



Fintechs and Banks: Working Together, Competing, or Converging?

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Abstract

This article examines how the relationship between financial technology firms (fintechs) and traditional banks has evolved from initial competitive tension to increasingly collaborative and convergent models. The purpose of the study is to clarify the mechanisms through which these interactions develop and to determine their implications for the future structure of financial services. The scope focuses on strategic, technological, and regulatory factors shaping this evolution, particularly within the European financial ecosystem. The methodology is based on a critical review of recent academic literature, complemented by empirical evidence from industry reports, institutional publications, and contemporary market examples. This combined approach enables the identification of consistent patterns in the responses of fintechs and banks to technological disruption, regulatory developments, and changing consumer expectations. The analytical framework draws on theories of industrial organization, coopetition, and digital transformation in banking. The findings demonstrate a three-phase progression. First, competition arises as fintechs employ technological agility, product specialization, and data driven decision making to challenge banking incumbents in areas such as payments, consumer lending, and wealth management. Second, cooperation intensifies as both sectors recognize mutually beneficial complementarities. This results in collaborative models involving API based open banking integrations, white label technological solutions, joint product development, strategic investments, and accelerator programmes. Third, convergence emerges as fintechs pursue banking licenses and expand regulated activities, while banks adopt fintech like models through digital only units, embedded finance architectures, and Banking as a Service platforms. Regulatory frameworks such as PSD2 and DORA facilitate this shift by promoting interoperability, data sharing, and operational resilience. The article contributes to the field by demonstrating that fintech–bank boundaries are becoming increasingly fluid. It argues that the financial sector is transitioning toward a hybrid ecosystem that integrates technological innovation with regulatory robustness, providing important implications for policymakers, financial institutions, and scholars examining the digital transformation of financial intermediation.

Keywords: Coopetition in financial services, Digital financial ecosystems, Fintech–bank convergence, Regulatory frameworks (PSD2/DORA).

1. Introduction

The financial services business is changing a lot because of the quick growth of financial technology companies, or "fintechs." These companies, which were born in the digital age, have changed the way people use money by coming up with new ways to pay, borrow, manage wealth, and more. Their rise has made it harder for traditional banks to stay on top, forcing them to rethink their long-standing business strategies and how they interact with customers.

But the story is no longer just about disruption. The relationship between fintechs and banks has become more complicated as both have grown and changed. What started as a competitive fight has slowly turned into strategic collaborations and, in many cases, full-scale merger. This change brings up an important question: will fintechs and banks always fight, work together, or come together?

This article looks at the many ways that fintechs and banks interact with each other. It uses academic research, industry news, and real-world examples—mostly from Europe—to show how these two types of companies are changing the future of finance. We want to know not only where the industry is now, but also where it is going by looking at their competitive advantages, cooperative methods, and the new trend of convergence.

2. Literature Review

Scholarly and industrial research has progressively concentrated on the developing dynamics between fintechs and banks. There are a few main ideas that come up:

Interaction Models: Harasim (2021) delineates a framework that identifies conditions under which fintechs and banks are predisposed to collaborate rather than compete. The study employs market-based and resource-based methodologies to ascertain that fintech adoption rates and asset complementarities significantly affect the character of interactions. Competition is more widespread in emerging countries, while collaboration or "coopetition" is more typical in industrialized economies.

Competitive Dynamics: The Basel Committee (2024) talks about how fintechs have made competition in financial services much stronger, especially in payments, loans, and advice. Fintechs have made it easier for people to get services and pushed existing banks to come up with new ideas. However, banks still have the upper hand when it comes to bundled service models.

Strategic Investment: Puri et al. (2024) demonstrate that banks are progressively investing in fintech firms to alleviate competitive risks and promote operational collaboration. These investments usually go to fintechs that have assets that work well together, which leads to knowledge transfer and joint innovation.

Wang and Nor (2023) use game theory to look at how fintech and banks work together. They say that cooperation is possible when profit-sharing and resource exchange are done in the best way possible. However, the model also shows that the present ways of working together are still not very good.

Effect on Credit Markets: Serfes et al. (2023) look at how fintech lending technologies change the way credit markets work. Their research shows that fintechs are better at making short-term, unsecured loans, whereas banks are better at making long-term, asset-backed loans. This division shows both competition and services that work well together.

These studies collectively emphasize that the fintech-bank interaction is complex, influenced by market dynamics, regulatory frameworks, and strategic decisions.

2.1. *What Gives Fintechs an Edge Over Other Businesses*

Fintech companies have become major disruptors in the financial services industry by using technology to offer financial solutions that are faster, more tailored, and easier to get to. There are a few important things that give them an edge over their competitors:

2.1.1. *Flexibility and New Ideas*

Fintechs are naturally flexible. Fintechs work with lean teams and cloud-native infrastructures, unlike traditional banks, which often use old IT systems and make decisions based on a hierarchy. This lets them:

- Quickly make prototypes and put new products on the market.

- Be quick to respond to what customers say and what is going on in the market.

- Add new technology like machine learning, blockchain, and AI.

Companies like Revolut and Nubank have added capabilities like real-time currency exchange, quick card freeze, and crypto trading to their mobile apps.

2.1.2. *Design With the Customer in Mind*

Fintechs put a lot of emphasis on user experience (UX) and interface design. Their platforms are designed for those who grew up with technology, and they offer:

- Onboarding is easy and doesn't require any paperwork.

- Easy-to-use navigation and customizable dashboards.

- You can get help 24 hours a day, 7 days a week from chatbots or real agents.

Fintechs have been able to get younger, tech-savvy users who want easy and smooth digital transactions by focusing on ease of use and convenience.

2.1.3. *Cost-effectiveness and ease of access*

Fintechs can charge lower fees and offer better rates because they work online and don't have to pay for the costs of running physical branches. This has made it easier for everyone to get financial services, especially in markets that don't get enough of them. Some examples are:

- Microloans and mobile payments in places that are still growing.

- Trading services like Robinhood that don't charge fees.

- Using applications like Wise to send money internationally for cheap.

Fintechs also look at other types of data, including how people use their phones or how they act on social media, to see if they are creditworthy. This makes it possible for those who don't have traditional credit records to get loans.

2.1.4. *Specialization and Focus*

A lot of fintechs focus on certain niches, which lets them come up with new ideas in those areas. This specialism includes:

- Payments:** Stripe and Square changed the way people pay for things online and at the register.

- Lending:** Peer-to-peer sites like LendingClub provide other options for getting a loan than a bank.

- Wealth Management:** Robo-advisors like Betterment and Wealthfront make investment plans for you.

- Insurtech:** Companies like Lemonade employ AI to make the process of underwriting and filing claims easier.

Fintechs can do better than banks in speed, customisation, and user engagement in their selected verticals since they specialize on them.

2.1.5. Making Choices Based on Data

Data is what makes fintechs work. They employ advanced analytics to:

Guess what customers will do.

Make your pricing and risk models better.

Make your products unique.

This data-driven culture lets companies keep becoming better and be more flexible in their strategies, which gives fintechs an edge in meeting changing customer needs.

2.2. Banks Fight Back

Fintech companies have become more popular by delivering new and easy-to-use financial services, but traditional banks are not just sitting back and watching. Banks all around Europe are actively responding to the fintech issue by using their strengths—trust, size, and knowledge of regulations—while also embracing digital transformation and strategic innovation. This counteroffensive is changing the way banks compete and making them strong players in the digital age.

2.2.1. Trust, Brand Equity, and Following the Rules

Long-standing reputations and strong regulatory integration help European banks:

Trust from customers: Companies like Deutsche Bank, BNP Paribas, and Santander have built up brand equity over decades, so people and companies can trust them.

Regulatory expertise: These banks know how to deal with complicated EU rules like GDPR and PSD2, which gives them an edge over newer banks when it comes to compliance.

Managing risk: Their familiarity with credit and operational risk is still one of their biggest strengths, especially in markets that change quickly.

2.2.2. Infrastructure and Capital Resources

European banks have the money to make changes happen:

To improve cross-border payments and treasury services, BNP Paribas has teamed up with fintechs like WorldFirst. It uses its worldwide infrastructure to help small and medium-sized businesses.

Italy's largest bank, Intesa Sanpaolo, started a digital platform for supply chain financing called International Confirming. It is aimed at small and medium-sized businesses (SMEs) and offers quick, easy funding solutions.

These projects show how banks are utilizing their money to establish platforms like those used by fintech companies and improve their digital skills.

2.2.3. Partnerships and Acquisitions That are Planned

More and more European banks are using the "buy, build, or partner" method:

Santander and BBVA have put money into fintech firms and built digital-only branches to fight with neobanks.

Barclays and ING have teamed up with payment and lending fintechs to offer open banking and embedded finance services.

These partnerships let banks adapt without starting from scratch, and they also get the benefits of fintech's speed and creativity.

2.2.4. Digital Change and the Experience of Customers

Banks are putting a lot of money into digital platforms to make the client experience better:

Microservices and APIs have helped Deutsche Bank update its card platforms so that they can support real-time features like spending restrictions and e-commerce controls[4].

ABN AMRO employs generative AI to make summaries of customer calls, which makes the contact center work better and provide better service[5].

These efforts are part of a larger trend toward tailored, mobile-first banking.

2.2.5. Getting into Services Like Fintech

European banks are starting to offer fintech-style services and platforms:

A great example of a traditional bank moving into fintech quickly and on a large scale is Intesa Sanpaolo's digital supply chain finance platform[2].

BBVA is a tech-savvy bank because it has made its own open banking APIs and digital banking tools.

These changes show that traditional banking and fintech are coming together, with banks becoming more like platforms than just service providers.

Here's a table that shows the main contrasts and strategic positioning of Fintechs and Banks in Europe:

2.3. A Win-Win Strategy is to Work Together

As the financial world changes, the relationship between fintechs and traditional banks is becoming less about competition and more about working together in a smart way. Working together is good for both sides: fintechs get access to size, infrastructure, and regulatory knowledge, while banks speed up innovation and improve the client experience. This synergy is changing the financial services industry into a more connected and active ecosystem.

2.3.1. Strengths that Go Well Together

Different things are brought to the table by fintechs and banks:

Fintechs are flexible, use the latest technology, and develop their products with the customer in mind.

Banks offer trust, follow the rules, and give businesses access to a lot of customers.

By working together, both sides can offer more powerful, flexible, and creative financial solutions.

2.3.2. Partnership Types

There are now many different ways for people to work together in Europe and around the world:

White-label solutions: Fintechs make backend technology that banks use and market as their own. For instance, Solarisbank in Germany offers other businesses banking-as-a-service infrastructure.

API integrations: Banks let fintechs into their systems using APIs, which lets them offer services like account aggregation, fast payments, and tools for organizing your finances. This is an important part of open banking under PSD2.

Joint ventures and incubators: Banks put money into or help develop fintech companies. Banks are helping fintech companies come up with new ideas by giving them money through venture capital and accelerator programs. For example, Santander's Innoventures and BBVA's Open Innovation.

3. Results and Examples of Cases in Europe

ING teamed up with fintech Yolt to provide smart money management tools that use Yolt's ability to combine data from many sources.

Barclays worked with the UK-based fintech company Flux to add itemized digital receipts to its mobile banking app.

Intesa Sanpaolo worked with fintechs to create a digital supply chain finance platform that offers rapid, tech-enabled loans to small and medium-sized businesses.

These examples show how working together may improve the customer experience, make things run more smoothly, and bring in more money.

3.1. Support from the Government for Working Together

European regulators have pushed for cooperation by using frameworks like:

PSD2 (Payment Services Directive 2) says that banks must securely exchange consumer data with permitted third parties using APIs. This encourages competition and innovation.

The Digital Operational Resilience Act (DORA) encourages the development of safe and strong digital infrastructure, which makes it easier for fintechs and banks to work together safely.

These rules make it fair for everyone and encourage banks to engage with fintechs instead of competing with them.

3.2. The Advantages of Working Together

For banks: faster innovation, lower development costs, more client engagement, and access to new technology.

For fintechs, these are: help from regulators, legitimacy, access to financing, and a larger market reach.

For customers: better products, more options, and better access to money.

More and more, people perceive this win-win situation as a strategic must for both sides, not just a passing trend.

3.3. A Detailed Look at How Banks and Fintechs Work Together

3.3.1. Solutions with White Labels

Definition: Fintechs make technology platforms or financial products that banks put their own name on and sell.

How it works:

Fintechs take care of the backend infrastructure, like algorithms for lending and processing payments.

Banks are in charge of customer service and following the rules.

For example, a fintech makes a digital lending platform, and a bank uses it to give loans through its own app.

Pros:

Banks speed up the time it takes to get to market.

Fintechs get bigger and more trustworthy.

3.3.2. Open Banking API Integrations

Definition: Banks use APIs to make their data and services available to fintechs, who can then use this information to create new applications for customers.

How it works:

Fintechs use APIs to get account information, start payments, or give financial advice.

Banks follow rules like PSD2 to make sure that data may be shared safely.

For example, a budgeting software takes information from several bank accounts and puts it all together to assist people keep track of their spending.

Pros:

People get services from more than one bank that are tailored to their needs.

Banks are still important in the digital world.

3.3.3. Partnerships With a Purpose

Banks and fintechs work together on certain products or services, either by developing them together or promoting them together.

How it works:

Both sides share information, resources, and skills.

Partnerships might be official, like contracts, or informal, like pilot programs.

A bank works with a fintech to give small businesses rapid invoice funding, for example.

Good things:

Shared ideas and lower expenses for development.

Faster rollout of new services.

3.3.3.1. Investing in and Buying Businesses

Definition: Banks buy or invest in fintech firms to get access to technology, skilled workers, or new markets.

How it works:

Banks can possess a little part of a company or all of it.

Funding and distribution channels help fintechs.

BBVA bought Simple, a U.S. neobank, to grow its digital presence.

Pros:

Banks get new ideas and a better chance to compete.

Fintechs grow more quickly when they get help from institutions.

3.3.3.2. Accelerators and Incubators

Banks set up initiatives to help fintech companies by giving them money, advice, and other resources.

How it works:

Startups join a group and get help from bank executives.

Banks look for new technology and business models that show promise.

For example, Santander's Innoventures and Barclays' Rise accelerator.

Pros:

Banks keep an eye on new trends.

Fintechs get more trust and access to resources.

Would you like this breakdown to be made into a slide deck or an infographic for use in a presentation?

Here's a better explanation of how fintechs and banks can work together, with real-world examples for each model:

3.4. Comprehensive Cooperation Models with Illustrations

3.4.1. Solutions with a White Label

Fintechs build the technology infrastructure, and banks rebrand the service and provide it under their own name.

For example:

Solarisbank (Germany) provides banking-as-a-service (BaaS) infrastructure that lets firms, even banks, launch financial products without having to construct basic banking systems from the ground up.

Société Générale bought Treezor (France), which offers white-label payment and banking services to fintechs and businesses.

Benefit: Banks may speed up their digital services without having to do a lot of internal development, while fintechs can grow by partnering with institutions.

3.4.2. Integrations with APIs (Open Banking)

Definition: Banks make their data and services available through APIs, which lets fintechs develop new apps that work with bank infrastructure.

For example:

ING worked with Yolt, a smart money management app, to use ING's open banking APIs to combine accounts and give users financial information.

BBVA has a set of APIs for payments, identity verification, and financial data. These APIs let fintechs create services on BBVA's infrastructure.

Fintechs improve the customer experience by providing real-time data, and banks stay relevant in the digital economy by following PSD2.

3.4.3. Partnerships with a Purpose

Definition: Banks and fintechs work together on certain products or services, usually by developing them together or promoting them together.

For example:

Barclays worked with the UK fintech company Flux to add itemized digital receipts to its mobile banking app.

Intesa Sanpaolo worked with fintechs to create a digital supply chain finance platform for small and medium-sized businesses.

Advantage: shared innovation and lower development costs, which means faster implementation of solutions that put the customer first.

3.4.4. Investing in and Buying Businesses

Banks buy or invest in fintech firms to get access to technology, talent, or market segments.

For example:

Santander Innoventures, which is now called Mouro Capital, has put money into many fintech companies, including as Credits and Kabbage.

BBVA bought Simple, a neobank located in the U.S., to make its digital banking services better.

Banks get new ideas and a competitive edge, while fintechs get money and a way to reach more people.

3.4.5. Accelerators and Incubators

Definition: Banks set up programs to help fintech companies by giving them advice, money, and infrastructure.

For example:

Barclays Rise is a worldwide fintech accelerator with offices in London and Tel Aviv. It helps businesses in fields like AI, blockchain, and regtech.

The BNP Paribas Plug and Play accelerator connects fintechs with BNP's business units so they may work together to build solutions.

Banks stay up to date on new trends, and fintechs get reputation and access to resources.

3.5. Is Convergence the Future of Finance?

As the lines between fintechs and regular banks get less clear, a new idea is starting to take shape: convergence. This trend shows a move away from rivalry and toward a more integrated financial ecosystem, as banks become more flexible like fintechs and fintechs accept banking rules and infrastructure. This leads to a hybrid paradigm that has the best of both worlds: trust, innovation, scalability, and compliance.

3.5.1. Fintechs Turning into Banks

A lot of fintech companies are growing beyond their original niches and are now looking for banking licenses so they may offer a broad range of financial services. This lets them:

- Keep deposits from customers.

- Offer loan and investing options that are regulated.

- Follow the banking legislation of the EU and your country.

For example:

- Revolut got a European banking license, which lets it offer credit and deposit services in all EU countries.

- Originally, N26 was solely a mobile bank, but it now offers insurance, savings, and investment products as well.

- This change shows that fintechs want to be full-service, trustworthy financial institutions.

3.5.2. Banks Accepting Fintech Models

On the other hand, traditional banks are using techniques similar to those of fintech companies to stay competitive:

- Starting digital-only branches, like BBVA's digital bank and ING's Yolt.

- Creating ecosystems on platforms that include services from other companies.

- Using AI, cloud computing, and APIs to bring old systems up to date.

These changes show that banking is moving from being focused on products to being focused on platforms, where banks help new financial ideas grow.

3.5.3. Platformization and Embedded Finance

Embedded finance, which is the integration of financial services into non-financial platforms, is one of the most important changes that convergence brings. This includes:

- Payments built into e-commerce apps.

- Lending is available at the point of sale.

- Insurance that comes with travel or shopping services.

For example, Klarna's "buy now, pay later" concept is built right into online shopping sites, so you don't have to go via typical bank credit channels.

Banks are responding by creating Bank-as-a-Service (BaaS) platforms, which let fintechs and other businesses construct financial products on top of their infrastructure.

3.5.4. Harmonization of Rules

Regulators are more and more in favor of convergence through frameworks that promote new ideas while keeping things stable:

- Open banking and safe data sharing are both possible with PSD2.

The Digital Operational Resilience Act (DORA) makes sure that banks and fintechs follow the same rules for cybersecurity and resilience.

MiCA (Markets in Crypto-Assets) makes things clear for digital asset providers, such as fintechs that are getting into crypto financing.

These standards make the playing field level, so that banks and fintechs may work together better and follow the same laws.

3.4.5. The Growth of Financial Ecosystems

Banks and fintechs may not be the only ones in charge of the future of finance. Instead, ecosystems that integrate

- Basic banking services.

- New ideas in fintech.

- Integrations with other services.

- Personalization based on data.

In this paradigm, people use a smooth network of financial instruments without always understanding if the source is a bank or a fintech.

Here is a visual timeline that shows how fintechs and banks in Europe are working together. It shows the main stages of Competition, Cooperation, and Convergence:

4. Conclusion

The relationship between fintechs and traditional banks is changing, and it's no longer just a matter of disruption or resistance. Instead, it shows how rivalry, cooperation, and convergence work together in a complex, evolving way. Fintechs have made things harder for banks by coming up with fast new ideas, focused on the consumer, and easy to use. Banks have responded by making strategic investments, forming alliances, and starting digital transformation projects.

The academic literature and developments in the business show a clear path: at first, there was competition, but now there is strategic cooperation. Both sectors are now going toward convergence, where the lines between fintech and banking become less evident and a single financial ecosystem forms. Regulatory frameworks like PSD2 and DORA have sped up this integration, making open banking, embedded finance, and platform-based service models possible.

In this new world, success will depend on working together to come up with new ideas, being able to change rules, and designing things with the customer in mind. Ecosystems where fintechs and banks work together to create value, share infrastructure, and provide financial services that are smooth, safe, and open to everyone are the future of finance.

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