GMJ Global Mainstream Journal of Innovation, Engineering & Emerging Technology

Volume: 01
Issue: 03
ISSN ONLINE: 2834-2739
October, 2022
Texas, USA

The Role of FinTech and BigTech in the Global Banking Sector

Md. Mokshud Ali[1]
Assistant Professor, Department of Business Administration
Times University Bangladesh

Afia Akter[2]
Assistant Professor, Department of Business Administration
Northern University Bangladesh

Abstract

The linkages between banks, FinTech, and BigTech are examined in this article along with some cutting-edge methods for financial digitalization. It also offers fresh ways to gauge consumer reactions to and adoption of financial digitalization. This study aims to describe the effects of FinTech and BigTech on the worldwide banking industry. The capacity to control information sharing is a major differentiator in competition between traditional banks and online firms. While regulations continue to evaluate how to provide a level playing field, industry participants are presenting a number of solutions, many of which are focused on collaboration. The investigation for this topic included the use of a computer and the analysis of secondary data. Researchers and practitioners can both benefit from the findings by understanding more about how FinTech and BigTech operate in the global financial industry. Academics and professionals in business should think carefully about the conclusion's important implications.

Keywords: *Financial digitalization, financial technology, banks, FinTech, BigTech, neuro-economics, financial intermediation.*

Introduction Focusing the FinTech and BigTech Banking

Fintech is a phrase used to describe financial innovation that uses digital and big data. BigTech businesses are companies with a large presence in the field of digital services. There are two basic ways that the FinTech phenomena have been discussed. FinTech is a broad term that refers to a multitude of channels that link financial resources, technological firms, and their innovations. All BigTech and small start-up businesses that provide any form of financial service or product would fall under this umbrella phrase. A more constrained approach restricts the FinTech sector to fintech startups that offer financial solutions and neobanks, or banks that were built as entirely digital institutions. Due to the fact that the bulk of BigTech companies continued to operate outside the financial services industry, this second method predominated for a while. However, a broader definition of FinTech has also emerged as BigTech corporations' interest in financial services has increased recently.

Due to the fact that BigTech businesses already have a digital platform, they can implement FinTech concepts much more quickly than banks can. BigTech businesses serve a sizable customer base as well. As a result, BigTech firms may be more dangerous

Copyright@ Global Mainstream Journal of Innovation, Engineering & Emerging Technology, 2022

GMJ Global Mainstream Journal of Innovation, Engineering & Emerging Technology
Volume: 01
Issue: 03
ISSN ONLINE: 2834-2739
October, 2022
Texas, USA

to banks' future than FinTech ones. Instead of investment banking, the benefits of big tech will be evident in consumer finance and lending to SMEs. After observing it get closer to the universal bank model, we may see the American banking system develop into one with substantial investment or merchant banks and sizeable consumer banks. A robust deposit base was a resource for banks during the global financial crisis and is likely to be so in other times of stress, so such a trend could be troublesome. In two critical areas, consumer financing and loans to small enterprises, BigTech companies are far more risky than conventional banks. This is due to the fact that they have important advantages that conventional banks will find challenging to match. And a trend where banks are losing a comparative advantage gained by having more immediate access to information on parties requesting credit is being aided by FinTech and BigTech.

BigTech's Entry into the Banking Sector

BigTech firms appear to have an advantage in the area of digital financial services due to their proficiency in massive information generation. While being constrained at the time by the law, BigTech gradually encroached upon the banking industry. However, the industry is changing significantly merely by virtue of its very existence. According to Vives (2019), for instance, the banking industry is moving toward a more customer-centric approach, and regulators will be in charge of making decisions regarding three crucial factors: I. which players will dominate the financial sector; II. the level of customer protection; and III. how to strike a balance between innovation and financial stability.

View on the Cost of Financial Intermediation

One of the main ironies of banking over time, according to (2015, 2017), is the fact that the unit cost of financial intermediation has decreased only minimally in recent decades, in striking contrast to other firms. A clear reason for the current growth could be the significance of information generation, a key element of contemporary financial competition. The cost per unit of financial intermediation appears to be stable even after accounting for all the changes. Information technology developments should lower the expenses associated with physically purchasing, pooling, and keeping financial assets. The societal advantages of producing financial market information may not be fully taken into account by the metrics (Philippon 2015)

Philippon (2020), who updated his estimate of the cost of financial intermediation in light of recent improvements in FinTech, cites the use of big data and machine learning as well as returns on scale as two components of the new financial technology that have generated controversy. Additionally, he argues that the variable pricing model of robo-set guidance will definitely democratize access to financial services. Big data is expected to lessen the effects of unfair lending practices while also weakening the influence of laws defending minorities.

New Financial Intermediation and Information Sharing

Regulations prevent some tech businesses from entering the financial sector as licensed banks in addition to other types of competition. But there is more competition in other sectors, especially in retail payments. It is difficult to provide an even playing field for banks and the

Copyright@ Global Mainstream Journal of Innovation, Engineering & Emerging Technology, 2022

GMJ Global Mainstream Journal of Innovation, Engineering & Emerging Technology
Volume: 01
Issue: 03
ISSN ONLINE: 2834-2739
October, 2022
Texas, USA

newest IT firms. Along with banks, regulators also need to respond more quickly. Now, there is a sector that includes technological developments in the financial industry and discoveries in digital technology. With such developments, sectoral imbalances and the current competitive frameworks might be erased. Despite the possibility that they may increase everyone's access to financial services, they pose significant privacy, regulatory, and law enforcement challenges (Carbo- Valverde 2017).

Regulators should ensure that the key competitive aspect of modern, digitalized financial services is handled equally in addition to regulating solvency. Although banks still need to develop this information-based technology, there are many barriers in their path, most notably worries about privacy and information security. This leads to a new paradox: there are no BigTech companies with European roots, despite the fact that much of the regulation in this industry is being written in Europe. The strategy that is currently the most direct is the Proposal for Regulation of the European Parliament and of the Council on Promoting Fairness and Transparency for Business Services of Online Intermediation Services (European Commission 2018). There may be a number of solutions to this legislative and industry conundrum, as well as case studies for investigation (de la Mano & Padilla 2018).

Future digitalized financial services will face intense competition, which will have a significant macroeconomic impact. The two main competitors from a geostrategic perspective are the Asian and American sides. They are the result of a variety of competitive traits, including the utilization of applications, geographic reach, market structure, and information-based regulatory framework. The "Super App Way," also known as the Asian side, mostly refers to China's method of app development. There are involved platforms for informational and financial interactions. Given that these applications not only offer communication networks but also tools with a substantial presence in their users' daily financial activities, it demonstrates the necessity for banking and non-banking standards.

Requirements for Regulatory Action

If more BigTech companies introduce fresh payment and banking services, China might become a key player in international relations. This path suggests a high concentration of banking and payment services, which may affect the financial industry's capacity to compete. Due to a reduction in the number of suppliers and their potential market shares as well as the consolidation of various operations into a single supply system, this has occurred. These technologies also offer a serious risk to privacy because specific information about demographics, behavior, and finances may end up in the hands of a select few companies. The proper management and security of client data may necessitate regulatory participation.

BigTech's involvement in the financial services industry not only poses a potential risk to the stability of the market but also presents a chance to lessen economic and financial inequity. In fact, the importance of some technical developments in enhancing access to financial services has been emphasized by both businesses and governments. When nonbank providers flourish and become the first financial option

Copyright@ Global Mainstream Journal of Innovation, Engineering & Emerging Technology, 2022

GMJ Global Mainstream Journal of Innovation, Engineering & Emerging Technology
Volume: 01
Issue: 03
ISSN ONLINE: 2834-2739
October, 2022
Texas, USA

available to large sectors of the global population, financial inclusion means more severe rivalry between bank and nonbank providers. The financial ramifications should not be separated from the work market or educational requirements, thus taking this road carries some risk. In particular, formal finance will be ineffective if people lack excellent jobs, steady employment, and the skills necessary to manage their financial resources effectively.

The Fragmentation Route to Consider

BigTech collaborations and innovations will be hindered if trade tensions between China and the United States rise and push firms providing financial and non-financial services to choose sides. Regional imbalances will widen as a result, and efforts to advance system interoperability and global data security would be hampered. The government's ability to reduce these global hazards would therefore be less obvious. In a recent study (Frost et al. 2019), the Bank for International Settlements detailed the dangers associated with interactions between BigTech and the financial industry: Big tech companies sometimes begin by offering payment solutions to the financial services sector before expanding their reach by providing credit, insurance, savings, and investment products. Either by working alone or with the banks, this can be done. BigTech companies typically transition into credit-related industries in nations with less regulatory oversight and less competitive financial markets (e.g. Argen- tina and China).

Additionally, the distributional effects of the competition between banks and FinTech could be significant. Philippon (2020) emphasizes discrimination and financial access. He doubts whether FinTech will democratize access to financial services or lessen inequality. One way that technology might increase financial services efficiency is by bringing returns to scale. However, some customers might find it simpler to acquire these advantages than others. Big data and machine learning constitute a second factor. They might minimize "human biases against minorities," as Philippon puts it, but they might also be a method to get past the law.

Recent Research and Challenges

The challenge for policymakers, according to Ehrentraud et al. (2020), is to maximize the benefits of fintech while minimizing potential hazards to the financial system. However, given the difficulties regulators face, this is easier said than done. Fintech concerns are outside the usual purview of financial authorities, and the pace of innovation makes it difficult for regulators to act quickly. There may also be significant trade-offs between various policy objectives.

Regarding interactions between banks and new financial start-ups, Vives (2019) demonstrates how small new competitors may choose to consolidate and be acquired by established financial institutions, enter as a licensed digital bank, or commit to remaining small and finding very specific niches in the industry. Long-standing traditional banks may decide to adapt or try to charge for the use of their enormous networks, retaliate and limit entrance by developing their own platforms, or just become completely digital with little to no infrastructure. On the other hand, if we take into account BigTech's improved data privacy and apparent higher consumer trust, they may work with traditional banks or engage in open competition. Despite the fact that they can directly compete with banks,

Copyright@ Global Mainstream Journal of Innovation, Engineering & Emerging Technology, 2022

BigTech has also demonstrated a preference for collaborations. Even while it seems that bank-related rules have kept BigTech enterprises from becoming banks up to this point, they are drawing more and more clients to specialty services offered across many platforms thanks to their superior data management.

Overall, it appears likely that BigTech companies will emerge as the financial industry's unseen behemoth. They might aggressively enter the banking sector, as they have in other businesses. Vertical integration of financial services may be feasible either upstream or downstream, claim De la Mano and Padilla (2018). BigTech can easily attack the local financial services sector by taking advantage of their monopolistic position or data advantage. By using its platforms to essentially swallow competitors who acted as one-sided suppliers, a BigTech may participate in platform envelopment. According to Eisenmann et al. (2011), if banks do not step in, there are two ultimate choices that follow the same path. One of them is market tipping, where BigTech businesses entice an increasing number of users to the platform. A monopoly, in which a BigTech corporation becomes the sole provider of a specific service, is an option.

More traditional banking professionals believed that FinTech start-ups would become a new source of competition after the financial crisis as a result of digitalization. However, banks have developed a number of strategies recently for collaborating with or directly acquiring startups. Right now, it is anticipated that BigTech firms would be the primary rivals of the established financial intermediaries. In comparison to conventional financial institutions, the BigTech corporations boast about their immense scale. The four biggest BigTech companies have a greater market value than the biggest financial services companies. With the exception of the European financial sector, almost all of these financial and non-financial businesses are headquartered in the United States, China, or other Asian countries. However, rather than its size, BigTech's ability to diversify into different financial services will determine how banks and BigTech interact in the future. However, according to Frost (2020), FinTech companies are expanding their role as payment providers in some nations but not in others.

Despite varied in their levels of involvement, BigTech businesses are notably present in the payments industry. The loan market has been dominated by Chinese companies, although Google, Amazon, and Facebook are all engaged in a number of individual and group initiatives that are either in research or development. Asian BigTech firms have expanded their product offerings to include deposit account services. Regulations play a big role in this scenario. These businesses would effectively become banks in the US and Europe if they offered deposit services, which would increase regulatory oversight. In Asia, these companies are subject to significantly less regulatory oversight.

Aim of the Study

The purpose of this paper is to present the role of FinTech and BigTech in the global banking sector.

Methodology

The researchers have looked over many academic papers that have been published in journals. This paper was produced using desk-based research and secondary data.

Copyright@ Global Mainstream Journal of Innovation, Engineering & Emerging Technology, 2022

GMJ Global Mainstream Journal of Innovation, Engineering & Emerging Technology

Volume: 01
Issue: 03
ISSN ONLINE: 2834-2739
October, 2022
Texas, USA

Conclusion

The financial digitalization strategies and interactions between banks, FinTech, and BigTech are linked in this paper. It also discusses the idea of new techniques for assessing the adoption and outcomes of financial digitalization. Actually, how effectively traditional banks and internet companies can restrict information sharing will determine how much competition they have in the financial services sector. In future, regulation's capacity to establish a level playing field will be essential. While this is happening, banks, FinTech companies, and BigTech companies are developing a range of strategies that offer opportunities for cooperation. BigTech's consequences on the banking industry cannot yet be fully understood, but they could have a substantial long-term impact on financial stability. According to the Financial Stability Board (2019), financial institutions are now believed to not rely heavily on third-party data service providers for their core business activities. However, according to other observers, dependency will increase in the future, following the trend in other industries. High levels of dependency and provider concentration could develop, which could have an effect on how many financial institutions operate in the event of an operational failure, a cyber-catastrophe, or insolvency. As a result, while greater dependence on third-party cloud service providers may reduce operational risk for individual businesses, it may also pose new risks and challenges for the financial system as a whole. This is especially true if risks are not properly managed at the corporate level and if the complexity, interconnectedness, and use of third parties keep growing.

References

1. S. Carbo-Valverde (2017) The impact on digitalization on banking and financial stability, Journal of Financial Management, Markets and Institutions 5 (1), 133–140..

2. M. de la Mano & J. Padilla (2018) BigTech banking, Journal of Competition Law & Eco- nomics 14 (4), 494–526, https://doi.org/10.1093/joclec/nhz003.

3. J. Ehrentraud, D. Garcia Ocampo, L. Garzoni & M. Piccolo (2020) Policy responses to Fin- Tech: A cross-country overview, FSI Insights on policy implementation No. 23, BIS.

4. T. Eisenmann, G. Parker & M. Van Alstyne (2011) Platform envelopment, Strategic Man- agement Journal 32, 1270–1285.

5. European Commission (2018) Proposal for regulation of the European Parliament and of the council on promoting fairness and transparency for business services of online inter- mediation services.

6. Financial Stability Board (2019) FinTech and market structure in financial services: Market developments and potential financial stability implications, February 14, 2019, https:// www.fsb.org/wp-content/uploads/P140219.pdf

Copyright@ Global Mainstream Journal of Innovation, Engineering & Emerging Technology, 2022

GMJ
Global Mainstream Journal of Innovation, Engineering & Emerging Technology
Volume: 01
Issue: 03
ISSN ONLINE: 2834-2739
October, 2022
Texas, USA

7. J. Frost, L. Gambacorta, Y. Huang, H. Y. Shin & P. Zbinden (2019) BigTech and the changing structure of financial intermediation, BIS Working Papers No. 779.

8. J. Frost (2020) The economic forces driving FinTech adoption across countries, BIS Working Papers No. 838.

9. Shamim, M. I. (2022). Exploring the Success Factors of Project Management. *American Journal of Economics and Business Management*, 5(7), 64-72.

10. T. Philippon (2015) Has the US financial industry become less e±cient? *American Economic Review* 105 (4), 1408–1438.

11. T. Philippon (2017) The FinTech opportunity, Bank for International Settlements, WP 655.

12. T. Philippon (2020) On FinTech and financial inclusion, Bank for International Settlements, WP 841.

13. X. Vives (2019) Digital disruption in banking, Annual Review of Financial Economics 11, 243–272, https://blog.iese.edu/xvives/files/2019/08/Digital-disruption-in-banking July2019 WP.pdf.

Copyright@ Global Mainstream Journal of Innovation, Engineering & Emerging Technology, 2022