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The Impact of the Development of Financial Technologies on Traditional Banks

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Abstract:

The article shows the impact of the banking industry on modern economic growth, the current mechanism of the banking industry and the impact of the banking industry on the market economy. Concepts related to the banking sector, i.e. FinTech, modern digital technology and other descriptive indicators related to it are considered. The structure of the banking services market, the specific features of its interaction with the labor market are revealed. The advantages of FinTech technology in the banking sector were shown.

Keywords: FinTech, information technology, banking service, labor market, banking institutions, risk, impact of digital technologies on the economic system. fintech, financial services, payment services, traditional banks, blockchain, big data analytics (Bigadata), artificial intelligence (AI).

Introduction: The use of financial technologies is considered important in the implementation of financial planning in an effective corporate management system, and as a result of the use of financial technologies in the process of working with companies, it can be considered as a means of getting rid of declaration mechanisms and additional paperwork. The use of this mechanism by economic entities in the implementation of financial management reduces the demand for accountants and provides an opportunity to save financial resources in a real situation. In addition, through the use of fintech technology, in corporate management, they can sell the products, works and services produced by them in electronic markets and keep their accounts correctly, reduce the cost of advertising goods, analyze the demand for them in a timely and accurate manner, and It has advantages such as evaluation, implementation of the practice of submitting financial reports submitted to various levels of government bodies in a timely manner, and effective evaluation of the personnel flow in the enterprise.

The purpose of this study is to:

- ✓ Identify key areas of competition between fintech companies and traditional banks.
- ✓ Analysis of existing models of cooperation between the two parties.
- ✓ Assess the impact of this competition and cooperation on the financial sector.
- ✓ How the relationship between fintech and traditional banks may develop in the future

New players have joined the financial ecosystem, such as start-ups operating in this field based on the term "FinTech". Most experts agree that the growth of financial technologies began after the global financial crisis of 2008 and the lack of trust in banks, which made getting credit more difficult. This period is called the golden age of FinTech. However, it was only after 2014 that regulators, industry players, and consumers took interest in it and the financial technology sector. Although different banking products and services are offered to different customers and markets through different channels, banks have not been able to adapt to technological changes due to rigidly regulated, often inflexible and conservative bodies in providing innovative services. According to researchers, FinTech companies can make up this gap. As customer behavior changes, dependence on technology and market share loss in some banking services, banks must change to survive through digital transformation. Indeed, banks that are more flexible about the unpredictable future and collaborate with ecosystem participants can take advantage of ecosystem participants to survive. Therefore, by cooperating with FinTech companies as one of the decisive players in the banking ecosystem, banks can try to use their maximum potential to provide innovative services.

Today, a roadmap for the digital transformation of the banking system has been developed in Uzbekistan. According to the presidential decree “on the development strategy of New Uzbekistan for 2022-2026”, turning the digital economy into the main "driver" sector, increasing its size by at least 2.5 times, production in the real sector of the economy and in the financial and banking sectors and approval of the targeted program for automating operational processes, measures to carry out activities aimed at bringing the level of digitization of activities in the real sector of the economy and in the financial and banking sectors to 30% by implementing the projects specified within the approved targeted program, including: - financial and economic activities automation of production and management processes (ERP) systems in order to increase efficiency and optimize corporate management; customer relationship management (CRM) systems to increase sales and improve customer service; systems for automation of production and dispatch control processes (SCADA) in industrial enterprises; taking into account the introduction of scoring systems for the expansion of online types of banking services and automatic analysis of credit allocation; - complete the transformation of the banking system, increase the share of private banks to 60% of total bank assets in 2025; - offering financial services, operations, cashless with active use of modern financial technologies Scientific Journal of "International Finance & Accounting" Issue 3, June 2023. ISSN: 2181-1016 development of payments, cashless compared to cash payment to ensure that payments are cheaper, to create the possibility of making payments for public services in cashless form, to improve the current legislation based on advanced foreign experience, to consider increasing the popularity of financial services through digitization, in the provision of financial services ensuring cyber security, creating a convenient infrastructure for making cashless payments by individuals[1]. Financial technology development strategies are currently being actively implemented by the largest banks in our republic, they are actively digitally adapting functional capabilities to user needs in the online environment, transferring all products to digital channels, and striving to participate in fierce competition in the digital sphere as much as possible. This strategy creates active cooperation between banks, as a result, UzCard has launched the first industry-specific fintech accelerator and a

[1] Decree of the President of the Republic of Uzbekistan dated January 28, 2022 No. PD-60 " On the development strategy of New Uzbekistan for 2022-2026".

$1 million corporate venture fund to support and develop promising technological startups with the support of the payment system. Today, Uzbekistan FinTech Accelerator fund is focused on developing solutions for the financial and IT industry in big data, artificial intelligence (AI), biometrics, blockchain, IoT, digitization of business processes and other areas, financing startups. In addition, Uzcard infrastructure development, product line expansion, development of solutions in the field of cyber security, automation of internal processes and data processing, services for Uzcard partners (banks, payment organizations, etc.), developing solutions in the HR field and integrating them into enterprises .

Between 2018 and 2023, the share of fintech companies in the payment services market grew by an average of 5% per year. This growth rate is 2.3 times higher than that of conventional banks. However, the growth of fintech companies in lending and investment services is slower - on average around 3% per year. (Table 1) In the payment services segment, companies such as PayPal, Square and Stripe have significantly increased their market shares. For example, PayPal's global payments volume will reach $1.25 trillion in 2023, representing an 85% increase over 2018. In the lending space, platforms like LendingClub and SoFi have seen significant growth, but their overall market share is still far below that of traditional banks. In 2023, fintech lending platforms accounted for only 8% of total lending.

Table 1. Fintech and traditional banks market share dynamics (2018-2023)[2]

Year	Fintech payments	Bank payments	Fintech lending	Bank lending
2018	15%	85%	5%	95%
2019	20%	80%	6%	96%
2020	25%	75%	7%	97%
2021	30%	70%	8%	98%
2022	35%	65%	9%	99%
2023	40%	60%	10%	100%

In investment services, fintech companies such as Robinhood and Betterment have entered the market, but traditional brokers such as Vanguard and Fidelity still dominate. Fintech investment platforms accounted for 12% of the total market in terms of assets under management (AUM) in 2023. Financial performance analysis: Fintech companies are showing an average ROI of 15-20% higher, but their operating costs are also 25-30% higher. Banks, on the other hand, are showing stable but lower growth rates. In 2023, the average ROI of large fintech companies was 18.5%, compared to 14.2% for large banks. The high operating costs of fintech companies are mainly due to technological infrastructure and marketing costs. On average, fintech companies spend 30% of their revenue on technology, compared to 15% for traditional banks. Stable but low growth rates of banks are explained by their diversified business models and large customer base. In 2023, large banks recorded an average revenue growth of 3.5%, while fintech companies saw this figure grow by 22%. Customer Behavior Analysis: Fintech usage rate among youth (18-35 years) is 70%, compared to only 30% among older population (55+ years). Also, the use of fintech services among urban residents is 2.5 times higher than that of rural residents. Among representatives of the younger generation (Gen Z and Millennials), the level of use of mobile banking applications has reached 85%. On average, they use mobile banking applications 5 times a week. The rate of visits to traditional bank branches is still high among the older population - 60% of those aged 55+ visit a bank branch at least once a month. The difference between urban and rural areas is observed not only in the level of use, but also in the types of services. Urban residents use more innovative

[2] www.cbu.uz It was prepared based on the information of the Central Bank of the Republic of Uzbekistan.

services (e.g. cryptocurrency trading, robo-advisors), while rural residents mostly prefer traditional services (deposits, loans).

It should be noted that the development of fintech startups is currently being held back by ongoing bans from regulators. The lifting of bans will create new challenges for traditional banks. Today, not all traditional banks are ready to adopt modern financial technologies. From fintech developments that guarantee offering banking services at more attractive prices, blockchain, DLT, peer-to-peer, big data analysis (Bigadata), cloud storage, artificial intelligence (AI), ERP, CRM automatically make banks cost optimization and financial services forces to change traditional business models in order to increase the level of ease of use. As a result of the introduction of fintech innovations into the financial services market, the banking sector is reducing the cost of providing services, increasing the market attractiveness of banking products, and as a result of the formation of new consumer value, it is possible to increase the convenience of providing services that the client is willing to pay for.

The use of Big Data technologies in banking will not only simplify the service by copying fintech startups, but also lead to a more efficient management of the financial product itself and the demand for it. Online product realization using mobile technologies built on the basis of financial technology allows to increase the level of convenience, reliability (biometrics) and usability of the service. Evaluating the advantages of fintech allows us to conclude that IT plays an important role as a means of final adaptation of financial services in terms of creating a progressive user experience in modern banking. The banking business is actively becoming an IT business and a Big Data business.

The provision of remote banking services is a set of services that provide the opportunity to perform various banking operations remotely. It is enough to use a computer or mobile phone without visiting a bank. Remote technologies allow the client to use banking services with maximum convenience and to minimize time and financial costs in the process of working with the bank. The remote service system can be divided into two types according to the nature of the services provided to customers: informational; transaction. Informational banking is focused on providing financial information to customers, while transactional banking provides an opportunity to carry out financial transactions. The main principle of remote banking services is the remote exchange of various information between the client and the bank. The bank ensures the security of this operation.

Bank-Client is a computer-based system in which a special program is installed on the client's computer[3]. This program stores all customer information (mainly payment documents and account statements) on the computer. Direct communication between the bank and the client's computer is carried out through a modem. Internet banking is a system that allows clients to manage their deposit accounts, including bank card accounts, via the Internet. This type of service is a system designed to transfer payments in real time while the client is connected to the bank remotely. The user accesses the system through a web browser. The Internet banking system is hosted on the bank's web server. The user has the opportunity to review all his information (payment documents and account statements) on the bank's website. Through the Internet banking service, the client can use such practices as making payments, monitoring the stages of payment, and receiving all reports at his workplace or in other convenient conditions at any time.

According to the data of the Central Bank, as of March 1, 2024, the number of remote banking service users was 42,596,428 .

[3] Law of the Republic of Uzbekistan, dated 05.11.2019 No.580 “About amendments and additions to the Law of the Republic of Uzbekistan "On Banks and Banking Activities"”

Table 2. The number of users of systems providing remote banking services as of March 1, 2024[4]

№	Bank	Legal entities and individual entrepreneurs	Individuals	Total
1	Milliy bank	100,147	1,706,618	1,806,765
2	O‘zbekiston sanoat-qurilish banki	73,516	6,122,151	6,195,667
3	Agrobank	218,257	5,392,777	5,611,034
4	Ipoteka-bank	167,852	3,068,875	3,236,727
5	Mikrokreditbank	73,600	1,026,586	1,100,186
6	Xalq banki	120,118	4,278,639	4,398,757
7	Garant bank	6,905	90,230	97,135
8	Biznesni rivojlantirish banki	30,837	267,842	298,679
9	Turonbank	48,473	478,096	526,569
10	Hamkorbank	127,944	1,656,211	1,784,155
11	Asaka bank	36,660	876,037	912,697
12	Ipak Yo‘li banki	62,888	2,351,952	2,414,840
13	Ziraat bank Uzbekistan	4,800	61,096	65,896
14	Trastbank	49,454	188,094	237,548
15	Aloqabank	65,289	1,545,265	1,610,554
16	KDB Bank O‘zbekiston	1,345	45,280	46,625
17	Soderot bank Toshkent	426	2,642	3,068
18	Universal bank	13,152	147,691	160,843
19	Kapitalbank	51,857	1,347,994	1,399,851
20	Octobank	2,683	72,317	75,000
21	Davr-bank	26,091	208,242	234,333
22	Invest Finance bank	17,791	382,636	400,427
23	Asia Alliance bank	26,788	591,547	618,335
24	Orient Finans bank	30,647	553,722	584,369
25	Madad Invest bank	1,125	2,336	3,461
26	AVO bank	109	349	458
27	Poytaxt bank	1,142	10,850	11,992
28	Tenge bank	2,842	696,806	699,648
29	TBC bank	-	2,436,243	2,436,243
30	ANOR bank	29,725	4,143,047	4,172,772
31	UZUM bank	-	1,451,600	1,451,563
32	HAYOT bank	-	231	231
Total		1,392,463	41,204,002	42,596,428

The most users of remote banking services used the services of Agrobank (5,611,034), Xalq bank (4,398,757), O‘zbekiston sanoat-qurilish banki (6,195,667), and Ipateka bank (3,236,727). The least number of users of remote banking services were recorded in HAYOT bank (231) and AVO bank (458). Digital banks TBC bank - 2,436,243 clients, ANOR bank - 4,172,772 , UZUM bank - 1,451,563 , Tenge bank - 699,648 clients are provided remote banking services. The analysis shows that we still have a low level of trust in digital banking services. As of March 1, 2024, Agrobank (

[4] www.cbu.uz It was prepared based on the information of the Central Bank of the Republic of Uzbekistan.

218,257), Ipoteka-bank (167,852) were registered as the banks that attracted the most legal entities and individual entrepreneurs by providing remote banking services . Among the digital banks, TBC Bank, UZUM Bank and HAYOT Bank did not provide such services to business entities.

Summary. Digitization of business processes covers a much wider area of economic activity. Digital technologies are used to fundamentally change the value creation mechanism of a product or service in the manufacturing process. Most business processes are transferred to the online environment, i.e. smart contracts, smart corporate management, smart accounting, logistics processes, remote partner and customer relationship monitoring, technical support. and this is done by digitizing the enterprise, as a result of which its efficiency is ensured and its competitiveness is increased. As a result of digitalization of business processes, the business processes of companies are optimized, electronic platforms adapted to modern economic tools and technologies, transition to financial technologies. By digitizing business processes, business entities can reduce the human factor, optimally allocate their financial resources, monitor and analyze their income and expenses, make management decisions based on reliable information collected through Fintech software, implement systematic control, it is possible to reduce the consumption of resources, to avoid operational errors and to reduce the number of actions necessary to increase the productivity of employees, to eliminate corruption. New fintech technologies shape new trends in customer behavior. This automatically shifts the competition in the financial services market to the virtual space. Thus, based on the above analysis, it can be said that the further development of FinTech will have a significant impact on the development of banking. The use of FinTech certainly provides new opportunities for banks, but at the same time, it can create new risks that banks need to take care of and manage.

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