedure for learning new services and promotions	Requires time and cost	Carried out quickly, via SMS and e-mail newsletter
Consumable component of the operation of the service system	The key models are articles on the staff and maintenance of departments	The key articles are articles for the purchase and maintenance of servers and software package

Table 1.1: Differences between traditional and digital models of banking

1.1 Primary Functions of Banks

- **Accepting Deposits**: Banks collect public funds, ensuring safety and offering interest. Types include saving, fixed, current, and recurring deposits.
- **Granting Loans & Advances**: Banks use deposits to issue loans and advances, earning from the interest rate difference. Types include bank overdrafts, cash credits, loans, and discounting bills of exchange.

1.2 Secondary Functions of Banks

- **Agency Functions**: Banks act as agents for clients, handling fund transfers, periodic collections and payments, cheque processing, portfolio management, and more.
- **Utility Functions**: Banks offer services like letters of credit, deposit lockers, foreign exchange, underwriting, and social welfare support.

1.3 Key Features of FinTech

- **Innovative Solutions**: FinTechs create solutions like mobile payments and digital wallets, exploring new financial avenues.
- **User-Centric Design**: Platforms prioritize seamless user experiences.
- **Efficiency and Inclusivity:** Transactions are faster and broaden financial access.

1.4 Key Features of Traditional Banking

- **Regulated and Secure**: Strict regulations ensure security and build trust.
- **Comprehensive Services**: A wide range of products simplify financial management.
- **Personalized Interaction**: Branch networks provide face-to-face service and expert advice.

3. Risk, trust, growth, and services offered

2.1 Risk, trust, growth

The global FinTech market is rapidly expanding, enhancing trust with innovative services. Traditional banks, adapting to FinTech innovations, maintain trust through mobile payments and peer-to-peer lending. FinTech's flexible regulatory environment introduces risks but offers robust, cost-effective alternatives. Traditional banks benefit from strict regulations but integrate FinTech features to remain competitive.

2.2 Services offered

- **Traditional bank:** High regulatory standards ensure safety. They offer a wide range of financial products and have physical branches for complex matters.
- **Fintech:** Mobile banking apps and digital payments transform customer expectations. Blockchain and AI enhance security, transparency, and decision-making.

4. Partnerships Between FinTech and Traditional Banks: Reasons, Benefits and Examples

Reasons and Benefits: Partnerships leverage FinTech innovation and bank resources. FinTechs gain brand awareness, trust, and capital, while banks benefit from financial inclusion, cost reduction, revenue growth, and product innovation.

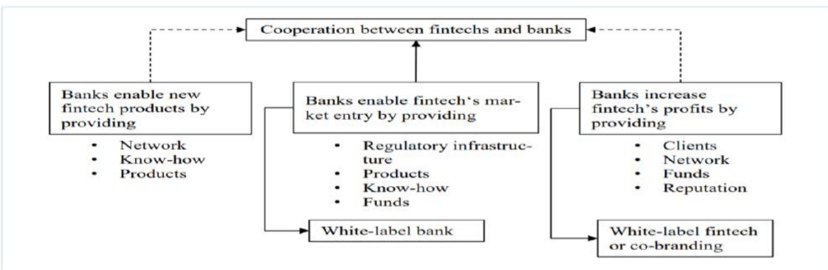

Fig 3.1: Cooperation process between fintech and banks

Examples

- **Tradeshift & HSBC:** Tradeshift, a leading global business commerce platform, teamed up with HSBC to create an easy-to-use digital platform. This platform allows businesses to handle their global supply chains and working capital needs from any device. The partnership has been financially rewarding for both parties and has streamlined international trade processes.
- **Stripe & Goldman Sachs**: Stripe, a prominent US FinTech company that facilitates business payments, collaborates with several major banks. Its banking-as-a-service API, known as Stripe Treasury, operates through partnerships with Goldman Sachs and Evolve Bank & Trust.

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