AN OVERVIEW ON HOW CAN FINANCIAL TECHNOLOGY (FINTECH) TRANSFORM THE FUTURE OF BANK SERVICES AND PERFORMANCE: A CHALLENGE OR OPPORTUNITY?

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Abstract: Digital transformation creates challenges in all business sectors and industries, and as a result of this most of the economic activities are becoming highly digital. The development of digital transformation has also clearly started the emergence of Fintech (financial technology) initiatives, which are recognized as some of the most important innovations in the financial industry. These initiatives are developing very fast, driven partially by the sharing economy, regulations, and information technology. However, researches in the field of Fintech remain still in its very early stage.

In the past several years changes in the technological improvements and financial innovations had a great impact on the financial system. Globally, the banking industry has changed and integrated the financial technology in its everyday activities. So, for some financial members Fintech provides a big threat and a challenge for the traditional banking, while for some others it provides an opportunity for more flexibility, better service functionality and higher service quality. Generally, banks adopt innovations to satisfy customers' demands and needs, despite the risks and challenges imposed from the technological era. All in all, besides the imposed challenges, banks benefit from opportunities of the new services in the aspect of allocating more efficiently the resources, reduction in transaction costs, promotion, revenue growth and profitability.

The aim and objective of this overview paper is to identify and evaluate the main benefits and risks related to the development of Fintech and financial innovations that banks are exposed to (on micro and macro level), and to provide recommendations on the reduction of those threats and control them. Based on lots of researches it was proved that one of the major difficulty of the financial innovations is the negative impact of the new financial service development on banking services. It is acclaimed that in times of technological boom it is better for banks to invest their available funds in appropriate techniques for successfully adopting new financial product/service development.

Finally, for a very long time banks enjoyed a comfort zone for guiding and offering traditional financial services. But today, banks are facing major dangers from the technological innovations, including the potential entrance of Fintech start-up companies. That is why banks are willing to go through several proactive activates to create values, save their market position and keep their customer base high. Moreover, banks are working towards improving their efficiency in the process of automation, processing data and digitalization.

Keywords: Fintech, financial innovation, managing changes, digitalization, banks.

1. INTRODUCTION

The role of the banks as an institution is to collect deposits from the public and at the same time provide loans. Simultaneously, they are conducting three activities at the same time: transforming financial liabilities to assets, payment services and processing and collecting information (Freixas and Rochet, 2008). All of these impose some kind of risks, and if they are not managed and controlled, bank runs can appear. So generally, banks are facing an increasing competition from Fintech startup companies, who are expanding their interference in the traditional services conducted by banks. But, there is still no clear evidence if it is a real threat or not. All these depend on the steps that banks and these new Fintech companies will undertake in the following years if they will want to compete or complete against each other (Temelkov, 2018).

Moreover, the banking industry globally has undergone dramatic changes as a result of the growing use of technology on their every day basis. Financial technology together with the importance of innovations poses an important issue on the global economy. Currently, the banking industry is increasingly facing competition from nonfinancial institutions as a result of Fintech, making them think far beyond traditional financial services, find more innovative solutions to survive during the technological boom and serve the demands and needs of their customers. For the traditional banking, Fintech is an evolution rather than revolution since it is expanding and supplementing the existing system. So, rethinking to increase investment in Fintech is of a real high importance. Since, in the last couple of years the traditional way of banking is marked with different challenges, financial services and activities have changed a lot. As a result of this, in the banking industry worldwide the importance of technological innovations is growing rapidly, they are expanding the range of their activities, making the link between banks and Fintech startups complementary.

Another challenge is the regulatory compliance, and the adoption to constantly evolving regulations and the implementations for banks are expensive activities (Wong, 2017). Particularly, for some categories of clients they experience an increase in regulations, especially those that are more risky. On the other hand, the new players such as Fintech startup companies have loosed regulatory framework in a way that they have a cost advantage over the banks in financing their clients (Temelkov, 2018). Consequently, the Fintech companies are entering the financial markets because of these underserved categories of clients who try to find alternative ways of accessing financial funds and services, strengthening their position in the future (Wardrop et al., 2016). Also, traditional banks suffer from another weakness such as their complex bureaucracy and corporate structure, making costs even higher.

Overall, Fintech startups and banks have a lot to offer to each other. Fintech as new generations are quick adopters of changes and have more technical expertise, while banks on the other hand have stable assets, know-how expertise, stable infrastructure and large loyal customer base. Working together rather than competing against each other can be far more successful at improving the financial services and customer experience (Carey, 2018). In general, identifying the risks and opportunities of Fintech revolution in this cosmopolitan economy seems of a high significance and importance.

Furthermore, the rise of innovations and Fintech companies are posing high risks of various natures in the establishment of banking services. One of the very known is the liquidity risk that banks face in their everyday activities with the appearance of technological innovations. From researches' perspective an interesting question rises if Fintech companies do trigger liquidity issues in the financial system (Navaretti et al., 2018). Some of them say yes because they can act like a pool of funds when clients can make withdrawals whenever they need. While some others say no, because if Fintech companies issue loans and create less liquid assets in that way they will need a specific authorization to act like banks. In a way, banks are much more trustable institutions and relay under sticker regulations in emerging industries and developing countries.

Moreover, banks are better at monitoring and screening their clients like households and enterprises, making them better players in capital buffering, credit riskiness and deposit insurance. Clearly, in the world most of Fintech companies act as brokers, and in this case investors are left with higher insecurity and credit risk. Therefore, Fintech companies have riskier liabilities and asset portfolio then banks (Navaretti et al., 2018).

Finally, the rapid technological innovations and customers demand raise the need for employing skilled workforce, come up with new software and invent new financial products to maintain and reach the expectations of all the subjects of the economy. Many banks are involving into innovations, especially in new financial products to save themselves from any kind of difficulty or illiquidity (Silva and Carreira, 2012). In such cases, all this requires banks to reorganize their product innovations to strengthen and keep their market share. However, today there are a lot of challenges and uncertainties in the financial world and analyzing the impact on liquidity and credit riskiness is of a high importance when considering new financial products and services in the banking industry (Bervas, 2008).

2. COOPERATION BETWEEN BANKS AND FINTECH COMPANIES

Interest enough, these new Fintech companies in the future may offer services similar to those of the traditional banking, and the biggest danger from Fintech is the fact that they will offer services at lower cost with higher accessibility. That is why because of the potential losses in revenues or benefits a lot of banks in the future will consider cooperation with Fintech companies:

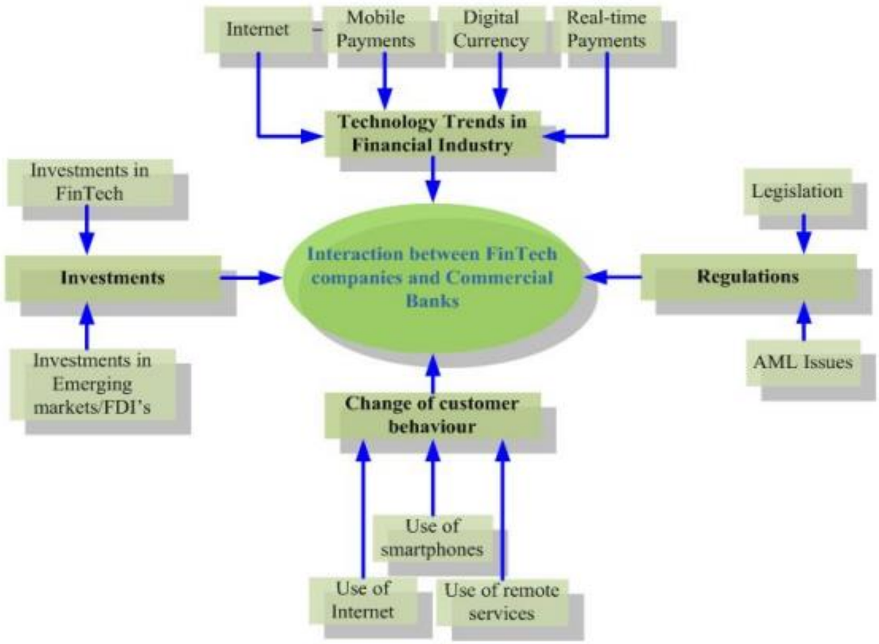
Table 1. Risks and benefits associated from cooperation between banks and Fintech copmanies

Benefits	Risks
Building up the brand reputation	Differences in culture
Increase in electronic banking	Cybersecurity risks
Minimizing the number of bank branches resulting in lower capital expenditures	Difficult to find qualified workers
Attract new customers in a cheaper way and from different places	Risky investments
Encouraging younger generations	Complex legislation and regulation
	Difficulties while integrating banks' and Fintechs' functions.

Source: Manatt (2016)

The interaction between commercial banks and Fintech startup companies can be examined even through different variables such as costumer behavior, regulations, investments and technology trends. According to Vasiljeva and Lukanova (2016), in the below figure is presented a better picture of the taxonomy of the mentioned collaboration:

Figure 1. The taxonomy of the interaction between Fintech and Banks with other variables



Source: (Vasiljeva & Lukanova, 2016)

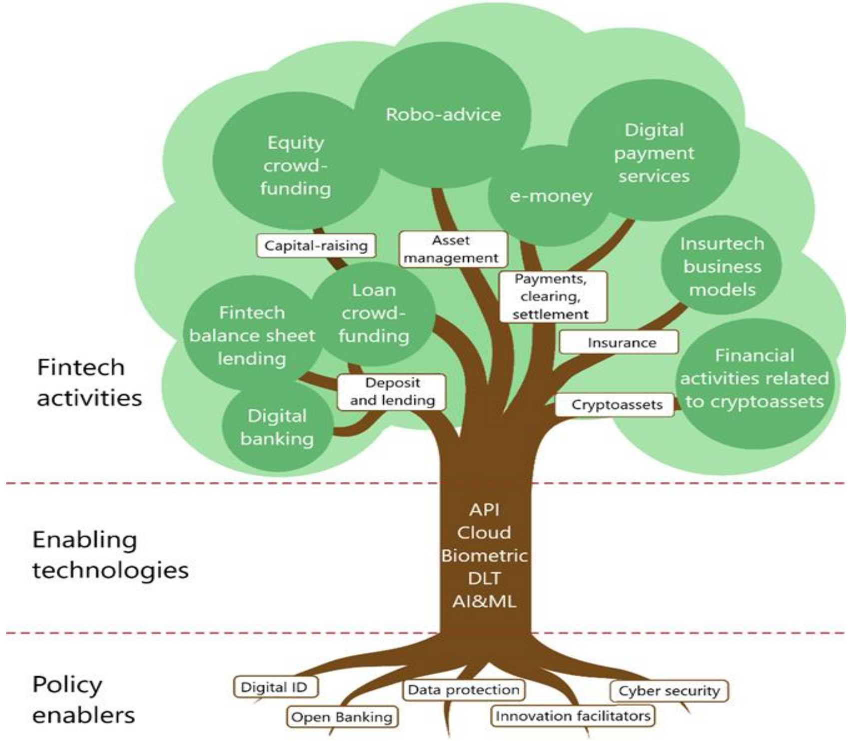
It very important to mention that traditional banks suffer from another weakness such as their complex bureaucracy and corporate structure, making costs even higher, while for now Fintech startups do not have such a complicated organizational structure (Degryse et al., 2007).

Additionally, in order banks to survive the big threat from technological innovations, they have to consider the process of new financial product development. Inventing a new financial product means to catch up with the latest trends, in a way of allocating more efficiently the resources, reducing growth instability and enabling banks to have greater access to financial services. According to Wadesango et al. (2017), there are benefits and challenges associated with the development of new financial products. Benefits like saving the market share and keeping the customer base high, providing services with higher quality and less resources, etc. While as a challenge it can be taken into account the fact that new financial product development might have a negative effect on bank performance.

3. TRANSFORMING THE FUTURE OF BANK SERVICES AND PERFORMANCE

There are many great forces shaping society, from changes in social and demographic aspects to changes in global economic power. One particular strength of the technological advancement is that it has an impressive impact on financial services. Meanwhile, there are measures related to financial technology management that are classified into three groups: (i) those that directly regulate Fintech activities; (ii) those focused on the use of new technologies in the provision of financial services; and (iii) those who specifically promote digital financial services. This classification, as proposed by Ehrentraud et al (2020), can be illustrated by the Fintech tree, where the top of the tree represents Fintech activities, the body of the tree represents the techniques that enable those activities, and the roots are the measures that enable those techniques.

Figure 2. Fintech tree - the taxonomy of the fintech environment



Source: (Ehrentraud, et al., 2020)

On the other hand, the future of financial institutions will look very different from what it is today. The changing expectations of consumers, new technologies and new business models, impose the need for financial institutions to start preparing and adopting strategies to help them prepare for the future of financial services. Digitalization is trasforming the way people communicate and work day by day, and advances in financial technology continue to influence the future of financial services around the world. On the other hand, the growing demand for digital banking is transforming the way all banking activities work.
New technologies, including artificial intelligence, machine learning and robotic process automation, determine the future success of institutions and provide a wide range of possibilities. These processes, along with technology and organizational culture, are strategies that think about moving forward and building strength. The growing desire of consumers to access financial services through digital channels has led to an influx of new financial technologies that reconceptualize the entire financial market. Digitalization as an ongoing process, which is developing exponentially in the last few years will continue to improve and transform the whole package of financial activities. New trends in the financial sector are the main indicators that facilitate the understanding of the transformation that banks are undergoing to remain relevant in the future. These trends include:

- ✓ Continuous digital transformation
- ✓ The emergence of Fintech companies lead as a new business model
- ✓ Sharing economy will be embedded in every part of the financial system
- ✓ Increased role of artificial intelligence
- ✓ Robotics and rethinking the new concept of money
- ✓ Blockchain technology will change many things
- ✓ Digitalization is becoming the new normal

4. CONCLUSIONS AND RECOMANDATIONS

The financial technology is considered to modulate financial innovations because it can provide added value to financial services. Due to the evolution of technology and its application in the design and delivery of financial products, the monitoring, management, and control of financial services must pursue compliance for implementation in achieving effective objectives in the financial sector. The historical view of Fintech, ecosystems, business models, and types of Fintech investments was found to be a preliminary topic of study and discussion, but nowadays it indicates an important issue in developing new financial products and services. For this reason, mechanisms for using innovative financial technology need to be sophisticated, and rules relating to the experiences of various parties in the ecosystem need to be integrated. Several countries report financial service authorities to build regulatory sandboxes as a process of assisting Fintech start-ups. This is a good jump, safe procedure for testing financial technology operators and their products, services, technology or business models.

Consequently, for a very long time banks enjoyed a comfort zone for guiding and offering traditional financial services. But today, banks are facing major dangers from the new technologies, including the potential entrance of Fintech start-up companies. That is why banks are willing to go through several proactive activates to create values, save their market position and keep their customer base high. Moreover, banks are working towards improving their efficiency in the process of automation, processing data and digitalization. Regardless of having strong market position while reliability and trust for Fintech are not yet built, they continue to face challenges for conducting the traditional ways of banking. Even though Fintech are not prone to strong regulations like banks, a future cooperation between these two financial forces can ease the access to financial sources and deliver perfect products and services for customers. Therefore, the whole process of practicing to adopt new financial products and services innovations, together with the process of integration of banks and Fintech in the future, at the same time refers to big opportunities and threats for the whole financial market.

Finally, most of the Fintech indicators that have an impact on the performance of financial institutions, such as commercial banks, and at the same time are used for technological achievements, highly recommend that financial institutions like banks should focus and pay attention to six key priorities in their daily activity (PwC, 2020), of which:

1. Update their IT operating model to prepare for the "new normality";
2. Reduce costs by simplifying old systems, adopting robotics and artificial intelligence;
3. Build technological capabilities to be more intelligent for the needs of their clients;
4. Prepare architecture to relate to anything and anywhere;
5. Sufficient attention should be paid to cybersecurity when applying new trends;
6. Access to the necessary talents and skills to carry out financial activities should be provided.

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