MARKET STRUCTURE AND GOVERNMENT POLICY IMPLICATIONS OF FINTECH AND THE DIGITAL TRANSFORMATION OF FINANCIAL SERVICES

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ABSTRACT

Financial intermediaries are created by economic frictions such as information asymmetries and economic pressures such as economies of scale and scope. These squabbles and Market structure is also shaped by forces. While technical advancements are nothing new to the world, in the field of finance, digital innovation has resulted in significant gains in connection. Systems, in terms of computing power and cost, and in terms of freshly generated and useable data These Improvements have reduced transaction costs and opened up new business opportunities. New entrants and models as technology have advanced, so has the flow of information. Financial services could be produced more cheaply with lower transaction costs disaggregated. Financial services have been unbundled by specialized players, allowing consumers to locate and assemble their desired product suites. Classic, on the other hand, even in the age of digital production, economic forces are still essential. Many components of financial services production, including client acquisition, finance, compliance operations, data, and capital, benefit from economies of scale and scope and network effects (including trust capital). Despite technological advancements, consumer search and assembly expenses remain high. Large multi-product providers, such as technology (big tech) corporations entering into financial services from adjacent industries, benefit from these factors, which encourage re-bundling. The digital transformation of financial services raises a slew of policy concerns about competitiveness, regulatory boundaries, and assuring a level playing field. A "barbell" outcome with a few large suppliers and numerous specialized competitors is one possible conclusion in terms of competition, concentration, and market composition. To handle trade-offs between stability and integrity, competitiveness and efficiency, and consumer protection and privacy, authorities must communicate across financial regulation, competition, and industry regulatory organizations.

Keywords: Financial, Market Structure, Digital Transformation, Services.

INTRODUCTION

Finance is undergoing a significant change. Payments, loans, insurance, and wealth management are all being reshaped by digital technologies, a process that has been expedited by the COVID-19 pandemic (Acemoglu et al., 2021). While technology makes financial services more diversified, competitive, efficient, and inclusive in many economies, it may also increase market concentration. Furthermore, new threats to a variety of important public policy objectives may emerge (Hellmann et al., 2000). This study examines the consequences of digital innovation for market structure and attendant policies, such as financial and competition regulation, using the underlying economics of financial services and their industrial organization, as well as current empirical findings. Economic frictions, such as information asymmetries, and economic factors, such as economies of size and scope, serve as the central organizational framework for

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the topic Baltensperger (1980); Bernstein & Federgruen (2003). These advancements have reduced frictions, blurred the lines between firms and industries, and spawned new business models. Unbundled services are offered by new, generally smaller and specialized financial technology (fintech) firms (see definitions below). Classic economic forces, on the other hand, are still significant. Digital platforms and cloud computing benefit from economies of scale and network effects. These scale benefits, together with scope economies, stimulate re-bundling, allowing huge technology (big tech) corporations and other new players to expand their reach into core financial goods. Evidence suggests that huge IT companies, in particular, are rapidly extending their presence in banking, and that they may leverage big data to lessen the requirement for collateral. Meanwhile, incumbent financial institutions have evolved to improve efficiency by adopting new technology and disaggregating their financial services output (Hellmann et al., 2000; Ruth, 1989).

CONCLUSION

This article has demonstrated that digital innovation is causing economically significant changes in the production of financial services, with repercussions for the financial industry's industrial structure. Connectivity and computer advancements can assist boost efficiency and competition. Financial services have seen an unbundling of distinct products and services in many circumstances. Simultaneously, the financial frictions and factors that prompted the need for financial intermediaries in the first place have resurfaced. The financial sector may be moving toward a market structure that resembles a barbell, with major multi-product institutions coexisting with smaller specialty institutions.

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