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Ethical Fintech is a New Way of Banking

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ABSTRACT

The adoption of Financial Technology (FinTech) and digital banking services has revolutionized the financial industry, providing convenience, accessibility, and cost-effective solutions to users. However, along with its benefits, the widespread use of FinTech has also raised concerns regarding privacy, security, consumer protection, ethical considerations, and regulatory compliance. This paper aims to explore the ethical dimensions of FinTech adoption and the potential negative consequences associated with it. Drawing on qualitative research methods, including interviews and document analysis, the study investigates issues such as consumer privacy, data breaches, trust, financial integrity, adoption barriers, and ethical controversies in the diffusion of FinTech. The findings highlight the importance of addressing these ethical concerns to restore digital ethics in the fintech industry and ensure principles such as fairness, transparency, accountability, and access in technology are realized. The paper concludes by emphasizing the need for a balance between technological innovation and ethical practices to create a sustainable and responsible future for FinTech and digital banking.

Keywords: Fintech, Technology, Digital Banking

INTRODUCTION

The banking industry is currently operating in the most competitive and difficult business climate it has ever experienced (Popescu & Popescu, 2019), owing to the rapid digital transformation of financial services and the introduction of non-traditional financial services providers into the market. This highly regulated industry is dealing with increased privacy and data protection requirements, as well as rising customer expectations. The incorporation of digital technology has significantly reduced entry barriers into the financial services industry, allowing the number of new financial service providers to skyrocket in recent years (Banna & Alam, 2021). Neobanks, Fintechs, BigTechs, and cryptocurrency exchanges are all disrupting the banking industry, and traditional financial institutions are either in the process of being disrupted or have already been disrupted (Murinde et al., 2022). Its mean that due to the rapid digital transformation of financial services and the entry of non-traditional financial services providers into the market. This highly regulated industry is facing increased privacy and data protection requirements, as well as rising customer expectations. The incorporation of digital technology has significantly reduced entry barriers into the financial services industry, leading to a surge in the number of new financial service providers in recent years. Neobanks, Fintechs, BigTechs, and cryptocurrency exchanges are all disrupting the banking industry, and traditional financial institutions are either in the process of being disrupted or have already been disrupted.

Fintech lending has undoubtedly transformed the financial industry by providing individuals and businesses with convenient and accessible lending options. However, as with any technology-driven industry, there are some ethical concerns in the context of fintech lending. Here are a few important ethical considerations:

1. Privacy and data security: To assess creditworthiness, fintech lending platforms collect and analyze massive amounts of personal and financial data (Raj & Upadhyay, 2020). When this data is not adequately protected or is used beyond the scope for which it was originally intended, ethical concerns arise. To protect individuals' privacy, fintech companies must prioritize data security, encryption, and consent.
2. Fairness and transparency: Fintech lenders frequently make lending decisions using complex algorithms and machine learning models. The ethical challenge is to ensure that these models are fair and unbiased while not perpetuating discrimination based on race, gender, or socioeconomic status (Rovatsos et al., 2019). Transparency in algorithmic decision-making is critical because it allows borrowers to understand how decisions are made and seek recourse if they are treated unfairly. Responsible lending practices: To prevent

predatory lending, fintech lenders must adhere to responsible lending practices. While the convenience and speed of online lending can be advantageous to borrowers, there is a risk of exploiting vulnerable individuals or extending credit to those who cannot afford it. Fintech firms should ensure that borrowers understand loan terms, interest rates, and repayment obligations, as well as provide assistance in cases of financial distress. Customer support and protection: Fintech lending platforms must prioritize customer protection by implementing robust complaint handling mechanisms and dispute resolution processes. To address borrower concerns and provide assistance throughout the loan lifecycle, adequate customer support should be in place. Lenders should also consider the potential consequences of lending decisions on individuals' financial well-being and, when necessary, offer suitable alternatives or debt management options.

3. Financial inclusion and literacy: Fintech lending should strive to promote financial inclusion and literacy (Moenjak et al., 2020). While these platforms have increased credit availability to underserved populations, they should also invest in educating borrowers about responsible lending, loan terms, and financial management. Efforts should also be made to include marginalized communities and to ensure that fintech lending does not exacerbate existing inequalities. This type of behavior violates Otoritas Jasa Keuangan (OJK) Regulation Number 1 of 2013 on the Protection of Financial Services Consumer Data, as well as Ministerial Regulation Communication and Information Number 20 of 2016 on the protection of personal data in electronic systems.

People can easily start businesses in the fintech industry because it is less regulated. Regulation is not as strict at the start of the fintech industry. The argument is supported by the fact that, of the 89 reports received by LBH Jakarta, 25 of the applications were officially registered at the OJK fintech database. According to OJK Regulation Number 77 of 2016 on Information Technology Based Lending and Borrowing Services, the OJK monitors fintech companies that are already listed and have a license to operate. In reality, consumers prefer illegal fintech companies because they find it easier and faster to obtain loans.

At this point, we can divide the ecosystem into two parts: the fintech company and support ecosystem (investors, regulators, and associations) and the consumer. There is a quandary from the perspective of a fintech company. The more stringent the regulation, the safer the transaction for the consumer. However, it will be difficult for a newcomer to obtain a license, and the industry will not improve significantly. On the other hand, with a low level of regulatory rigidity, a consumer will be at risk in every transaction, even if it is very easy for an enterprise to obtain a license to operate. Knowing this situation, regulators (Bank Indonesia, OJK, and the government) and fintech companies should work together to find a solution.

The traditional core principles of finance ethics. has distilled seven basic principles found in the codes of conduct of 11 financial services professional associations: integrity, objectivity, competence, fairness, confidentiality, professionalism, and diligence, as shown in Table 1.

Table 1: A list of ethical principles in finance and their definitions

Principle	Definition
Integrity	Moral self-government, autonomy, dependability, and honesty. Consistent thinking and behavior, a clear conscience, and responsible behavior
Objectivity	Client interests must be protected and advanced. Keeping trust and perceptions accurate. Keeping bias and conflicts of interest at bay
Competence	Providing clients with competent financial services. Maintaining expertise in the workplace through ongoing education and professional experience
Fairness	Treating customers fairly, applying the "Golden Rule" consistently, ensuring fair returns for all, balancing interests, and avoiding disparate treatment
Confidentiality	Confidently managing client relationships, protecting and not disclosing sensitive information, and building and maintaining trust through information sharing
Profesionalism	Clients must be treated with courtesy and respect, and confidence must be established, as well as a reputation and trust must be maintained with clients and the general public.

Diligence	Providing services promptly and thoroughly, tailoring services to customer needs with attention to detail and persistent focus, and conducting a thorough review of support staff.

With the rapid advancement of technology and the increased use of machine learning, it is necessary to develop standards for ML ethics (Eshete, 2021). The Organisation for Economic Co-operation and Development (OECD) is one prominent organization that has developed such standards (Woodward, 2004). The OECD is an intergovernmental organization with 38 member countries founded in 1961 to stimulate economic progress and world trade (Padmini, 2019). The majority of OECD members are high-income economies with a very high Human Development Index (HDI), comprising 62% of the global nominal GDP ($49.6 trillion). The OECD is an official United Nations observer (Bainbridge, 2000). Together with governments, policy makers and citizens, the OECD words on establishing evidence-based international standards and finding solutions to a range of social, economic and environmental challenges. A significant part of the OECD activities focuses on defining public policies and international standards.

The OECD has made significant contributions to the development of AI public policy. The OECD adopted a set of artificial intelligence principles in 2019 to promote AI that is innovative, trustworthy, and respects human rights as well as democratic values OECD member countries adopted the principles by approving the OECD Council Recommendation on Artificial Intelligence. The OECD AI Principles are the world's first intergovernmental AI standard. Non-member countries outside the OECD have also agreed to the principles. While the OECD Recommendations are not legally binding, they are extremely influential because they establish international standards to assist governments in developing national legislation. The OECD Recommendation is divided into two sections. The first establishes five fundamental and complementary principles for trustworthy AI stewardship. These five principles are as follows: i) inclusive growth, long-term development, and well-being; ii) human-centered values and fairness; iii) transparency and explainability; iv) robustness, security, and safety; and v) accountability. The goal of this research is to restore digital ethics to the fintech industry so that ethical principles such as fairness, transparency, accountability, and access in technology can be realized.

METHOD

This study employs a qualitative descriptive research method in order to restore digital ethics to the fintech industry and realize ethical principles such as fairness, transparency, accountability, and access in technology. Written using a variety of library resources, including previous research articles and news from electronic media.

This study collects qualitative data through data collection techniques such as interviews and document analysis. Document examination. Face-to-face interviews were conducted with several victims regarding the use of debtors by online lenders. Data sources used in this research are primary interview data sources and secondary data taken from the Indonesian Financial Services Authority and the Indonesian Joint Funding Fintech Association, the Central Bureau of Statistics, Katadata, and Responsi Bank Indonesia. When developing their research focus using a triangulation logic approach, researchers want to get multiple perspectives. Using triangulation logic as a method. According to (Devgun et al., 2021) triangulation of data sources entails collecting data from various types of people, such as individuals, groups, families, and communities, in order to obtain a variety of perspectives and data validation. various perspectives and data validation. According to (Flick, 2017) the logic of triangulation is to use several theoretical perspectives so that the researcher can better focus on the research question. Bring research questions to the forefront. According to (Masayu Rosyidah et al., 2021), data validation using the triangulation technique is accomplished by comparing different data sets, which are used to review and validate the data. Different data, which are used to review and compare data, are sources, methods, researchers, and theories.

Data analysis is carried out by organizing data, explaining it into units, synthesizing them, arranging them into patterns, and deciding what is important and what will be studied. What is important will be studied, and conclusions will be drawn. The validity of the data used in this study is tested using source triangulation techniques. This technique refers to efforts to obtain reliable data on the same topic from a wider range of sources about the same topic needed for data analysis.

RESULT and DICUSSION

1. Fintech Adoption with unwanted harmful consequences and ethical condiserations

With the ongoing wave of globalization combined with the competitive business landscape, technology will undoubtedly play a prioritized and regarded as the competitive edge for businesses to compete successfully in the marketplace. Technology has transformed the consumer experience and altered the way many sectors of the economy conduct business. The banking industry is undergoing a radical transformation as a result of the prevalence of disruptive technological innovations, particularly with the introduction of Financial Technology.

The term "FinTech" refers to IT-centered technologies and advanced software applications that aim to improve the efficiency of the financial ecosystem. Banks are being forced to adapt to this dynamic market environment by implementing Fintech innovations such as digitized money, paperless lending, and mobile wallets, owing to rising smartphone penetration and increased use of online commerce.

Businesses such as Alibaba Group, Paypal Holdings Inc., Samsung, Apple, Tencent Holdings Ltd, Afterpay, Klarna, and Robinhood Markets Inc. have been on the FinTech bandwagon since its inception. Prior research has consistently found that financial innovations can provide a variety of benefits to both consumer and business markets. For example, it has benefited businesses by lowering their operational costs, providing alternatives to traditional banks' products, allowing them to offer personalized services, providing them with a quick and easy payment system, and many other advantages. It has increased investment opportunities, access to insurance products, and the ability to use alternative payment systems such as mobile wallets, loans, and fund transfers for consumers. Regarding the above-mentioned FinTech potential, it is undeniable that the promising trend of FinTech adoption has been regarded as a new phenomenon and a catalyst in the global financial ecosystem, attracting the attention of industry players and consumer groups at large.

Although this technology has the potential to provide significant benefits to industries and economies, it is not without flaws. As more businesses venture into it and go online, security and consumer privacy are frequently at stake. For example, according to PwC's Global Fintech Survey report, 56% of respondents indicated that issues of privacy and information security were the most significant threats to the rise of FinTech. In addition, previous research has found that consumer protection, data breaches, trust, financial integrity, user inertia, adoption barriers, and ethical controversies are major concerns in FinTech diffusion. Given FinTech's transformative potential, it is clear that we require a fresh perspective to address these shortcomings and challenges. As a result, there is an urgent need to investigate the "dark side" and any potentially negative consequences of FinTech adoption. In light of the foregoing, this special issue seeks papers on how to mitigate the negative aspects of FinTech in both business and consumer contexts.

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2. Ethical Fintech : The Banking Future

As previously stated, the banking industry is undergoing a sea change. The industry faces challenges and opportunities on many fronts, including pandemic recovery, increased competition from technology companies, the need to respond to climate change threats, and an increasing demand for regulation to make the most of this upheaval. It also makes risk managers' jobs extremely difficult. Neobanks, Fintechs, BigTechs, and cryptocurrency exchanges are all disrupting the banking concept, and traditional financial institutions are either competing with them or investing in and/or cooperating with them to improve the customer experience. The switch to online and mobile banking has been the major advancement that has changed the customer's banking experience in recent times.

This began long before the pandemic, but it has accelerated in the last two years. Many consumers do not want to go to a physical bank branch to handle their transactions in today's era of unprecedented convenience and speed, as well as the need to be kept socially distanced where possible. This is especially true for Millennials and older Gen Z members, who have begun to emerge as the dominant workforce players (and the highest earners). At least 60% of mobile banking users conduct research, which is critical for banks. But, more than just a shift from physical to virtual banking, we've arrived at a point where simply having a mobile app is no longer enough for banks to attract and retain customers. Additional tools and features, such as two-factor or one-time authentication, the ability to place temporary holds on cards, view recurring charges, or scan a fingerprint to log into an account, are becoming more necessary and convenient.

3. **Ethical Fintech is a new way of banking**

The banking sector's work culture has been reshaped by digital technology, and many more traditional banks are being forced to reinvent themselves and their cultures in order to embrace diversity and inclusion, foster innovation and new ways of thinking, and encourage transparency and new levels of trust with their customers. Banks, as regulated entities, must also strictly adhere to "responsible lending practices" in accordance with the current legal framework in order to provide an adequate level of protection to their customers. This combination of innovation and risk management is their ultimate competitive advantage, and it distinguishes many banks from new fintech entrants.

Finance is an odd industry. On the plus side, finance serves an important social function, from assisting consumers in purchasing a home to assisting small and medium-sized enterprises (SMEs) in borrowing money. On the negative side, everyone has heard horror stories about predatory lenders and products that were mis-sold to bank customers. Investors and venture capitalists should insist that their startup companies communicate their values and should not tolerate unethical behavior. FinTech startups position themselves as distinct from traditional finance, which not only lacked ethics but also did not prioritize ethics. Before taking the leap of faith and joining a start-up, employees should understand the founders' core values. Clients should question the startup's values.

4. **Fintech cybersecurity: Need for banking and finance safety in 2023**

According to estimates from leading analytics firm GlobalData, increased demand for cybersecurity will drive global security revenues in the retail banking sector to $9.8 billion by 2024, up from $7.9 billion in 2019. As the world's payment environment becomes less cash-based, the value of digital payment transactions grows. GlobalData sees this as a growing opportunity for cybersecurity product and service providers. Banking and payment providers are looking to use newer and more advanced security infrastructure and services to combat cybercriminals. Because of AI and machine learning, as well as self-learning malware, cyberattacks are becoming more sophisticated. Meanwhile, phishing attacks prey on vulnerable and gullible customers, and ransomware is the most profitable type for cybercriminals.

GlobalData contends that in the modern payment market, banking incumbents and fintech disruptors must maintain a strong cybersecurity strategy through 2023. It's one thing to be impenetrable. Financial institutions will need to be future-proof in order to have the most effective cybersecurity strategies. Verdict, as a result, presents banking cybersecurity predictions for 2023, speaking with experts from Akamai, Fourth Line, and KPMG UK about biometrics, deepfakes, and other topics. Rising cybercrime rates mean rising costs for banks, as they are under pressure to reimburse their defrauded customers in bulk.

According to our recent research, the majority of consumers (67%) expect their bank to cover the cost of successful scams, regardless of the total amount lost. More than half (58%) of those who bank online receive scam attempts at least once a week via email or SMS, and 23% have been victims of a cyberattack. Banks are currently reimbursing authorized push payment (APP) fraud. On average, 46%, but government-backed plans will achieve 100%. This is just one example of why banks must prioritize cybersecurity in 2022 if they want to protect both their customers and their bottom line. To share effective strategies, banks will need to collaborate with governments and industry bodies. There are also requirements.

CONCLUSION

People are enchanted by the new mobile bank and numerous FinTech apps that they had never imagined existed. Fast delivery and KYC verification with augmenting technology have accelerated smartphone use of these services. Except for physical cash, there is almost no reason to visit customers. We can't stop the sweeping changes, but we can help them along because it's a matter of time and ease of doing business. For example, the FinTech Paytm provides everything listed as finance-related: 1. Payment of all utility bills. 2. All types of goods and services purchases 3. Clean spending limit/personal loan/credit card/account opening in accordance with their AI, ML, and AL 4. All types of insurance, share trading, and DP are available via mobile. 5. Banking at any time, from anywhere, and from anything. However, it is more important to maintain customer confidentiality, a non-biased and non-discriminatory approach, ethical practices, and adherence to country rules and regulations. It was never thought possible to imagine entire financial products and transactions simply by owning a smartphone.

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