



Disruption of Traditional Banking Services by Financial Technology in the Digital Economy

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DOI: 10.32629/memf.v3i6.2607

Abstract: Under the rapid development of the digital economy, financial technology is disrupting the traditional banking industry with rapid innovation and technology application. Traditional banks have always been the core of the financial system, but with the rise of technologies such as the Internet, mobile payments and blockchain, the core functions of banks are being challenged. FinTech, with its flexibility and technological advantages, has made significant progress in areas such as payments, lending and wealth management, transforming the delivery of financial services and triggering changes in customer behavior and expectations. Traditional banks are under pressure to digitally transform themselves, while also needing to address new regulatory and security challenges. To survive and continue to play a role in this change, traditional banks need to partner with fintechs to develop new business models and innovative products. By analyzing the disruptive impact of FinTech on traditional banking services, this paper discusses the future development trends and adaptation strategies of the banking industry, aiming to provide theoretical and practical references for the industry.

Keywords: FinTech; traditional banking; digital economy; disruption

1. Introduction

As global digitization accelerates, the financial industry is undergoing an unprecedented transformation. The rise of financial technology (FinTech) is transforming the delivery of financial services at an alarming rate, fundamentally reshaping the banking landscape. In this process of change, the core functions of traditional banking services, such as payments, savings, lending and wealth management, are being disrupted by emerging technological forces. This change is not just an advancement in technology, but a complete transformation of the financial services model and customer expectations. Looking back at the history of the financial industry, traditional banks have been the core institutions in the economic system, providing stable financial support to society. However, in recent years, with the rapid development of information technology and the popularization of the Internet, fintech companies have begun to emerge[1].

The emergence and rapid development of fintech is not just a simple replacement for traditional banking, but is driving a profound industry change. Traditional banks, in the face of this change, are coming to realize that their inherent business models and operations are no longer able to meet the needs of today's market and customers. By breaking down the boundaries of traditional financial services, fintech companies are providing a seamless user experience and personalized financial products, enabling customers to access the financial services they need without relying on traditional banking channels. This change has led to unprecedented pressure on traditional banks to revisit their business strategies and development paths.

2. Overview of Traditional Banking Services

Traditional banking services, as an important part of the financial system, have evolved over centuries and have accumulated a wide range of social influence. Traditional banks play a crucial role in global economic activities by providing core functions such as savings, loans, payment and settlement, and wealth management. By 2022, the assets of traditional banks will total more than US\$150 trillion, accounting for more than 80% of global financial assets[2]. This fully reflects the important position of traditional banks in the financial system. In terms of operation mode, traditional banks mainly rely on extensive branch networks and employee services. In the United States, for example, there were about 4,700 banks with more than 75,000 branches across the country in 2019. These branches are not only a core channel for banking business, but also an important link for traditional banks to build trusting relationships with their customers. However, the high cost of operating branches and the efficiency of manual services are gradually revealing the limitations of the traditional banking model. According to a study by McKinsey & Company, the cost of operating a branch typically accounts for 30-40% of a bank's total costs, but the frequency of use by customers is declining year after year [3].

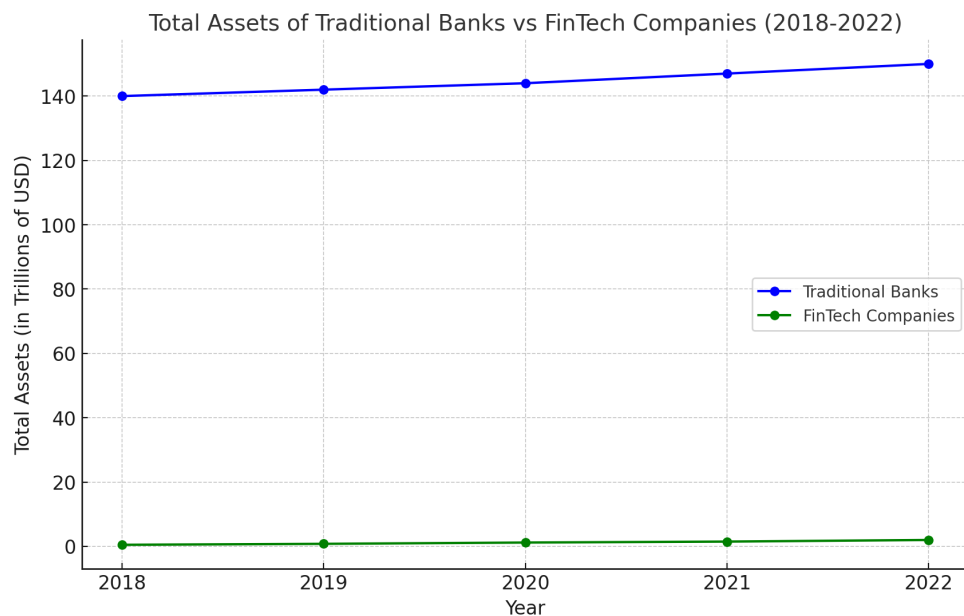


Figure 1. Total Assets of Traditional Banks vs FinTech Company (Data sources: World Bank, CB Insights (2018-2022))

Despite their dominant position in the financial system, traditional banks are gradually feeling the strong challenge from FinTech as information technology develops and customer needs change. Data shows that between 2019 and 2022, global fintech investment will grow at an average annual rate of more than 30%, while the investment growth rate of traditional banks is relatively slow [Source: CB Insights]. Fintech companies are rapidly capturing market share in areas such as payments, lending and wealth management, thanks to their innovative technologies and flexible business models[3]. For example, in payments, companies such as PayPal have processed \$1.25 trillion in transactions globally, significantly eating into the market share of traditional banks [Source: Statista]. Traditional banks have responded to these challenges with far less speed and flexibility of innovation than fintechs due to their historical baggage and complex internal structures, despite their efforts through digital transformation and technology upgrades. This has resulted in many traditional banks being passive in the competitive marketplace and gradually losing favor with some of their younger customer segments.

3. The Rise of Financial Technology

The rise of financial technology (FinTech) has been one of the most dramatic phenomena in the financial industry in recent years. With the rapid development of information technology, FinTech has revolutionized the delivery of traditional financial services through the application of innovative technologies such as the Internet, mobile technology, blockchain, big data and artificial intelligence. Fintech has not only triggered huge changes in areas such as payments, lending, investment management and insurance, but has also opened up new financial service models such as peer-to-peer lending (P2P), crowdfunding platforms, digital currencies and smart investment advice. The development of FinTech has benefited from the booming digital economy. With the increase in global internet penetration and the widespread use of smartphones, more and more consumers are favoring digital platforms to manage their financial activities. Data shows that the value of mobile payment transactions globally has grown by more than 200% over the past five years and is set to reach \$6.6 trillion by 2022. This trend not only showcases the success of fintechs in the payments space, but also reflects a fundamental shift in consumer behavior. In addition, fintech companies are rapidly attracting a large number of customers, especially millennials and the unbanked, with their flexible business models and user-friendly services[4]. Through technological innovation, these companies offer more personalized and convenient financial products, which greatly enhance the user experience. Compared with traditional banks, fintech companies are able to respond faster to market demand and, through big data and artificial intelligence technologies, more accurately anticipate and meet customers' individual needs. These technological tools not only improve service efficiency, but also provide greater value to customers, further accelerating the popularization of fintech. However, the rise of fintech is not only the result of market demand driving the industry, it is also strongly supported by the capital market. Investment in the global fintech industry has continued to climb over the past few years, totaling \$220 billion in 2022. This influx of capital has prompted a large number of startups and traditional financial institutions to accelerate innovation and technology adoption, driving the rapid development of the industry as a whole.

4. Impact of FinTech on Traditional Banking Services

The rise of financial technology (FinTech) has had a far-reaching impact on traditional banking services, driving sweeping changes in the banking industry. With the rapid expansion of FinTech in payment, lending, wealth management and other areas, the core business model of traditional banks is facing unprecedented challenges. First, FinTech has greatly simplified the payment process through innovations such as mobile payments and digital wallets, providing more convenient and lower-cost payment solutions than traditional banks. This change has resulted in a large number of customers, especially the younger generation, gradually turning to FinTech platforms for their daily transactions, thereby undermining the dominance of traditional banks in the payments space. In addition, fintech innovations in the lending space pose a direct threat to traditional banks. Fintech companies are utilizing big data and artificial intelligence technologies to rapidly conduct credit assessments and loan approvals through online platforms, dramatically shortening the lending process and reducing operating costs. This has not only increased the availability of loans, but also allowed borrowers to access funds at lower interest rates, which has attracted a large number of customers to turn to fintech platforms, while traditional banks have lost some of their market share in this area[5].

The impact of fintech on wealth management cannot be ignored as well. With robo-advisors and algorithm-driven investment platforms, fintech companies are able to provide personalized investment advice and management services at a much lower cost than traditional bank wealth management services. This efficient and personalized service model is attracting more and more clients, especially investors who are dissatisfied with the high fees of traditional banks. As fintechs continue to evolve, traditional banks also face challenges from regulatory and security perspectives. The speed of innovation in fintechs often exceeds the speed of response of the regulatory framework, making it necessary for traditional banks to deal with both more complex compliance requirements and risk management pressures when competing with fintechs. In addition, the digital nature of fintechs brings new cybersecurity threats, requiring traditional banks to upgrade their technological capabilities to address potential security risks.

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