

Understanding Fintech and Traditional Financial Industries' Choices

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Abstract: With the development of technology, fintech has changed people's lives and challenged the traditional financial industry. Facing the increasingly mature fintech environment, the traditional financial industry must make changes when facing declining market share. This article will explain fintech in detail by discussing the definition of fintech, how it evolves, who are its leading participants, and its formation conditions and put forward the followings suggestions for the current situation of the traditional financial industry: do nothing, acquire a fintech firm, reform to become a fintech firm or cooperate with the fintech firm, as well as the advantages and disadvantages of these choices and make a conclusion.

1. Understanding Fintech

1.1. Definition

As the name suggests, fintech is a connection between finance and technology. Fintech mainly refers to those high and new technologies that can replace and serve traditional financial methods (Hill, 2018). This vast concept includes technologies related to financial services, such as Internet finance. Mobile payment, online shopping, and online loan approval are all tributaries of fintech, which integrate many diversified technology factors in the financial system, such as using technology in mobile payment to control financial risks or provide big data for some financial services. Therefore, FinTech includes these more advanced technologies rather than simple business models.

1.2. Growth

In 1998, PayPal, the first financial technology company, was born, which marked a change in the traditional financial industry and laid the foundation for technology to change the financial industry. The first significant wave of fintech began in 2005. With the establishment of TextPayMe company and the development of mobile technology, fintech is becoming more and more mature. Over the years, many fintech companies have sprung up, and the market value is also increasing. More and more big companies have begun to face up to it. Goldman is starting an online loan business, and Citigroup also puts itself in the frontier of fintech. The financial services industry has become the second-largest subversive industry after the healthcare industry. Today's world is already a global village. The international connection is very close, the economic environment has become complex, and the regulatory environment has changed dramatically with the development of the Internet. Online has become the preferred way for people to manage their funds and conduct business, but the effect of fintech is still in its infancy. City (2016) shows that airtime transactions dominate mobile capital and currency use. The potential of mobile currency has yet to be fully explored. Digital disruption is only a tiny part of total market value, but the growth prospect of fintech cannot be underestimated.

1.3. Major players

With the development of the Internet, technology, and

social economy, numerous fintech companies have been born. For example, Alipay is fintech's major player. According to Zeng (2018), This is an outstanding company of fintech, a third-party payment platform born in China, and now the most prominent mobile payment company in the world. At first, Alipay was a payment method used when online shopping. Just like PayPal, Alipay's application scope has already exceeded the range of online shopping and has begun to cover every aspect of life. It can be used for the transfer, payment, credit card repayment, and online-to-offline consumption, and Alipay exists everywhere in every place, significantly changing people's lives. For another example, Facebook is also fintech's major player. Although it started as a social platform, with its development, it has become a famous enterprise in the financial services industry, with its ecological chain serving all aspects of people's life.

1.4. Emergence condition

With the popularity of the Internet, today's world is much more closely connected than before. The improvement of technology has improved people's work efficiency, and people have also found that it is more efficient to manage funds and handle business online. Therefore, fintech is the trend in the future, it has changed people's lives. Fintech has also seriously challenged the market share of traditional finance. The broader the market, the more economic benefits it may bring. Therefore, the conventional financial industry may inevitably transform. Some large financial institutions may vigorously develop their Internet technology or acquire fintech companies. For example, Goldman Sachs Group has already set foot in fintech. These actions of large companies may affect small companies and even the whole industry. In the future, fintech may cover all aspects of society. Therefore, these conditions contributed to the emergence of fintech.

2. Traditional Financial Industries' Choices

2.1. Maintain the present status

Maintain the present status means maintaining the operation mode of the traditional financial industry. There are advantages to doing so. Offline service of physical branches can make customers very comfortable. For example, professional staff can answer customers' questions face-to-face, and people can also relax in branches, just like lounges.

And another advantage is to avoid risk. Whether it's the acquisition of fintech or self-reform, it may be a significant expense. If the operation is not good, it may lead to a financial crisis for the company. Cooperating with fintech may also lead to the unclear business objectives of the company, and the company's old economic culture may be shaken.

As for its shortcomings, according to City (2016), internet banking is the primary channel for interaction with banks regardless of country and the primary profit source of banks is lending. Goldfinch (2019) stated that commercial banks' main profit comes from the interest earned by loans. So doing nothing instead of developing Internet banking may cause profit loss. In addition, doing nothing may lead to low efficiency for the bank. If everyone goes to a branch for trading, queuing may waste time, and people may have commuting time when they go to the bank. People may choose other banks if banks stay the same.

2.2. Acquire fintech company

For traditional financial companies, acquiring a fintech company is undoubtedly the most accessible and time-saving way. It does not need to invest time to experience the long development of financial technology. It only needs to pay the money within its ability. Another advantage of acquisition is that it can directly get the resources required for IT business expansion to meet its core business needs, which is very efficient. Under the general trend of fintech, financial companies can complete the transformation immediately, and the technology of fintech can quickly enhance the market share and improve the user experience.

Regarding the disadvantages. The cost of acquiring a financial technology company is very high because the technology company that can meet the needs of large financial companies is a behemoth. The company may face a shortage of cash. If it does not operate well in the future, it may even cause bankruptcy. In addition, the integration of the culture and technology of the two companies has also become a challenge. The cultural background of the two companies is different. If financial companies are faced with a shortage of technical talents, they may need better management when managing the acquired fintech company.

2.3. Fintech transformation

Developing the company's IT to transform itself into a fintech firm is also a choice. City (2016) indicates that most of the bank's IT expenditure accounts for a considerable part of the total expenditure. The number of IT staff is also huge, which shows that the bank's technological transformation has a particular foundation. So, banks only need to continue to develop technology to achieve change. Firm transformation can also lay the foundation for long-term development (Kaschny and Nolden, 2018). In addition, after self-transformation, compared with the acquisition of other companies, the management may know more about the company, and the company may be more convenient to be managed. What the company is facing is not a strange environment and different culture. These are the benefits that self-transformation has.

The biggest weakness of fintech transformation is the technical problem. Traditional financial companies lack the technology to realize fintech transformation and lack advanced IT infrastructure and technicians. The transformation speed may be lower than the direct acquisition.

Another problem is the need for a cross-department coordination mechanism. Most departments of financial companies have been traditional departments for a long time. Facing the company's new IT department, the coordination ability between various departments is limited due to different management mechanisms and operation modes.

2.4. Cooperate with fintech firm

Traditional financial companies have many advantages in cooperating with a fintech company. The most crucial point is that they can work together to produce synergy and achieve a win-win situation. For example, the bank is responsible for loans, and fintech is responsible for risk assessment with information technology. Another advantage is that the risk of this cooperation is small. Both sides can use the existing resources to play their benefits in collaboration. Since investment has risks, they only need to spend money to invest or develop a field they could be better at.

However, the current situation is that many banks need to transform, and fintech company is a hot spot. Therefore, when many financial companies seek cooperation, fintech companies can choose to cooperate with more high-quality companies so that traditional financial companies may face tremendous competitive pressure. In addition, if fintech and financial companies only cooperate for the sake of interests, and the cultural differences are too significant, it may cause disputes between the management and eventually even cause conflicts of interest and economic losses, and their cooperation may only last for a while.

3. Recommendations and Conclusion

With the progress of society and the popularity of the Internet, fintech has gradually dominated the market and people's lives. Fintech has not only changed people's lives but also promoted economic development. This is the future trend. In the wave of fintech, partnering with a fintech firm may be the best choice for traditional financial companies based on the above suggestions. Maintaining the status quo in the industry may be eliminated by the times, the cost of acquiring a fintech company is too high, and the technical requirements for completing a fintech transformation are too high. For most companies in the traditional financial industry, such as banks, cooperation with a fintech company is the least risky way. Only by learning from other firms' strong points can they achieve a win-win situation, conform to the development of the times and get a better future.

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