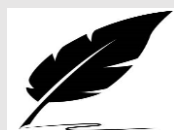




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Effect of Fintech in banking industry

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Abstract:

The integration of financial technology (fintech) into the banking industry has catalyzed a transformative shift in traditional banking practices. This scholarly article delves into the multifaceted effects of fintech on the banking sector, examining its implications on various aspects including customer experience, operational efficiency, risk management, and regulatory compliance. Through a comprehensive review of existing literature and empirical evidence, this article elucidates the opportunities and challenges posed by fintech adoption, offering insights into how banks can strategically navigate this evolving landscape to thrive in the digital age. By exploring case studies and industry trends, this research underscores the imperative for banks to embrace innovation, collaborate with fintech firms, and adapt their business models to remain competitive and sustainable in an increasingly digitized financial ecosystem.

Keywords: Fintech, Banking Industry, Digital Transformation, Customer Experience, Operational Efficiency, Risk Management, Regulatory Compliance, Innovation, Collaboration

Introduction

The future is expected to be influenced by several technological advancements such as the Internet of Things (IoT), cloud computing, virtual and augmented reality, blockchain technology, artificial intelligence, and online commerce. Technological advancements have enabled faster data collection and processing. Nevertheless, automation results in the production of data. Security and privacy concerns hinder progress in both political and technical domains. Financial technology firms see less regulatory challenges compared to conventional banks (Roy, 2021). The proliferation of financial technology, sometimes referred to as fintech, might provide challenges for conventional financial institutions (Truby et al, 2020). Buchak et al. (2018) state that as laws grow more strict, financial institutions must decrease risk while simultaneously increasing capital and guaranteeing income

stability. Rupeika-Apoga and Wendt (2021) suggest that fintech companies has the capacity to erode the market dominance of banks, compelling banks to assume more risks in response to heightened competition. Financial institutions are required to adjust to an ever-evolving environment. Engaging in innovation and adaptation might potentially heighten risks or compromise operational quality. Soloviev (2018a, 2018b) argues that Fintech has not yet caused a revolution in the banking sector, hence worsening the situation. Customers, technology businesses, banks, and financial technology start-ups have divergent viewpoints about financial technology.

We actively engage in both public and political conversation, as well as intellectual study. The impact of fintech on the banking industry is seldom recorded. Shoaib et al. (2020) and Kuzmina-Merlino and Saksonova (2018) conducted independent studies that demonstrated the potential of blockchain technology to facilitate the expansion of the banking industry. Fauzi et al.'s (2020) research establishes a robust correlation between cryptocurrencies and the use of an excessive amount of energy. This link has the potential to have a deleterious effect on both the financial sector and the wider economy. In order to identify the main elements that have a substantial influence, we conducted an analysis of the prevailing subjects discussed in contemporary scholarly literature. As technology progresses and regulations evolve, previous review studies may become obsolete. This study assesses the existing literature, specifically emphasizing the latest findings, in order to address the identified gap in knowledge.

Our team did a comprehensive analysis of the ramifications of blockchain technology on the financial sector. The banking sector is undergoing a significant transformation due to the increasing use of blockchain technology (Grima et al., 2021). The objective of this study is to examine the influence of FinTech, namely blockchain technology, on the banking industry. Furthermore, it will examine potential challenges. Braun and Clarke (2006) suggest doing PRISMA searches and engaging in a thorough subject analysis while seeking a resolution. PRISMA is strongly recommended for the reporting of systematic reviews and meta-analyses. The objective of developing PRISMA was to enhance the retrieval of relevant research and assess its credibility using established methodologies. Following the completion of a topic analysis, a total of 93 articles were meticulously scrutinized and extracted. This analysis will include four primary topics and nine secondary issues when discussing the impact of technological disruption on banks and society. Skepticism has arisen due to the consequences of developing financial technologies such as artificial intelligence, machine learning, the Internet of Things, and blockchain. They possess a substantial potential for growth and impact in the financial industry, as well as other areas. The findings of

Fernández-Rovira et al. (2021) demonstrate that artificial intelligence (AI) is a very efficient instrument for constructing and implementing analytical models.

This statement pertains to the underwhelming performance of autonomous artificial intelligence systems, which stands in stark contrast to their expected level of performance. The financial sector has the potential to be disrupted by blockchain technology and other technologies, including digital assets and smart contracts. Blockchain technology, or public ledgers, may be used for the purpose of validating and documenting financial transactions. The allure of fintech's potential is very attractive to investors. Individuals with inventiveness has the capacity to generate noteworthy breakthroughs or advancements. Fintech enterprises have to provide seamless integration of management technology, artificial intelligence, and vast quantities of data. Fintech has the capacity to enhance financial institutions via the optimization of processes, provision of important insights, and streamlining of team collaboration, paperwork, and customer communication. However, technology is not without its constraints.

These factors include heightened reliance on technology, the costly expenditures associated with implementing state-of-the-art technology (especially for small businesses), a rise in unemployment rates, and the probability of data breaches, fraudulent activities, and other complications. The findings of the study indicate that traditional financial institutions should engage in partnerships with companies that specialize in financial technology. This method is thought to enhance financial stability while reducing disruption and competition. Regulatory frameworks should actively encourage and facilitate such collaboration. In order to effectively capitalize on the economic and social benefits of modern technology, it is imperative to enact legislation that fosters stability and guarantees financial access for all individuals.

Literature Review

The role of technology in the banking business is crucial. The ramifications for the financial industry remain uncertain. Adapting to the rapidly evolving technological landscape is of utmost importance for the financial services business. Alsmadi et al. (2023) state that financial institutions that are unable to successfully compete with fintech firms face the possibility of becoming insolvent. In order to regulate the growth of financial technology, it is necessary to exercise control over local institutions. Alsmadi et al. (2023) state that several respected financial organizations predict that fintech will pose a significant risk in the next five years. Integrating digital business relationships has the capacity to augment financial technology.

Nguyen et al. (2022) state that fintech may enhance customer happiness and enable organizations to optimize their operations via the use of safe, enjoyable, and cost-effective transaction processes. The use of financial technology has greatly enhanced the caliber and effectiveness of financial services. Both the consumer hypothesis and the disruptive innovation theory propose that the advent of fintech might potentially influence the banking sector. These assumptions are supported by empirical data. If fintech services can effectively demonstrate their ability to satisfy customer demands, they have the potential to replace conventional financial institutions. Based on the notion of disruptive innovation, emerging companies that use state-of-the-art technology to provide cheaper and more accessible services will encounter strong rivalry from well-established businesses. The study's findings indicate that information technology has the capacity to significantly interrupt corporate operations. These institutions need more time to fully implement the new technology. The market share of traditional banks has declined due to reduced regulations and increased technological advancements in fintech lending. Nguyen et al. (2022) discovered that FinTech companies have the ability to expedite loan application processing compared to traditional banks, all the while upholding risk management protocols. In 2023, there has been a rise in the volume of digital financial transactions in Alsamdi, Alrawashdeh, Al-Gasaymeh, Al-Malameh, and Alhazimeh. Fifteen years ago, smartphone apps were leading the way in terms of innovation; however, now they are widely regarded as commonplace. The future holds promising prospects for the growth of fintech. Financial institutions that do not promptly react run the danger of falling behind their rivals.

Alternative financial technology firms have been seen to provide a wider array of services compared to traditional banking organizations. Peer-to-peer lending streamlines the process of applying for and repaying loans. Customers have the option to submit a credit application on the internet. Fintech promotes financial inclusion by enabling digital cooperation between lenders and borrowers. Microfinance organizations have the potential to considerably benefit from financial technology. Financial institutions use financial technology, sometimes referred to as fintech, to provide microloans, which are loans of smaller amounts. Fintech mobile banking applications have the potential to provide microcredit services to individuals and small enterprises. The use of mobile banking has significantly streamlined this procedure. According to Alsmadi et al. (2023), smartphones are unnecessary in the field of financial technology. Countries with a substantial population that lacks familiarity with financial technology, lacks access to telecommunications equipment, or has no access to fintech provide excellent opportunities for the deployment of fintech.

Agency banking simplifies the process of obtaining personal and professional microloans, making it less difficult. Fintech finance exhibits more adaptability and resilience compared to conventional lending, making it less susceptible to demand fluctuations. Fintech firms have the potential to diminish the competitive edge of commercial banks in the payment settlement sector by providing more cost-effective mobile payment solutions. Nguyen et al. (2022) state that cloud computing has the capacity to enhance consumer data storage and provide support for payment systems. Assuming the strategy is executed successfully, the use of fintech will streamline the process for financial institutions to expand their activities and increase their market presence. Prior to venturing into the fintech industry, financial institutions must have a robust digital infrastructure. This infrastructure is crucial for gaining entry to previously unattainable areas. In order to prevent hindering technological advancement, financial organizations had to establish human resources departments (Alsmadi et al., 2023). According to Thakor (2020), the financial industry has benefited from the adoption of Fintech. Wonglimpiyarat (2017) found that the integration of fintech in the banking sector has led to a significant rise in customer satisfaction in recent years. Navaretti et al. (2018) discovered a direct correlation between the prosperity of the banking sector and the performance of the financial technology industry. Fintech enables financial institutions to expedite transactions. Kaur and Dogra (2019) state that the expansion of banking financial services is enabled by enduring collaborations between banks and financial technology companies.

The research conducted by Siek and Sutanto (2019) discovered that fintech improves bank performance, even while it reduces market share and financial performance. Navaretti et al. (2018) state that fintech allows smaller businesses to provide financial services to the public without restricting their clients' ability to use traditional banking services. According to Thakor (2020), those employed in the financial services sector need rigorous qualifications. Customers have the ability to establish accounts with private Fintech companies by using mobile devices and identification cards to verify their identity via biometric verification. People like the convenience provided by private Fintech companies compared to traditional banks. When taking into account all of these considerations, fintech enterprises has the capacity to impact the performance of banks. As to a research conducted by GCC, the primary concern among financial institutions is the potential threat posed by FinTech businesses in terms of competitiveness.

A corporation that employs state-of-the-art technology to provide lending, payment, and investment services might pose a competitive threat to conventional banks, hence reducing their operating efficiency. There is a lack of understanding on the correlation between the use of financial services

technology, the performance of banks, and the expansion of FinTech. Despite the increasing correlation between the financial sector and information technology. Laidroo et al. (2021) assert that the most significant transformative shift in the business industry has been the emergence of the financial technology ecosystem. Fintech enterprises facilitate the process of developing novel financial services. Rupeika-Apoga and Thalassinou (2020) argue that traditional approaches are incapable of providing this information. This technology modifies the behavior of consumers, corporations, and industries. This exemplifies a combination of groundbreaking and clever technologies. Advanced technology may replace outmoded procedures or systems, offering greater benefits. Emerging technologies has the capacity to profoundly revolutionize a market or industry. Established corporations may exhibit resistance towards emerging technologies since they see the potential for these advances to undermine the current status quo (Barroso and Laborda, 2022). These components might have significant long-term consequences for the development of the industrial sector.

Technical improvements presently under development include ad blockers, e-commerce platforms, and the next generation of 5G networks that enable Wi-Fi 6. Bilan et al. (2019) contends that there is a tendency to overestimate technological potential. Instead of entirely overhauling a market or sector, a breakthrough technology should bring about changes in at least one aspect of it. Moreover, Chonsawat and Sopadang (2020) suggest that this approach is used in the domains of education and agriculture. Most people feel anxious about new technologies. Under most cases, it is not advisable due to the inherent hazards and insufficient testing. With the progression of technology, a growing population will have the opportunity to adopt and make use of it. According to research conducted by Anshari et al. in 2020, using this method has the capacity to reduce expenses, improve production standards, and strengthen the company's competitive edge. The advent of novel technology has the capacity to entirely revolutionize some industries and provide fresh market opportunities. Truby et al.'s 2020 research demonstrates that the advancement of technology has a significant impact on customer expectations and the process of transferring money.

Blockchain, cryptocurrency, AI, IoT, cloud computing, virtual and augmented reality, and online commerce are all examples of evolving financial technology. These are simply a smattering of the occurrences. Artificial intelligence and machine learning have extensive use in several financial domains. Currently, chatbots are the most widely used kind of artificial intelligence. Schulte and Liu (2017) observe that artificial intelligence has a profound influence on several facets of corporate operations, including back-office services, product delivery, risk management, marketing, and

security. Chatbots are the predominant kind of artificial intelligence. In their research, Schulte and Liu (2017) shown that using fundamental robotic algorithms for activities such as data entry, risk assessment, and loan form processing results in substantial time savings for major financial institutions. These time savings amount to a substantial number of hours, reaching into the hundreds of thousands. A novel kind of artificial intelligence has been developed, with the dual characteristics of creativity and potential damage. Truby et al. (2020) found that inadequately structured decision-making systems contribute to a greater occurrence of mistakes, potentially resulting in legal ramifications and heightened costs.

The advent of financial technology enables the automation of several functions such as client engagement, data analysis, data transmission, and administrative tasks, potentially advantageous for smaller banks. Automation and robotics primarily depend on the use of artificial intelligence and machine learning. Bilan et al. (2019) contends that the utilization of chatbots and automation in the financial services sector has the capacity to augment efficiency, foster more substantial customer engagements, and amplify profitability. In 2021, Mike became aware that a total of 120 million persons will need training in the next years. Robots and AI-RPA systems facilitate the mechanization of monotonous tasks, such as generating reports, gathering data, and managing records. RPA expedites payment processing by performing a pre-established algorithm that automatically approves payments whenever all criteria are satisfied. Upon successful completion of this transaction, an advanced Robotic Process Automation (RPA) system would promptly update all servers and apps that depend on the transaction's information. Utilizing RPA would transform the material into a complete file, as shown by the WEB and EVERFI reports from 2019 and the findings of Mike in 2021. Although first praised, blockchain technology is now causing substantial upheaval in the financial sector. The objective of this study is to examine the influence of blockchain technology on the banking industry

Data and Methodology

The integration of qualitative and quantitative methodologies in social science research has been extensively studied. Qualitative research is used to enhance comprehension of individuals' perspectives. Beaudry and Miller (2016) state that this kind of study seeks to explore many subjects and contribute to the development of ideas that may be used in future quantitative research. Beaudry and Miller (2016) state that the objective of quantitative social science is to precisely describe and explain the factors that influence events. This approach relies on quantitative research. As part of our analysis of how Fintech affects the banking sector, we use qualitative research methodologies known

for their descriptive and interpretative characteristics. Beaudry and Miller (2016) state that research reviews are a prevalent approach for evaluating a variety of papers. This paper offers a comprehensive analysis of a research issue, along with some intriguing strategies that need future exploration. The review forms include narrative, quantitative, qualitative, and meta ethnographic approaches.

The latter facilitates the gathering, evaluation, examination, and recognition of essential attributes, as well as the integration of phenomena into a distinct entity (Thorne et al. 2004). The latter also includes theme analysis, which allows for the discovery of essential attributes. Braun and Clarke (2006) state that theme analysis is a widely used method in qualitative research. Thorne and colleagues (2004) developed these techniques for detecting recurring patterns. In order to construct a cohesive entity, the process entails combining the predominant themes derived from a diverse range of study. Content analysis and theme analysis differ in their applicability and level of comprehensibility. When it comes to classifying data, content analysis is somewhat less complex than topic analysis, making it easier to begin. This article examines the influence of FinTech, namely blockchain technology, on advancements in the banking industry. In order to do this, we performed a comprehensive evaluation using the PRISMA methodology, followed by a thematic examination of the gathered data. In order to do a theme analysis, an extensive search of the Web of Science and Scopus databases was necessary, specifically targeting publications published from 2015 to 2022. The selection of databases was focused on their reliability and utility for technical study and evaluation. The timeline encompasses a broad spectrum of topics, such as accounting, corporate management, social sciences, economics, econometrics, finance, decision science, and environmental science. The decision to include the search query within the study was mostly driven by the research objective and the extent of the review. The search string includes the terms "Bank," "Banks," and "Banking," which were found in the databases. The terms "fintech" and "blockchain" were also referenced.

We used expansive search criteria and pertinent keywords to locate a wide array of sources. Subsequently, we conducted an analysis of the similarities and disparities in the search outcomes. By using the inclusion/exclusion criteria, we successfully excluded studies that did not provide any support for our results. This enabled the removal of previously searched items. If your original search revealed no results, try provide a more specific syntactic form. By using a specific grammar, we successfully determined the most relevant search results. Subsequently, these conclusions were altered to accentuate the significant impact that Fintech has had on the banking industry. A total of

ninety-three articles, which satisfied the evaluation criteria, led to the identification of themes. According to Braun and Clarke (2006), theme analysis refers to the methodical identification, examination, and documentation of recurring themes in qualitative data. This procedure is executed systematically. The subjects may differ. The 2015 publication by Liñán and Fayolle provides a thorough examination of the principles and reasons behind the development and exploration of research topics. Specific subjects were used to categorize the articles into their respective groupings. The abstract and content of each article were evaluated according to their pertinence to a primary subject area. The comprehensive qualitative inquiry done on the works revealed thirteen distinct themes and subthemes. This category encompasses a broad spectrum of subjects, such as banking, technology, blockchain, customer and consumer decision-making, machine learning, lending, fraud and cybersecurity, financial inclusion, cryptocurrency, blockchain in cryptocurrencies, Fintech's impact on banking and the financial sector, country-specific Fintech impacts, and blockchain in banking. The essay examines the following topics: "banking," "blockchain," "technology," "country-specific fintech impacts," and "blockchain and cryptocurrencies." Consequently, we may differentiate between publications that analyze the difficulties and possibilities linked to the adoption of new technologies in various sectors and those that concentrate on the disruptive influence of technology on the financial sector. Current scientific writing may exhibit variances in the depth of topics due to the wide variety of subjects addressed. In addition, there has been a dearth of inquiry into a range of matters, which might be valuable in pinpointing potential themes for future research.

Results

This study performed an extensive literature review to examine the issues related to financial technology and banking, with a particular focus on blockchain technology. Since 2015, a total of 93 pieces from a wider collection have been chosen for the purpose of conducting a comprehensive thematic analysis. The theme analysis identified four important subjects. This study focuses on the primary concerns and provides a comprehensive analysis of nine sub-categories that elucidate the impact of developing technologies on banks and the economy. The researchers concentrated on technological challenges, namely blockchain and its many applications. The analysis found that Bitcoin and blockchain together represented 44% of the total focus. The survey found that financial technology, often known as fintech, had a significant impact on banks and was the second most widely researched subject, comprising 28% of the total. Financial services technology was the focus of 11% of the total research publications, making it the third most studied topic. Nevertheless, the

technical progress went unnoticed. Machine learning, fraud and cybersecurity, banking, customer and consumer decision-making, financial inclusion, and lending have received insufficient attention.

Summary:

Technology has significantly transformed the way individuals participate in activities like buying, socializing, and doing business during the last several decades. The emergence of new technology has caused a change in consumers' spending patterns, as well as their perceptions of banks and the operating strategies used by banks. The increasing popularity of contemporary techniques may be attributed to the reduction of errors, improvement in communication, and alteration of consumers' perceptions about money and transactions. The advent of innovative financial technology has significantly impacted the provision of banking services and the attendant risks they entail. This exhibits a profound intellectual inquisitiveness, as seen by the extensive amount of research conducted. We place a high emphasis on doing personalized and evidence-based research in the areas of blockchain technology, banking, and financial technology. In the near future, the results of the testing will be disclosed to the public. Acquiring a substantial quantity of unstructured data has the potential for becoming overpowering. We transitioned from the analytical process to the synthetic process by collecting and examining data, doing rigorous research, finding essential elements, and combining several phenomena to create a new thing. One of the essential tasks was to gather and analyze the results. The findings pertaining to blockchain technology and financial technology are dissected into their constituent pieces and meticulously expounded upon in this section. Fintech emerges as a result of the innovation process propelled by financial engineering. Financial innovation arises from the interaction of customer needs, regulatory structures, and technological advancements. This link encompasses both the aspects of supplying and demanding in the banking industry. Banking sector innovation facilitates cost reduction while concurrently enhancing efficiency and competitiveness. All entities, including traditional financial intermediaries, markets, and digital firms, are working towards this goal. Consequently, each player in the financial industry strives diligently to provide services that are innovative and exceptional. These activities provide difficulties in the fields of environmental legislation, strategic planning, and operational management. Research indicates that financial institutions understand the strategic objectives of Fintech, which may enhance customer satisfaction and drive market expansion. According to the research conducted by Polasik and Piotrowski (2016), Polish financial institutions exhibit a predilection for a diverse range of payment options. Kaur et al. (2021) have suggested that including more individuals in the financial system may lead to an elevated overall risk to the system, while

simultaneously reducing the level of protection provided to customers. Emerging technologies have undergone thorough scrutiny about their safety and efficacy. This situation certainly indicates the underlying concerns that established firms have with the integration of new technology. Subramanian et al. (2019) conducted research on the process of adjusting connection weights in acyclic payment networks. The objective of this investigation was to reduce the magnitude of computer-related expenditures. Traditional institutions have an interest in financial technology, despite concerns about its use. Organizations in the financial business have the option to either produce or delegate services. The majority of the reviewed articles primarily examined the commercial agreements between financial institutions and fintech startups. Zalan and Toufaily (2017) discovered that well-established banks in the Middle East and North Africa (MENA) region are forming partnerships with Fintech startups due to the increasing worldwide trend of digitization. This choice was chosen in response to the global digitalization movement. Hommel and Bican (2020) state that the development of the financial technology industry has led financial institutions to change their approach to finance, shifting from debt instruments to equity. Based on the findings of Fung et al. (2020), fintech has the capacity to enhance the financial stability of banks in emerging countries, but its impact is limited in economies that are already well-established. Li et al. (2017) discovered a link between Fintech funding and bank stock returns, indicating an indirect connection between the two. Based on the study findings, disruption negatively impacts the operational efficiency of banks. Chen and Peng (2019) found that an excessive number of investments in financial innovation negatively affects performance. Academics have various perspectives on the impact that Fintech will have on traditional financial institutions. The study conducted on the relationship between financial technology and financial inclusion and development lacks consistency (Demirguc-Kunt et al., 2020). The quick speed of technological progress may be the underlying cause of these disparities, which might be linked to other factors. The research conducted by Soloviev (2018a, 2018b) demonstrated that fintech has not caused any significant changes to the financial system. The presence of this gap is likely attributable to the ongoing disputes within the banking industry on the exact definition of Fintech. Several recent developments in the financial sector have been revealed, and it is possible that some of these occurrences may not result in significant damage. Given the laborious nature of disruption, several incumbent officeholders may choose to decline competition. The advent of fintech technology is pushing banks to enhance their operating operations. According to Bongomin et al. (2019), all the research indicates that the most effective approach to achieve change is to collaborate and engage with a diverse range of stakeholders. Hadad and Bratianu (2019) argue that financial institutions have shifted their focus

from outsourcing as a cost-cutting approach to prioritizing innovation, as seen by recent trends. While many publications advocate for financial collaboration as a means of adapting to changing circumstances, there has been little research conducted on collaboration within the banking sector. Ramdani et al. (2020) have noted that innovation in the banking sector in the United Kingdom positively impacts retail banks. In their paper, McKillop et al. (2020) propose that prominent commercial banks should engage in collaboration with fintech startups or acquire them to capitalised on the potential advantages arising from fintech-induced disruption. Darmansyah et al. (2021) Specific habits may hinder the adoption of information technology. As to the findings of Rupeika Apoga and Wendt 2021, conventional banks and internet-based lending platforms may be obliged to engage with one other as a result of criteria including transparency, registration, and limitations on loans. There is a tension between the socioeconomic goals of peer-to-peer lending and the existence of extensive intermediation networks. The authorities have claimed that it is crucial to reduce systemic risk in order to promote the development of innovative financial management strategies. The "wait-and-see" approach has been criticism due to its failure to address concerns related to stability and regulatory arbitrage (Tanda and Schena 2019). Although not sustainable, this method has the capacity to support the economic expansion and inclusiveness of developing nations. According to Costa-Climent and Martínez-Climent (2018), including corporate social responsibility (CSR) initiatives in financial institutions might contribute to mitigating technological hazards. The presence of transparency and public consciousness has the capacity to improve the operational landscape of financial institutions. Always consider the socioeconomic goals of each individual buyer. The implementation of this would likely be more challenging in economically disadvantaged nations with stricter regulations around financial issues (Thompson, 2019). According to the disruptive innovation hypothesis (Christensen et al., 2015), established companies would increase their efforts in research and development to safeguard their interests.

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