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Fintech Innovation and Its Impact on Traditional Bank

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Abstract

An emergence of technologies like Fintech has augmented and transformed the entire financial services sector – how it is provided, received, and consumed. Digital payments, blockchain, robo-advisors, P2P lending, and banking apps are all examples of Fintech. They have increased the pace, transparency, and convenience while decreasing costs associated with business processes. This is appealing to consumers today. Furthermore, this has enabled the disruption and competition faced by traditional banks. This research paper aims at investigating the Fintech innovations and their impacts on the model of traditional banking. It analyses the digital transformation along with technological partnerships imposed by Fintech, AI, and advanced data analytics as some of the new strategies used by traditional banks to stay relevant.

Keywords: Fintech, Traditional Bank, Digital Transformation, Financial Services, Innovation, Artificial Intelligence, Data Analytics, Blockchain, Mobile Banking, Payment Solutions, Robo-advisors, P2P lending.

Introduction-

For years, the financial services industry has been heavily populated by traditional banking type institutions that work with a fixed set of rules, frameworks, and models through which they conduct their business. These institutions have historically offered a broad catalogue of financial products and services such as savings and checking accounts, loans, mortgages, payment solutions, and even investment advice. The last decade, however, has seen an equally remarkable shift with the swift emergence and adoption of Financial Technology, or Fintech for short.

Fintech pertains to the application of modern technology to enhance the automation or delivery of usage of financial services. It includes an entire array of technological innovations such as mobile banking, block chain, digital wallets, cryptocurrency exchanges, peer-to-peer lending platforms, and even robo advisors. With an emphasis on speed, transparency, personalization, user centric design, and more, these innovations have transformed the way consumers interact with financial services. Unlike traditional banks, the bulk of the Fintech companies operate on an agile base digital first model which enables them to grow fast, cut down operational costs, and exceed customer expectations.

Literature Review-

The rise of Financial Technology, better known as Fintech, has come into focus in the last few years owing to disruptive shifts it brings to the financial services sector. The work done on Fintech vis-à-vis banking tends to revolve around a few broad areas which include the definition and scope of Fintech, advantages and disadvantages of Fintech, shifts in consumer behavior, and response strategies from legacy finance institutions.

The traditional banking landscape has undergone a significant transformation due to the swift development of financial technology, or fintech. This review of the literature looks at the various ways that fintech innovations have affected traditional banking institutions, with particular attention to regulation, customer engagement, competition, operational efficiency, and strategic responses.

Key Points:

FinTech Overview: Definitions and categories (payments, lending, insurance, investment).

Historical Background: Evolution from traditional banking to digital finance.

Impact Studies: Existing research on how Fintech improves efficiency, accessibility, and customer satisfaction.

Bank Responses: Adoption of digital transformation strategies by legacy banks.

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Research Gap-

Most studies focus on customer adoption or Fintech start-up success. Limited research evaluates how traditional banks are structurally impacted and how they are adapting their core business models in response to Fintech disruptions.

Few studies, however, fully account for how Fintech innovations are reshaping the very operational and strategic mechanisms of traditional banks. For example, while customer-centric research explores why consumers are shifting to Fintech platforms, it can fail to capture how banks are reorganizing themselves internally to accommodate this shift—whether by revamping their analog systems into digital ones, reconfiguring labor force strategies, or reformulating regulatory compliance mechanisms. In addressing these gaps, the study makes a more holistic and prospective contribution to how Fintech is not just disrupting but reshaping the future of conventional banking.

Objective-

1. To analyse to what extent Fintech innovations have penetrated traditional bank activities.
2. To identify strategies employed by traditional banks to combat Fintech disruption.
3. To propose a model for collaboration or competition between Fintech and traditional banks.
4. To investigate the influence of regulation on the relationship between Fintech institutions and banks both in terms of compliance issues and regulatory structures.
5. To undertake a practical case study of the impact Fintech innovations has had on a particular bank with respect to its operations and strategic direction
6. To offer practical strategies for traditional banks to remain competitive, customer-focused and technology adaptable in the Fintech era.

Research Methodology-

The elements of research methodology describe the structured format used in pursuit of a study's objectives. This contains the procedures, methods and techniques for research design, methodology for collecting data, sampling strategy and methods of analysis that would provide effective interpretations of data. Due to the complexity of Fintech's impact on traditional banking, a mixed-method approach encompasses both qualitative and quantitative research.

Research Design: The study utilized an exploratory and descriptive design. The exploratory design enables the researcher to evaluate new and emergent trends in the Fintech landscape, while the descriptive design assists in describing the implications of these trends for traditional banks.

Data Collection Methods: To facilitate a well-rounded study that is grounded in evidence from the real world, secondary data were collected.

Secondary Data: A range of sources was used, including academic journals, conference papers, and case studies, with specific focus on industry reports

prepared by consulting firms (e.g. PwC, McKinsey, Deloitte)

Sampling Method: For interviews, a purposive sampling strategy was used to identify potential participants with deep experience and knowledge of banking and Fintech.

Data Analysis Method: Qualitative data were analysed using thematic analysis, identifying patterns and themes, along with insights and interpretations, in both the interview transcripts and document reviews.

Case Study-

The Adoption of Fintech Innovations by HDFC Bank One of the top private sector banks in India, HDFC Bank, saw early on the revolutionary potential of fintech. The bank adopted a number of technological innovations to enhance operational effectiveness and customer experience.

Digital Banking Platforms: Customers can now conduct a variety of banking tasks from a distance thanks to HDFC's user-friendly mobile and internet banking platforms.

AI and Chatbots: To offer immediate customer service and tailored financial advice, the bank implemented chatbots powered by artificial intelligence.

Block chain for Secure Transactions: In order to improve the security and transparency of its transactions, HDFC investigated blockchain technology. These efforts strengthened HDFC's position in the market by streamlining operations and drawing in tech-savvy clients. **IJARSCT Effects on Conventional Banking Systems** Traditional banking has seen substantial changes as a result of the incorporation of fintech innovations.

Improved Customer Experiences: Banks are now able to provide more individualised and effective services, satisfying changing consumer demands, thanks to fintech solutions

Obstacles and Strategic Solutions: Fintech offers advantages, but it also has drawbacks, like heightened competition and the requirement for large technological investments.

Creating Partnerships: Working together with fintech businesses to take advantage of their technological know-how. Putting money aside to build internal digital capabilities is known as "investing in digital transformation."

Regulatory Compliance: Making certain that emerging technologies abide by current financial laws.

The HDFC Bank case, in conclusion, shows how conventional banks can effectively incorporate fintech innovations to improve their offerings and stay relevant in a financial environment that is changing quickly and Strategic Solutions Fintech offers advantages, but it also has drawbacks, like heightened competition and the requirement for large technological investments.

Analysis Findings-

The research obtained insights through primary and secondary data, including interviews of stakeholders, customer surveys, financial reports and

case studies, especially that of JPMorgan Chase. The analysis presents the findings around specific themes that emerged from the data that illustrate how Fintech innovation is affecting traditional banking institutions.

Key Points-

Changes in Consumer Behaviour: Consumers are increasingly favoring convenience, speed, and lower costs.

Operational Efficiency: Fintechs use technology to drive more efficient and streamlined operations.

The Banking Response: Traditional banks are spending heavily to build digital capabilities and partner with Fintechs.

Regulatory Headwinds: Compliance continues to be a hindrance to Fintech scalability and a burden for banks.

Recommendation-

Based on the learnings from case studies, surveys, and analytical observations, a number of well-founded recommendations for traditional banks can be advanced to enhance their survival and competitiveness in the Fintech era and to avoid falling behind in this dynamic environment. These recommendations are intended to provide traditional banks with a sustainable organizational form, ongoing competition, and innovation in the banking industry.

Key points-

Expand Financial Inclusion through Technology
Invest in Workforce Reskilling and Digital Culture
Support Regulatory Engagement and Compliance Innovation
Strengthen Cybersecurity and Data Governance
Prioritize Customer-Centric Innovation
Foster Strategic Collaborations with Fintech
Firms Embrace Agile Digital Transformation,
Traditional bank must prioritize Technology

Conclusion-

Fintech advancements are altering the business of finance, prompting traditional banking institutions to respond by innovating uniquely, as well as through collaboration with their fintech counterparts or attempted digital transformation. Some of these advancements may pose challenges, but they could also create opportunities for better customer experiences, increased financial inclusion and operational efficiency. The developing relationship between fintech and traditional banks would likely continue to develop and impact the future of financial services, around the world.

Companies in the fintech space have raised the bar for accessible, personalized, and easy-to-use financial services. Consumers now demand easy-to-use, real-time processing, and digital interactions. As a result, traditional banks are investing in mobile apps and digital platforms to meet the increasing consumer demand for technology.

For example, People's First Bank invested \$250K in online enhancements that allowed customers to open accounts in-app, as shown by their movement toward improved online service which the industry is doing Courier-mail.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

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