THE ROLE OF FINTECH IN DRIVING ECONOMIC GROWTH: TRANSFORMING FINANCIAL SERVICES AND ENHANCING MARKET EFFICIENCY

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ABSTRACT

The article examines how the rapid evolution of financial technology (FinTech) is reshaping the global financial landscape, driving economic growth through enhanced efficiency, inclusivity, and innovation. FinTech encompasses a wide range of digital solutions, including robo-advisors, payment apps, peer-to-peer (P2P) lending, and blockchain technologies, which collectively improve financial services and expand market accessibility. By reducing barriers to entry, FinTech fosters financial inclusion, particularly in underserved regions, enabling individuals and businesses to participate in the formal economy. Additionally, its innovations optimize financial processes, mitigate risks, and reduce operational costs, bolstering the competitiveness of small and medium-sized enterprises (SMEs). However, the FinTech revolution also presents challenges, such as market concentration, regulatory gaps, and cybersecurity risks. Addressing these issues through robust digital infrastructure and regulatory frameworks is critical to maximizing FinTech's potential as a catalyst for sustainable, inclusive growth. This study highlights FinTech's transformative role in enhancing economic performance and advancing broader development goals.

Key words: *Fintech, robo-advisors, payment apps, peer-to-peer (P2P) lending apps, investment apps, and crypto apps, economic growth, financial performance*

INTRODUCTION

Before moving the impact especially what kind of influence the development of financial technologies have brought on economic performance of a country, it is very important to identify what the financial technology itself means. According to Investopedia, financial technology (better known as fintech) is used to describe new technology that seeks to improve and automate the delivery and use of financial services. Its main function is to help companies, business owners, and consumers better manage their financial operations, processes, and lives. It is composed of

specialized software and algorithms that are used on computers and smartphones. Examples of fintech applications include robo-advisors, payment apps, peer-to-peer (P2P) lending apps, investment apps, and crypto apps, among others. In general words the term "financial technology" can be used in terms of any innovation which is applied to how people perform business, from the development of digital money to double-entry bookkeeping. Eventually, with the revolution of the Internet, Financial technologies emergence in business life and the whole economy itself has been started to be inevitable. If we think deeply, economic development depends on production, product differentiation, trade complexity of the country. Thus, financial issues are the central questions which any business should address properly in order to be successful and to add value to the overall economic development. Because financial transaction, their timely performance and high quality make the business, production be competitive both in domestic and foreign markets. The main reason for that this ensures the decrease of production cost, save time and make the process to be accomplished better and faster. All in all, both in emerging economies as well as in developed ones, highly developed fintech is the core of economic development. Furthermore, it shows financial and economic health of the country.

LITERATURE REVIEW

Most researches have studied and concluded that Most studies suggest that financial technology (FinTech) and financial inclusion are positively related by fostering access to financial services. A study from Olanrele and Awode (2022) showes that FinTech is positively changing the outline of financial inclusion in countries in Sub-Saharan Africa. Goyal and Chakrabarti (2020) give evidence from India that FinTech adoption has improved financial inclusion, leading to increased social and financial empowerment and economic involvement in rural areas. Similarly, in Malaysia, FinTech adoption has been found to assist the country's financial development (Othman, Zaghlol, and Ramdhan, 2021).

Eventually, digital innovation is transforming financial services. Financial technology innovations like including mobile money, P2P lending, robo-advice, insurtech, and crypto-assets have emerged globally and their existence is vital in every sphere of current world. Over the past decade, retail users' access to and convenience with financial services have been increased substantially due to the fintech opportunities. Wholesale markets, including financial market trading and regulatory and supervisory technologies have been changed in different directions and scope because of deeper introduction of artificial intelligence (AI), cloud services, and distributed ledger technology (DLT). New enterprises have appeared to address customers need and demand applying new technology, and most incumbents

prioritize digital transformation (Feyen et al 2021). Simultaneously, leading banks are quickly digitalizing their internal transactions and operations and consumer products to compete with fintech and big tech businesses (BIS 2019; Frost et al 2019).

These kinds of innovations have huge impact on promoting market diversity, ensuring competitiveness, guarantying efficiency, and encouraging inclusiveness while potentially increasing market concentration. All in all, innovation has improved competition and inclusion, particularly in emerging markets and developing economies (Pazarbasioglu et al. 2020; Frost et al. 2021). Fintech seems to have flourished in markets where the financial system was not established well and properly (FSB 2020; Didier et al 2021). On the other hand, the fundamental economics of intermediation, harmonized with new technology, may bring outcome as a concentration among both old and new financial service providers. On the other side, the fundamental economics of intermediation, along with new technology, may result in a concentration of both traditional and emerging financial service providers. Monopolistic or anticompetitive behavior by huge technology platforms is already under investigation. As financial services adopt technology-driven frameworks, regulators must effectively oversee a landscape defined by new players and business models while addressing potential threats to financial stability, integrity, fair competition, consumer protection, and data privacy.

ANALYSIS AND RESULTS

Many previous researchers have demonstrated a statistically significant and positive correlation between economic growth and financial development (Valickova, Havranek, and Horvath, 2013; Murinde, 2012; Caporale, Rault, Sova, and Sova, 2015; Mhadhbi, 2014; De Gregorio and Guidotti, 1995; Nizam, Karim, Rahman, and Sarmidi, 2020). Research suggests that a strong financial system outperforms financial inclusion in terms of long-term economic growth (Govil, López and Martín, 2014; DemirgüçKunt and Klapper, 2012). Furthermore, Chen's (2023) study shows that the value of financial development is critical to attractive economic growth. However, this study also found that the quantity of financial expansion lessens growth. Furthermore, Mhadhbi (2014) draws similar conclusion for developing countries but not for advanced countries. In contrast to their findings, Hassan, Sanchez, and Yu (2011b) find a promising association between finance and growth only for middle- and low-income nations, not more developed countries.

In contrast to the aforementioned research, numerous academics have obtained contrary outcomes in their investigations. Swamy and Dharani (2019b) found that financial development and economic growth have a negative linear relationship in the long run. Furthermore, some research show that there is no relationship between

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these characteristics (Dawson 2003b). In addition, there is evidence of bidirectional causality between financial development and economic growth (Hassan, Sanchez, and Yu, 2011b; Swamy et al., 2019b).

DISCUSSION

Fintech eliminates the need for banks to serve as intermediaries between borrowers and lenders. P2P lending uses the internet to connect lenders and borrowers, with lenders analyzing credit risk based on the information provided by borrowers before making lending choices. Fintech improves the chances of small and medium-sized businesses (SMEs) acquiring loans at acceptable interest rates.

Fintech investment has increased significantly over the last decade, but with some fluctuations. Starting at $4 billion in 2012, investment grew to $67.1 billion by 2015, a 17fold growth. Following a modest drop, it exploded to $147.9 billion in 2018 and then to $215.4 billion in 2019. The first half of 2021 set a new high of $98 billion, up from $78.1 billion in H2 2020, and the year ended at $210 billion. However, by H1 2023, fintech investment had dropped 49%, from $46 billion in H2 2022 to $23 billion[1].

The rise of fintech in emerging markets is making a significant contribution to economic growth, but the process is not without controversy and its implications require detailed critical analysis. One of the key mechanisms through which fintech contributes to economic growth is through financial inclusion. In developing countries, many people remain outside the traditional banking system due to geographic distance, lack of documentation, or low income. Fintech platforms such as mobile apps, digital wallets, and peer-to-peer payment platforms provide access to basic financial services to previously excluded groups. For example, M-Pesa in East Africa has shown how mobile payments can improve the lives of millions of people by facilitating savings, developing small businesses, and increasing consumption. However, it is important to note that access to fintech services is often limited by the availability of internet and smartphones, which increases the digital divide and reduces the effectiveness of such solutions in remote and poor regions.

Fintech is also actively supporting the development of SMEs, which play a key role in creating jobs and increasing GDP in developing countries. Traditional banks often avoid working with SMEs due to a lack of credit history or high risk. Fintech companies, using alternative data (such as payment activity or user behavior), assess creditworthiness and provide access to financing to previously excluded businesses. This allows SMEs to expand, innovate, and create jobs. However, this model is

[1] https://explodingtopics.com/blog/fintech-stats#fintech-investments

fraught with risks, as many fintech companies have limited resources to manage unforeseen economic crises, which can lead to an increase in defaults among borrowers.

At a systemic level, fintech improves the efficiency of financial processes through the introduction of digital technologies such as blockchain, automation, and remote transactions. This reduces transaction costs, speeds up operations, and makes the financial system more transparent, which attracts foreign direct investment (FDI). However, insufficient regulation and cyber risks pose a threat to the stability of these systems. In addition, rapid changes can leave traditional financial institutions behind as they fail to adapt, creating the risk of market concentration in the hands of a few large players.

Fintech also drives innovation and technological advancement in developing countries. These markets often skip the stages of implementing legacy technologies and move straight to cutting-edge solutions such as cryptocurrencies or mobile payments. This approach helps solve local problems and attracts international attention, but at the same time creates dependencies on foreign investment and technology. Moreover, the rapid spread of fintech can lead to insufficient training of local specialists and a lack of sustainable infrastructure to support these innovations.

The advancement of financial technology (fintech) contributes greatly to economic growth by improving financial services and encouraging innovation. Fintech functions as a driver for long-term economic growth by merging finance and information technology, resulting in increased output and industry linkage effects, as shown in Korea[2]. In China, fintech has been found to boost economic growth through third-party payments, credit, and insurance, albeit its effectiveness varies by region[3]. The nonlinear link between fintech and economic growth in China emphasizes the sector's ability to produce genuine economic growth, particularly as it matures[4]. Globally, fintech developments such as mobile money has helped to reduce poverty and income inequality, improving financial inclusion and contributing to economic growth[5]. Furthermore, fintech helps small and medium-sized businesses (SMEs) by eliminating information asymmetry and boosting access to capital, which promotes

[2] Shin, Y., & Choi, Y. (2019). Feasibility of the Fintech Industry as an Innovation Platform for Sustainable Economic Growth in Korea. Sustainability. https://doi.org/10.3390/su11195351.
[3] Song, N., & Appiah- Otoo, I. (2022). The Impact of Fintech on Economic Growth: Evidence from China. Sustainability. https://doi.org/10.3390/su14106211.
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[5] Secretariat, C. (2022). Commonwealth Countries: Driving FinTech Innovation. . https://doi.org/10.14217/comsec.1070.

innovation and economic growth[6]. Overall, fintech growth not only improves financial service accessibility, but it also promotes larger economic goals such as sustainable development and financial inclusion[7].

Fintech is thus a powerful tool for economic growth in emerging markets, but its impact is mixed. For fintech to become a catalyst for sustainable and inclusive growth, investments in digital infrastructure, the development of flexible regulatory frameworks, and ensuring equal access to technology are necessary. Only under these conditions will fintech be able to realize its potential as a driver of economic development.

CONCLUSION

Fintech is transforming the global financial environment, with new products and organizations leveraging innovative technologies to improve and automate financial services. There is little doubt that fintech has the potential to improve financial systems and increase financial inclusion.

The advancement of financial technology (FinTech) is crucial for stimulating economic growth by improving the efficiency, accessibility, and inclusivity of financial services. FinTech advances, including digital payments, peer-to-peer lending, blockchain technologies, and robo-advisors, substantially lower the obstacles to accessing financial services for consumers and enterprises. This improved accessibility enables underbanked communities, especially in developing economies, to engage in the formal economy. By closing the financial inclusion gap, FinTech promotes entrepreneurship, enhances consumer expenditure, and broadens market prospects, therefore adding to total economic activity.

FinTech enhances efficiency in financial markets and institutions. Technologies like artificial intelligence and big data analytics facilitate expedited and precise credit evaluations, mitigating the risks of defaulted loans and optimizing capital allocation. Automated solutions optimize operations including loan approvals, trading, and insurance claims, hence reducing operational expenses for enterprises and financial institutions. This enhanced efficiency results in reduced expenses for consumers and enterprises, liberating resources for investment and expansion.

Furthermore, FinTech fosters innovation across all industries by offering customized financial solutions to startups and small to medium-sized organizations (SMEs). Crowdfunding platforms and alternative lending options enable SMEs, frequently neglected by conventional banking systems, to obtain the necessary funds

[6] Li, H., Lu, Z., & Yin, Q. (2023). The Development of Fintech and SME Innovation: Empirical Evidence from China. Sustainability. https://doi.org/10.3390/su15032541.
[7] Wicaksana, D. (2023). FINTECH FOR SDGS: DRIVING ECONOMIC DEVELOPMENT THROUGH FINANCIAL INNOVATION. Journal of Digital Business and Innovation Management. https://doi.org/10.26740/jdbim.v2i2.57960.

for operational expansion. Small and medium-sized enterprises (SMEs) significantly contribute to employment and GDP in numerous economies, with their expansion directly stimulating job creation and economic stability.

At a macroeconomic level, FinTech promotes financial stability and economic growth by improving transparency and minimizing inefficiencies. Blockchain technology guarantees safe and unchangeable transaction records, hence reducing the dangers of fraud and corruption. This cultivates confidence in financial systems, drawing foreign investments and promoting cross-border economic operations. The proliferation of digital payments diminishes reliance on cash, accelerates the velocity of money, and improves the overall liquidity of the economy.

Nonetheless, although FinTech provides significant advantages, its advancement necessitates the establishment of stringent regulatory frameworks to alleviate dangers such data breaches, financial instability, and inequitable competition. Effective regulation guarantees that innovation transpires while safeguarding consumers, preserving market integrity, and mitigating systemic dangers. With suitable laws implemented, FinTech can act as a catalyst for enduring economic growth, promoting a more inclusive and efficient financial environment.

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