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THE FINTECH ECOSYSTEM AS AN INSTRUMENT FOR TRANSFORMING THE TRADITIONAL BANKING SYSTEM.

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Abstract:

Over the past decades, banking has been advancing customer service by facilitating straightforward, secure, and short-term transactions. However, the COVID-19 pandemic has pushed the sector to adapt further and streamline access to its services. Digitalization, defined as the process of digitally transforming a business or company (Gartner, 2020), has gained popularity both as a business strategy and as a means to envision and drive future company transformations. Thanks to new developments, consumers have started to demand better customer service, more speed, transparency and a long list of new features. The study aims to pinpoint the key innovative areas where banking digitalization is expected to occur in the near future. Technological advancements are driving structural changes across all sectors of the global economy. For banks, digital transformation has become essential, not merely an option, to stay competitive and address the increasing demands of customers. This underscores the importance of comprehending the trends that will shape the future development of the banking system.

Keywords: Digital transformationcustomer service advancements, COVID-19 impact, service simplification, secure transactions, short-term transactions, digitalization strategy, future vision, business transformation, technological adaptation, financial services digitalization.

INTRODUCTION. Discussing digitalization involves considering a comprehensive transformation of business operations, and in the context of banking institutions, it signifies a fundamental shift in the economy's functioning at both micro and macro levels. For financial entities, delaying digitalization would be a critical error. Leading consulting firms such as McKinsey, KPMG, and Deloitte assert that the sector's digital transformation is unavoidable. Numerous organizations, both national and international, have already started transforming their operations from back-office functions, which focus on support and management, to customer relations, the most vulnerable area regarding customer evaluation. According to a KPMG report (2019), "91% of industry leaders anticipate completing digital transformation within the next three years." Therefore, discussing the digitalization of financial services is addressing a primary concern for sector leaders. This pressing need for transformation stems from a significant business movement known as the fourth industrial revolution (or Industry 4.0), where the focus shifts from the product to the customer, aiming to enhance their experience and satisfaction. The evolving technological landscape offers a significant opportunity to establish oneself as a market leader and stand out as an innovative, customer-centric, and technologically advanced company.

There are three main reasons to discuss the digitalization of financial services: first, banking is a historically traditional and rigid industry that now faces the necessity to embrace new technologies. Financial services have been pivotal to the economy but have traditionally resisted changes to their operational methods. Despite this, digitalization is an inevitable transition and the obvious next step. Understanding how one of the most inflexible industries must adapt to rapid and radical changes is crucial.

Second, it is essential to consider the shifting priorities of customers who now demand integrated, digital, and efficient services. Technological advancements have led consumers to expect better customer service, increased speed, transparency, and a host of new features. This analysis aims to understand how financial services have evolved to meet these new demands and what further steps are needed. Understanding the dynamic interaction between consumers and banks is vital to comprehend the evolution of banking.

Finally, studying the digital transformation of banks is significant as it sheds light on the changes within the largest agents of the global economy. In the face of a fragile economy, where economists almost universally

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agree that a recession is inevitable, the adaptation of financial services is crucial. As early as 2019, McKinsey warned of signs of an economic slowdown and indicated that the global economy was entering the final phase of its cycle (McKinsey & Company, 2019). Even during a crisis like the current pandemic, which has halted numerous sectors, the banking industry has continued to operate uninterrupted, supporting the financial framework. Technological advancements have been pivotal in these efforts, warranting detailed study.

The ongoing debate about digital business transformation is especially pertinent in the financial sector, where outdated legacy systems remain a significant hurdle. Consequently, this research paper's primary objective is to explore the digitalization process of financial services from the perspective of customer-organization dynamics, examining current and future transformations and challenges. To this end, the study will also pursue several secondary objectives: understanding customer changes due to technological progress and information globalization, examining the impact of external factors like regulation and interest rates on bank development, analyzing the position and potential impact of new and future competitors on financial organizations, and identifying necessary steps for the financial industry to achieve full digitalization, ultimately providing a superior customer experience and transforming its operational scale.

LITERATURE REVIEW. The rapid advancement of financial technology (fintech) has brought about significant changes in the financial sector, particularly in how traditional banking systems operate. Fintech refers to the integration of technology into offerings by financial services companies to improve their use and delivery to consumers. This literature review explores various aspects of the fintech ecosystem and its transformative effects on traditional banking. The emergence of fintech can be traced back to the global financial crisis of 2008, which highlighted inefficiencies in the traditional banking system and prompted a demand for more innovative financial solutions. According to Gomber, Koch, and Siering (2017), fintech has since evolved, encompassing a wide range of services including payments, lending, wealth management, and insurance. The sector's growth is driven by technological advancements, regulatory changes, and shifts in consumer behavior towards more digital and personalized services (Arner, Barberis, & Buckley, 2015). Fintech has disrupted the traditional banking model by offering services that are faster, more efficient, and often cheaper. For example, digital payment platforms like PayPal and mobile banking apps have revolutionized how transactions are conducted, reducing the need for physical bank visits (Philippon, 2016). Similarly, peer-to-peer lending platforms such as LendingClub and Prosper have democratized access to credit, challenging the traditional banking monopoly on loans (Milne & Parboteeah, 2016). While fintech initially posed a threat to traditional banks, a trend towards collaboration has emerged. Banks are increasingly partnering with fintech companies to leverage their technological capabilities and enhance their service offerings (Chiu, 2016). This synergy allows banks to maintain their customer base while fintech firms benefit from the banks' extensive regulatory knowledge and customer trust (Nicoletti, 2017). The integration of fintech into the financial system also brings regulatory challenges. Ensuring consumer protection, data security, and financial stability are critical issues that regulators must address (Zetzsche, Buckley, Arner, & Barberis, 2017). However, regulatory frameworks like sandbox environments allow fintech companies to innovate while operating within a controlled and monitored setting (Jenik & Lauer, 2017). The future of banking is likely to be characterized by a hybrid model where traditional banks and fintech companies coexist and complement each other. Advances in artificial intelligence, blockchain, and big data analytics are expected to further drive this transformation, leading to more personalized and efficient financial services (Lee & Shin, 2018). As the fintech ecosystem continues to evolve, its impact on the traditional banking system will likely deepen, fostering an environment of continuous innovation and improvement.

METHODOLOGY. The research presented is based primarily on an analytical perspective with the purpose of building knowledge. Likewise, it is characterized by being a documentary study supported by authors with the purpose of analyzing the impact of Fintech on the evolution of the banking system and what this instrument represents to improve products and services for the benefit of customers and users, which constitutes a challenge for financial management in the 21st century. Through this study, we will make a proposal through the systematic approach of searching, organizing, analyzing, and interpreting data obtained from printed, audiovisual, and/or electronic documentary sources, linked to the subject of study. In this type of research, documentation is used, which is collected, selected, analyzed and the results are presented in a coherent manner; thus, the researcher deploys logical and mental procedures such as study, synthesis, deduction, induction, among others, to which different techniques of locating and fixing data, analysis

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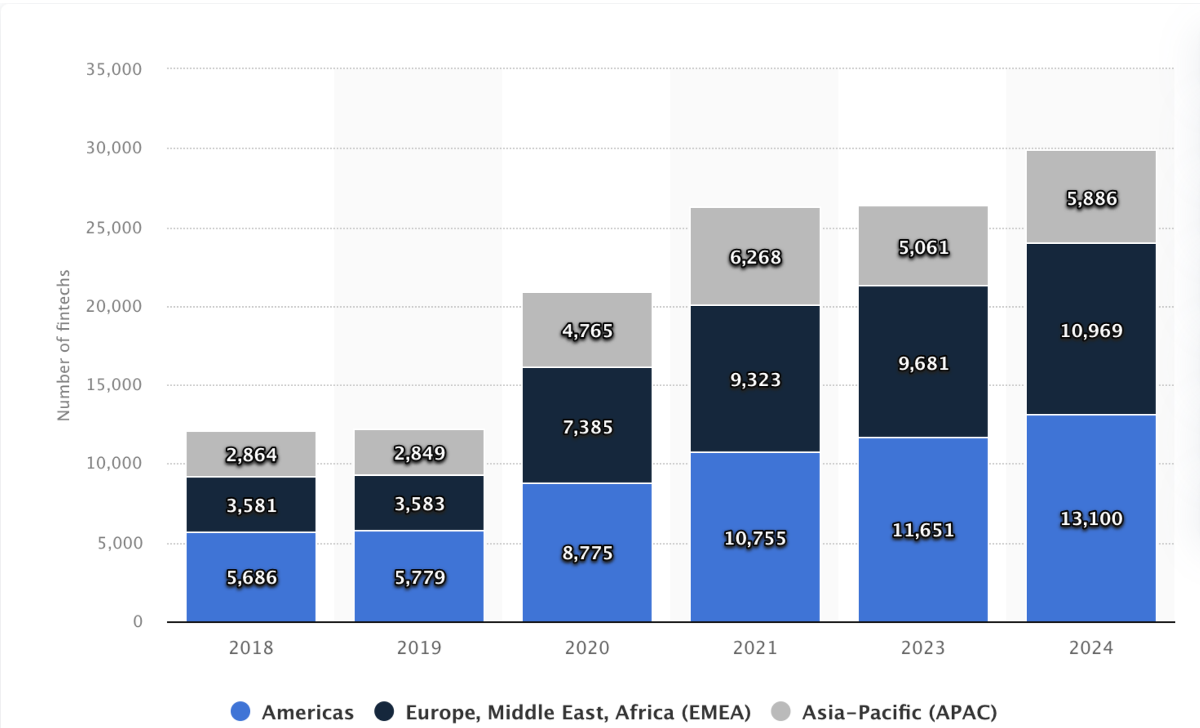
of documents and content are applied. In this sense, in the processing of the collected and selected information, it was necessary to carry out the study of theoretical content through the use of cognitive maps and semantic analysis, since they are expeditious paths that lead to the understanding of the texts and writings examined.

RESULTS.

With the arrival of the 21st century, the world has seen a multitude of significant technological advances, which represent a diversity of solutions and innovations that make the inclusion of new tools possible. This constitutes an intelligent leap that is based on the starting point of interconnection as a support for automated and digitalized processes with which a robust triangle has been developed between information technologies and the software of organizations.

In this sense, (Rifkin, 2011), reveal that the financial system is in the presence of a new phenomenon called the Fourth Industrial Revolution, which is identified by the dynamics established through digital instruments, which have been transforming the physical, digital and biological spheres, which have been established through countless exponential companies (Ismail, 2014).

Based on this argument, fintech companies known as Technological Finances, whose abbreviation in English is (Financial Technologies), emerged. It became known from the 1990s, when the Internet began to flourish at a general level in companies and it is thanks to the evolution of this tool that today both banking and financial systems as well as electronic commerce benefit from it to boost their businesses. It is important to highlight, according to Berners (1991), that from the decade mentioned in the previous paragraph, the World Wide Web system (www) came into operation, which opened the door to the exchange of information online. Similarly, Bezos (1994) launched the Amazon company (online book store) and later eBay (auction and electronic commerce of products through the Internet). Likewise, according to the "Gerencia Emprendedora" portal, in 1999, under the tutelage of Peter Thiel and Max Levchin, the company Confinity (cryptography and payments company) was created, which would later become PayPal (collection and payment transaction service), with the intention of serving electronic payment requests through debit cards, which led to giving added value to the customer, becoming one of the main reasons that currently drive the new digital financial ecosystem that is presented.



Picture 2. Number of fintechs worldwide from 2018 to 2024, by region[1]

[1] https://www.statista.com/statistics/893954/number-fintech-startups-by-region/

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Based on the above, the following questions arise: How effective are the methods used to generate consumer trust? What are the strategies used by the banking and financial sector to create the fintech culture? What are the advantages and disadvantages of the sector in the implementation of financial technologies? What strategies are used to guarantee optimal service to its clients? What is the security that fintechs offer to users? Due to the arrival of the Coronavirus pandemic, some developing countries have been forced to hastily implement intelligent processes to promote activities at a lower cost, with speed, flexibility, and efficiency, which shows the maturity of new financial technologies in their application and adaptability in financial systems, which constitutes a challenge for banking entities, which must design new channels, services and products to also face the needs that have arisen with the COVID19 pandemic. Likewise, the banking and financial system of countries undergoing growth has been affected by some limitations to the expansion of its processes, such as power outages, internet access, budget, among others; which becomes a challenge for their organizations regarding what this transformation tool represents for the innovation of their financial systems.

With the disruption of fintech and start-ups as business models, it is necessary to have the application of a management model to have clear objectives, including compliance with the fundamental principles of its users to guarantee the success of the proposal. In this way, the approach of a management model involves having a set of procedures and projects that will be carried out to resolve the deficiencies presented in order to achieve the optimization of financial technologies (Fintech). One of the factors that is presented based on the results obtained is the regulatory one, since the banking and financial system itself does not fully control the service that Fintechs propose. Likewise, other elements coexist that are manifested and that need to be improved, such as the benefits of banking and inclusion of customers. The banking and financial system has the duty to get closer to its customers with clear proposals, to guarantee the competences between the organizations that dominate the financial sector. Table 1 below summarizes a proposed Fintech strategic management model, which guides the discussion to promote financial inclusion and the optimal expansion of this financial ecosystem in developing countries.

Table 1. Proposal for a Fintech Strategic Management Model.

Treatment Plan		
Promoting innovation for the benefit of financial services	flexibility	social inclusion
stimulate competition	campaigns for informative content through social networks	access to goods and services
boosting fintech regulation	Financing plans to increase access to smartphones	trust
customer protection	Stimulate entrepreneurs and new business models	Fintech literacy through the media
risk reduction	Offer navigation plans and service	ensure operations and transactions in a comfortable manner
prevention of money laundering and terrorist financing	Guaranteeing access to financial products for the elderly	Provide payment and transaction options
Guaranteed access to Fintech	Promote WIFI hotspots throughout the national territory	immediate responses
Agreements on the execution of navigation data plans between telephone companies	Ensure access options for mobile and electronic equipment	customer support

Fintech sector regulation is necessary to reduce the risks involved in its rigorous procedures. In this sense, according to author Muci (2004), the challenge for regulatory bodies is to achieve a balance between promoting the innovation that constitutes the characteristic feature of Fintech and safeguarding the strength and security of financial entities. Likewise, the aforementioned authors state that regulation is necessary to give viability to this ecosystem and to preserve the integrity of the collection and payment operations system, as well as the growth that the sector

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has been showing and in this way prevent potential illicit operations that may arise from this tool.

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