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Research Article

Financial Innovation and Banking Product Evolution: Potential Trends and Risks

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Abstract – This study aimed to analyze the impact of financial innovation and the development of banking products on the banking sector and the economy in general. Research methodologies based on literature review and previous studies in this field were used.
Key findings suggest that financial innovation plays a crucial role in improving banking services, facilitating access to financial services and improving customer experience. Innovative banking products enable customers to access advanced and more efficient banking services.
However, security challenges emerge as a vital complement to financial innovation. Banks must consider strengthening security strategies and effectively forecasting the financial risks associated with it, as well as constant attention to cyber security and ways to deal with electronic threats.
The conclusions of this research indicate that financial innovation is crucial for the banking sector in the era of digital technology in light of great global competition, and that significant benefits and returns can be achieved from it. In this context, banks must develop sustainable strategies that ensure security and compliance with regulations in this rapidly changing context.

Keywords – Financial Innovation in Banks; Developing Banking Products; Financial Security Challenges; The Sector is Banking.

I. Introduction

The banking industry is witnessing a revolutionary transformation with the advancement of technology and the emergence of financial innovations. This period can be described as an era of banks' openness to new worlds of opportunities and challenges. These innovations attract customers' attention and evolve their banking experiences, as innovative banking products and new business methods in the banking sector become an integral part of daily financial life. Financial innovation and the development of banking products are the main focus of this change, as its impact on the banking sector extends greatly. This research context raises questions about how this innovation affects bank performance and the stability of the financial system. It is important to realize that financial innovation is not just a technical field, but rather financial experiments that bring about changes in the lives of individuals and companies. Innovation can increase efficiency and provide better access to banking services The aim of this research is to explore and understand the world of financial innovation and the evolution of banking products and how they can impact the banking sector and the economy as a whole.

II. FINTECH GOALS:

Financial technology seeks to achieve a number of goals, the most important of which are:[1]

A. Speed: Financial technology products and services often rely on technical technology to complete procedures and operations, and this means providing a faster pace of financial services.

B. Spread**:** Financial technology products and services can cross borders, as they can serve customers who do not belong to a single geographic location.

C. Lower cost: Financial technology seeks to reduce the current cost, thus allowing a greater number of users to access financial services, especially unbanked companies and individuals.

D. Comparison: Financial technology services and products enable customers to compare many companies and banks in terms of financial service and prices.

E. More privacy: Financial technology services and products are designed according to customers personal desires. Each bank has different needs from the needs of other banks, and this can be accessed through a number of channels.

III. THE ROLE OF FINANCIAL INNOVATION IN ACHIEVING BANKING COMPETITIVE ADVANTAGE:

Innovation in banking, whether in the production and provision of banking services, or in its marketing and distribution, and even in its pricing, is one of the basic components of the bank's survival and continuation, and it is the basic input into the escalating competition in the banking market . [2]

The institution's adoption of creativity and innovation helps it gain competitive advantages that enhance its competitive position in the changing and highly competitive market, and this is through improving the quality of products and reducing costs, i.e. reducing prices, speeding up the introduction of new products, and changing production processes, in addition to meeting the needs and desires of consumers through Renewing and developing products, as well as developing production methods and processes, all of this in order to improve the image of the institution and support its position and market share.When innovation relates to production processes, it gives an organization a cost advantage. In this case, it can either implement a strategy to reduce prices or a strategy to increase margins. Also, when creativity relates to products, the organization distinguishes itself from its competitors. Differentiation strategy is often adopted by innovative small and medium enterprises that can coexist side by side with large groups. Even if creativity provides a competitive advantage, its profitability is uncertain and there may be a risk of hindering the progress and development of the enterprise. [3]

The competitive advantage of the financial service does not remain stable or for a long time without development processes being carried out in accordance with the requirements of the market and existing competition, because it is possible for the process of imitation of the same service to take place, and thus it does not differ from others and loses its competitive advantage. [4]

IV. INNOVATIVE FINANCIAL SERVICES:

Financial innovation can be classified into three groups, and each group contains several channels, as follows:

A. Automated teller machines: These are automated teller machines (ATM), which are automatic banking machines that help customers of the banking institution complete the withdrawal of cash amounts without any assistance. ATM services are a good example of exploiting modern technologies in banking services, which help relieve the pressure on the customer in meeting his daily financial needs outside the official working hours of those banks. The services provided by the ATM enable customers to obtain some banking services 24 hours a day. All days of the week, these services include:

- deposit and withdrawal.
- Obtain a brief statement of account.
- Cash withdrawal in various. .
- national and foreign currencies.
- Balance inquiry.
- Request a check book.
- Change the password. [5]

B. Mobile banking: Modern technologies are changing the way products and services are delivered in the banking sector. One of these technologies is mobile banking, as this service has made banking services more efficient and effective, and this service increases customer comfort. [6]

The availability of mobile applications enables most banking services to be obtained, as the customer has the freedom to carry out most banking activities at home. [7]

C. Points of sale: It is one of the newly innovative financial tools that is provided by the financial institution to its customers who have financial accounts in the bank and possess bank cards or credit cards through which the customer can pay for their purchases, as the price of the goods and services that customers obtain is deducted through POS device. The use of point-of-sale (POS) technologies, which is one of the advanced banking technologies, uses information and communications technology (ICT) applications in banking operations, which are means that facilitate the transfer of bank deposit funds from the bank to the customer, as the customer has the right to withdraw from his deposits in the current account. Any amount through points of sale (POS), which is one of the means that motivates banks to compete in acquiring this technology. The point-of-sale (POS) service is one of the services that reduces costs for banks on the one hand and for customers on the other hand, because customers can access their accounts through these devices, which are available 24 hours a day, as this service allows customers to withdraw amounts from... Their accounts anywhere and at any time, with the withdrawal amount automatically deducted from the customer’s bank account in exchange for a small commission. [8]

D. Electronic clearing and automatic settlement: Technical development in the field of communications has led to the emergence of new types of banking services with the aim of reducing effort and time, including what is expended in settling accounting entries arising from banking operations, by relying on electronic mechanisms that help in conducting the entry settlement on Level of bank or interbank accounts. [9]

V. RISKS OF DIGITAL TECHNOLOGIES AND MODERN FINANCIAL INNOVATIONS FOR BANKS:

Risks resulting from heavy reliance on external technology and service providers and the costly investments that may be required: This heavy reliance on external technology and service providers within financial technology adoption policies requires a sharp increase in demand for IT security services and the resulting increase in the volume of Those investments and expenses associated with financial technology insurance and protection services. [10]

Risks associated with the Internet resulting from deficiencies in the connection of computer-based systems with each other: These interconnections include many weaknesses that may allow them to be hacked and exploited by Internet hackers. In this area, it can be noted that information technology crimes are the second most common crime in the business sector after IT crimes. [11]

The possibility of a decline in bank revenues: This is the result of the increasing ability of new service providers to reduce bank revenues, as financial technology companies provide financial services similar to traditional banking services after technology companies have transformed from providing financial companies with technological solutions to competing with financial companies. In light of this, some estimates indicate that between 10%-40% of revenues, and between 20%-60% of profits from retail banking services, are at risk of disappearing over the next ten years. [12]

Difficulty in evaluating: The use of algorithms in other areas such as securities trading creates ambiguity for organizations, as some data and analytics models make it difficult for authorities to assess the efficiency of models or unexpected risks in new markets. [13]

RESULTS

1.Research shows that financial innovation contributes to improving banking services and reducing practical costs. Through developing innovative products such as banking applications and electronic payment services, which enhances customer experience.

2.The research shows that financial innovation can contribute to expanding and facilitating access to financial services to individuals and non-banking companies, especially in remote and underserved areas. Which promotes sustainable financing and economic development.

3.The research has shown that banks' adoption of financial technology can help significantly reduce operational costs through automation and improving the efficiency of operations.

4.The research shows that banks that adopt financial innovation strategies are more competitive in the banking market, which contributes to stimulating economic development.

5.Research shows that there are security challenges associated with financial innovation, such as threats of cyber hacking and theft of financial information, which require strong measures to ensure financial security.

6.The results show the importance of cooperation between traditional banks and technology companies to invest in innovation and provide advanced banking services.

7.The research indicated that financial innovation stimulates competition among banks, forcing them to improve their services and innovate new products to better meet customer needs.

8.The research indicated the importance of encrypted digital currencies (such as Bitcoin) in changing the way money and financial transactions are dealt with, which requires studying their impact on traditional banks.

VI. DISCUSSION

1.Financial security challenges: Financial security challenges must be seriously addressed, including the threats of cyber hacking and the potential for financial fraud.

2.Banks and financial institutions must invest in technology and develop innovative financial products to meet customer expectations and improve their experience.

3.Cooperation between the two sectors: Cooperation must be strengthened between traditional banks and financial technology companies to benefit from the advantages of innovation and provide advanced banking services.

4.Continuous learning and development: Professionals in the banking sector should continue to learn and develop their skills to keep pace with ongoing technological changes.

5.Leverage data: Banks should effectively exploit big data to analyze customer behavior and provide personalized banking services.

6.Motivation for innovation: The culture of innovation must be encouraged within banks by motivating employees to propose new ideas and experiment with innovative solutions.

7.International Partnerships: We encourage the strengthening of international cooperation and partnerships in the field of financial innovation to exchange experiences and knowledge.

8.Continuity in evaluation: Banks must periodically review and evaluate their financial innovation strategies and adapt them to changes in the banking environment.

9.Strengthening vocational education: Vocational training and education for employees in the banking sector should be strengthened to develop their skills in the field of financial technology.

10.Invest in R&D: Banks should invest in fintech research and development for sustainable innovation..

VII. CONCLUSION

In this research, the impact of financial innovation and the development of banking products on the financial services sector is explored. The most important conclusions of this research were to emphasize the importance of financial innovation as a critical factor in improving banking services and enhancing access to financial services. It has also been shown that financial innovation can play a major role in supporting economic growth and enhancing financial sustainability.In addition, the need to focus on security challenges in the field of financial innovation, including cybersecurity threats and financial data protection, was emphasized. We must also continue to develop the regulatory framework and intensify efforts in the field of vocational training and education to confront these challenges.Key recommendations from this research highlight the importance of banks investing in technology and financial innovation to improve their services and enhance customer interaction. Collaboration between the banking and technology sectors must also be strengthened to harness the benefits of innovation and improve sustainable finance.

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