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**TRANSFORMATION AND  
SUSTAINABLE DEVELOPMENT OF  
COLLABORATIVE BANKING**

**Dr .K. Sivaraman K.**

*Associate Professor in Commerce*

PSG College of Arts and Science, Coimbatore,  
Tamilnadu, India

# TRANSFORMATION AND SUSTAINABLE DEVELOPMENT OF COLLABORATIVE BANKING

**Dr .K. Sivaraman K.**

*Associate Professor in Commerce*

PSG College of Arts and Science, Coimbatore, Tamilnadu, India

comesiva@gmail.com

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**Abstract :** *With notable transforming economy displays of resilience to the impacts of the global financial crisis, collaborative banking has experienced a period of reform and structural consolidation nearly everywhere around the world over the last decade. Acknowledging these transformations, the paper offers an overview of the key concepts. Simultaneously, it outlines current trends with the goal of forecasting future research by establishing some directions for new investigative efforts regarding collaborative banking on a global scale. Concepts such as sustainability, green finance, and digitalization have recently emerged in research related to collaborative banking and will be explored further concerning their business model.*

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## **Introduction**

The banking sector is experiencing a significant transformation, propelled by the swift progress of financial technology, known as fintech. This growing partnership between established banks and fintech firms is not just a fad; it represents a crucial change that is redefining the core of financial services. In this opinion piece, we will investigate how fintech collaboration is altering the banking landscape, the advantages it offers, and the obstacles it poses.

## **Evolution of Collaborative Banking**

For many years, the banking sector has been defined by consistency, established practices, and a gradual rate of transformation. Nonetheless, the rise of digital technology has shaken this equilibrium. Fintech firms, frequently start ups with creative methods and flexible frameworks, have implemented novel means of providing financial services that are quicker, more effective, and more focused on customer needs.

The initial relationship between banks and fintechs was one of competition. Fintechssought to challenge conventional banking by providing enhanced digital experiences and creative products. Nevertheless, it quickly became clear that partnership, instead of rivalry, could generate significant benefits for both sides. Financial institutions have extensive regulatory

expertise, vast customer networks, and considerable monetary assets, while fintechs deliver state-of-the-art technology, creativity, and a new viewpoint on client experience.

The contemporary wave of financial technology stands apart from its predecessors, which primarily exerted a gradual influence and focused on backend functionalities. This latest FinTech evolution is preparing to disrupt the banking sector at its foundation and is nearing a transformation in the delivery of financial products and services.

The financial services sector and banking institutions are on the brink of significant transformation. The advent of innovative technologies, the rise of digital finance, increasingly tech-savvy consumers, and the ongoing digitalization of the industry are posing substantial challenges to traditional business models.

The banking sector enjoys advantages such as a vast customer base, time-honored business models, and considerable business scale. However, these institutions must navigate a strict regulatory landscape. Moreover, the legacy systems and existing cultural norms may serve as obstacles to effective adaptation.

The current academic literature reveals a significant gap regarding the relationship between corporate purpose and its effects on the collaboration between fintech firms and banks. This study aims to elucidate how a heightened sense of corporate purpose can enhance the partnership dynamics between banking institutions and fintech companies. It contributes to the existing body of knowledge by addressing both the purpose-driven business models within the banking sector and the strategic innovation and alliance literature that examines inter-company interactions. Notably, there is a lack of research that simultaneously investigates these two variables, thereby underscoring the academic relevance of this inquiry.

### **Driving Forces Behind Collaboration**

Several elements are propelling the partnership between banks and fintechs

1. **Regulatory Pressure** Regulatory authorities around the globe are advocating for enhanced financial inclusion and openness. Fintech frequently thrive in developing solutions that satisfy these regulatory criteria effectively. Through working together with fintechs, financial institutions can more effectively traverse the intricate regulatory environment.

2. **Customer Expectations** Today's consumers expect smooth, tailored, and immediate financial services. Fintechs free from the constraints of outdated systems, can swiftly create and implement solutions that meet these demands. Financial institutions, through collaboration with fintechs, can improve their online services and boost customer contentment.
3. **Technological Advancements** The emergence of technologies like artificial intelligence, blockchain, and big data analytics has created new opportunities for financial services. Fintechs are frequently leading these innovations, and banks can utilize fintech knowledge to incorporate these technologies into their functions.
4. **Cost Efficiency:** Creating internal solutions to keep up with fintech advancements can be expensive and lengthy for banks. Partnering enables banks to utilize pre-existing solutions and specialized knowledge, lowering development expenses and speeding up time-to-market.

### **The Benefits of Collaboration**

The symbiotic relationship between banks and fintechs offers numerous benefits:

1. **Enhanced Customer Experience:** Fintechs are recognized for their focus on customer needs. By incorporating fintech innovations, banks can provide more accessible, user-oriented, and tailored services, resulting in increased customer satisfaction and allegiance.
2. **Innovation and Agility:** Fintechs function with flexibility, continuously evolving to maintain a leading edge. Financial institutions can leverage this inventive mindset to propel their own digital evolution, remaining competitive in a swiftly shifting environment.
3. **Expanded Services** Collaboration allows banks to provide a broader variety of services. From digital wallets to peer-to-peer transactions, to robo-advisors and automated loan platforms, collaborations with fintech enable banks to broaden their product range and access additional sources of income.
4. **Operational Efficiency** Fintech innovations frequently automate and enhance procedures, decreasing manual tasks and lowering mistakes. This results in improved operational effectiveness and financial savings for financial institutions.

5. **Financial Inclusion:** Fintechs are skilled at developing solutions that address the needs of overlooked communities. By working together, banks can broaden their access to those who were formerly unbanked or underbanked, fostering financial inclusion and social equality.

### Challenges and Considerations

Although the advantages of fintech partnerships are significant, there are also obstacles that need to be tackled:

1. **Cultural Differences:** Banks and fintech often possess distinct corporate cultures. Financial institutions usually display a risk-averse and hierarchical nature, whereas fintechs are more open to risk and have a flat organizational structure. Closing these cultural divides demands shared comprehension and adaptability.
2. **Regulatory Compliance:** Fintech may not consistently comprehend the regulatory intricacies that banks manage. Achieving adherence to regulations while preserving the flexibility of fintech solutions can be a challenging equilibrium.
3. **Data Security and Privacy:** As financial services become more digital, ensuring data security and privacy is crucial. Collaboration necessitates strong cybersecurity practices and defined procedures for sharing and safeguarding data.
4. **Integration Challenges** Incorporating fintech solutions into the current banking infrastructure can present technical difficulties. Issues with compatibility and the requirement for flawless interoperability need to be tackled to guarantee effective cooperation.

### The Future of Banking

The future of banking depends on the effective incorporation of fintech advancements. As the sector progresses, we can anticipate various significant trends to arise:

1. **Open Banking** Open banking efforts, which encourage the exchange of financial information among banks and external providers, are set to grow in popularity. This will enhance competition, drive innovation, and expand options for consumers.
2. **AI and Machine Learning** The implementation of artificial intelligence and machine learning will grow more common. Ranging from identifying fraud to offering tailored

financial guidance, these advancements will improve the functionalities of both banks and fintechs.

3. **Blockchain and Decentralized Finance** Blockchain technology will transform numerous facets of banking, ranging from international transactions to automated contracts. Decentralized finance (DeFi) platforms will confront conventional banking frameworks, presenting fresh possibilities and hazards.
4. **Sustainable Finance:** Fintechs are also fostering the movement towards sustainable finance. Approaches that enhance environmental, social, and governance (ESG) standards will become essential to banking strategies.

Digital transformation is redefining the rules of commerce. To effectively back the continuously changing real economy, financial institutions must go beyond merely keeping up – they must take the lead.

The digital economy has emerged as the primary catalyst for innovation, expansion, and employment opportunities, increasing at a rate two and a half times quicker than overall GDP in the last 15 years. Digital transformation is reshaping the rules of commerce, instigating significant changes in how we conduct trade, interact, and communicate. To effectively support the continuously changing real economy, financial institutions (FIs) must go beyond merely keeping up – they are required to take charge.

#### Opportunities in threats

One of the most noticeable transformations is the explosive growth of the creator economy. In this space, individuals produce and profit from their content. As these creators target worldwide audiences, they are establishing collaborations with innovative payment systems and approaches to guarantee their transactions match the boundlessness of their imagination.

For financial institutions, this significant new addressable market – projected to expand from USD 250 billion currently to USD 480 billion by 2027 signifies a vast potential. Nevertheless, conventional banking systems frequently find it challenging to stay aligned with the distinct needs of this sector. In the midst of this swift evolution, there exists a tangible risk: financial institutions that fail to innovate may become obsolete.

To more effectively meet the current digital-centric expectations, an increasing number of financial institutions are creating banking-as-a-service (BaaS) frameworks that allow them to present their services in a flexible, modular manner, while building stronger connections through the collaborative development of solutions that genuinely provide value.

One example of this is Standard Chartered's nexus, which allows online platforms and ecosystems to create customized financial services products in collaboration with the Bank, thus offering millions of new, technologically adept clients easy access to financial services.

However, it's not solely focused on single creators. Whole marketplaces are transitioning to the digital realm, and the B2B sector is presently the quickest expanding channel, with profits increasing from USD56bn in 2021 to USD112bn the previous year.<sup>3</sup>.

This swift expansion signifies a demand for creative financial services tailored to the marketplace – and it is evident that additional efforts are required in this area. Based on a recent Commerce tools white paper<sup>4</sup> regarding key B2B commerce trends, despite 67 percent of the B2B buyer journey occurring through digital channels, two-thirds of those buyers express dissatisfaction with their online shopping experience.

#### Reorganizing assets to eliminate uncertainty

The digital evolution of the worldwide economy presents a unique data opportunity for financial institutions to comprehend, cater to, and connect with new client demographics. Online marketplaces, for instance, generate transactional data that can reveal insights into consumer preferences as well as merchant effectiveness. However, possessing the data isn't sufficient; it is crucial for institutions to work together with external platforms and internally among their teams to interpret and utilize this information. By aggregating insights from various sources, financial institutions can create financial products and services that enable merchants to oversee cash flows, broaden their operations, enhance customer experience, or explore new markets.

Nonetheless, this emerging digital landscape also introduces hurdles, particularly in the areas of fraud identification and risk control. The capacity of artificial intelligence to replicate human actions or produce believable

it's rapidly evolving into a crucial component of the forthcoming business landscape. The metaverse – a virtual interactive realm where engagements occur between people, companies, and automated systems – is starting to materialize and is projected to create as much as US\$5tn in value by 2030, based on the most recent McKinsey study.

As dealings, partnerships, and even complete workspaces shift to online environments, financial institutions need to rethink their engagement strategies. The traditional physical branch might be replaced by engaging virtual financial advisories or service centers. Additionally, the convenience of online collaborations may accelerate innovation, encouraging financial institutions to provide a wider range of products and services.

Global financial institutions such as Standard Chartered are at the forefront of investigating co-creation possibilities within this digital realm. In its efforts to rethink its connections with current and prospective clients, the Bank has collaborated with the decentralized virtual platform The Sandbox, which is a branch of Asia's biggest blockchain investor.

This collaborative journey with partners extends beyond merely transitioning to an online format. Rather, it involves leveraging collective efforts to rethink what financial services could be in a borderless world.

The term FinTech, which has recently garnered global interest, stands for “Financial Technology.” Technology has been utilized in the financial industry for many years. Examples include Core Banking Solutions, Automated Teller Machines, and Online Banking, but with some exceptions, the emphasis has primarily been on the backend.

In contrast to its previous iterations, Fin Tech in its current form is set to significantly influence customer-facing aspects. Unlike before, where it contributed minor improvements in efficiency, it now presents a substantial challenge to existing players in the financial services arena by potentially disrupting their core business models. Emerging technologies hold the promise of transforming the delivery of products and services in finance, enhancing operational efficiencies, streamlining internal processes, and minimizing redundancies. Technologies such as automation, blockchain, cloud computing, IoT, and robotics are beginning to change the fundamental rules of the financial sector.

## **Conclusion**

This study offers valuable insights into the impact of a higher corporate purpose on the collaboration between banks and fintech firms. It enhances the current body of literature in two significant areas: the development of purpose-driven business models within the banking sector and the strategic innovation and alliance literature, which examines the interactions between companies. As there is a lack of research that simultaneously addresses both variables, this work presents important academic implications.

The concept of collaborative banking facilitates the establishment of a pervasive ecosystem through partnerships with various entities, each possessing distinct strengths, market presence, and customer bases, while integrating our services into their platforms. This strategy aims to create a win-win scenario, where the platforms can highlight exceptional banking service integrations. Simultaneously, the bank can enhance its visibility and customer acquisition without competing directly with these platforms. The surge of technology-oriented fintech companies in the banking and financial services landscape is compelling traditional bankers to modify their conventional approaches to customer relations. The sector is encountering significant challenges due to shifting customer expectations and the ongoing digital transformation. Traditional banks must explore partnerships with fintech entities to deliver vital banking solutions. This collaborative strategy will pave the way for an open banking network, allowing traditional banking players to provide an on-demand experience that caters to contemporary customers. Banks are advancing towards a framework that treats banking as a plug-and-play system, enabling the effortless provision of tailored solutions across diverse platforms.

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