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THE IMPACT OF FINTECH ON TRADITIONAL BANKING: A STUDY OF DISRUPTION AND INNOVATION IN NIGERIA

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ABSTRACT

The study examines the impact of Fintech on traditional banking in Nigeria, drawing on the Resource-Based View (RBV) and Disruptive Innovation Theory (DIT) as theoretical frameworks. The RBV posits that firms achieve a sustainable competitive advantage through the effective utilization of their internal resources, while DIT explains how market entrants, initially serving niche segments, disrupt and eventually replace incumbents. The study adopts a cross-sectional survey research design, with a target population comprising Fintech firms and traditional banks operating in Nigeria. A stratified random sampling technique was employed to ensure proportional representation across key Fintech segments, including digital payments, lending, wealth management, and banking services. Using Yamane's formula, the final sample size was 169 respondents. Primary data was collected through structured questionnaires employing a five-point Likert scale, and reliability was assessed using Cronbach's alpha, with a threshold of 0.7 for internal consistency. Data analysis was conducted using Ordinary Least Squares (OLS) regression to examine the relationships between Fintech adoption and key banking performance indicators, including market share shift, customer satisfaction, revenue growth, and profitability. The findings reveal that Fintech adoption significantly impacts traditional banking, with Fintech firms capturing large market share enhanced customer satisfaction and reducing traditional banks' revenue growth. However, banks that integrate digital innovations experience improved profitability. Additionally, regulatory frameworks play a moderating role shaping the extent of Fintech disruption and traditional banks' adaptability. The study underscores that while Fintech disrupts conventional banking, hybrid financial models where traditional banks collaborate with Fintech firms can drive mutual growth. The study concludes that Nigerian banks should strategically invest in Fintech-driven innovations to sustain effectiveness. In addition, regulatory policies should continue to influence the evolving banking landscape, by necessitating adaptive strategies that will balance innovation with financial stability. The findings also contribute to the discourse on digital disruption in the financial sector and provide empirical insights for policymakers, banking institutions, and Fintech developers.

Introduction

Rapid advancement of financial technology (Fintech) has significantly reshaped traditional banking landscape, introducing both opportunities and challenges. Fintech encompasses digital banking, mobile payments, block-chain technology, and artificial intelligence-driven financial services, which has disrupted conventional banking models by offering faster and more cost-effective and customer-centric solutions (Gomber et al., 2017). Traditional banks as the dominant providers of financial services are now facing intense competition from Fintech firms that leverage technology to enhance efficiency, accessibility, and innovation (Arner et al., 2016). Fintech is redefining customer expectations, altering market dynamics, and driving financial inclusion as a result, banking industry is experiencing a paradigm shift (Philippon, 2016). This disruption has raised critical concern about the sustainability of traditional banking institutions and their ability to compete in an increasingly digitalized financial system.

One of the most noticeable pointers of Fintech's disruptive impact on the traditional banking is the market share shift, where a growing number of customers are transitioning from traditional banking services to Fintech alternatives which includes digital-first banking solutions, including neo-banks, peer-to-peer lending platforms, and mobile payment systems, such as monie-point, palm-pay, Opay, among others these have attracted a significant customer base due to their convenience, lower transaction costs, and user-friendly interface (Erel & Liebersohn, 2020). Reports indicate that Fintech adoption rates are rising globally, with emerging markets showing particularly strong growth as digital financial solutions bridge gaps in banking accessibility (Zhang et al., 2021). Traditional banks are force by legacy systems, regulatory complexities, and struggle to keep pace with these active technology-driven competitors (Boot et al., 2021). Consequently, the extent to which market share is shifting from traditional banks to Fintech firms provides valuable insights into the broader structural changes within the financial industry.

Beyond market share, customer satisfaction has emerged as a critical determinant of Fintech's competitive edge over traditional banks. Fintech firms prioritize user experience by offering personalized financial services, seamless digital transactions, and 24hours accessibility through mobile applications and AI-driven customer support (Lee & Shin, 2018). Fintech platforms often receive higher customer satisfaction scores (CSAT) compared to traditional banks due to their ability to offer faster services, innovative financial products, and transparent pricing structures (Vives,2017). In contrast, traditional banks frequently face criticism for administrative inefficiencies, high service fees, higher interest rate, and slower response times (Gomber et al., 2018). Understanding customer satisfaction discrepancies between Fintech and traditional banking institutions is important in evaluating Fintech's role in refining financial service expectations.

The impact of Fintech is not only evident in customer behavior but also in financial performance metrics, particularly revenue growth. Fintech firms, influence accessible digital business models, which have demonstrated impressive revenue growth trajectories overtime and often outpacing traditional banks (Thakor, 2020). Furthermore, revenue generation in Fintech is driven by lower operational costs, data-driven decision-making, micro-investing platforms and innovative revenue streams such as subscription-based financial services, which is not applicable to Nigerian digital banking context (Chen et al., 2019). Conversely, many traditional banks in this context have experienced stagnating or declining revenues attributed to declining interest margins, increased compliance costs, and the rising cost of digital transformation initiatives (Boot et al., 2021). By evaluating revenue growth trends, this study aims to

quantify the financial impact of Fintech's disruption and provide insights into how traditional banks are responding to these competitive pressures.

Despite the growing body of literature on Fintech disruption, limited research has specifically examined its impact on traditional banking in Nigeria, as the country is experiencing rapid digital financial transformation. While many existing studies have explored Fintech adoption globally (Gomber et al., 2017; Arner et al., 2016), there is a dearth of empirical evidence on how Fintech-driven market share shifts, customer satisfaction, and revenue growth affect Nigerian banks. Moreover, most prior research has focused on technological advancements rather than the strategic responses of traditional banks to Fintech competition. This study bridges these gaps by providing an in-depth analysis of Fintech's role in reshaping Nigeria's financial sector. The study offers practical insights for policymakers, financial institutions, and regulators on how banks can innovate, remain competitive, and adapt to the digital banking revolution. Additionally, it enriches the Resource-Based View (RBV) and Disruptive Innovation Theory by contextualizing their relevance in Nigeria's financial landscape, contributing to the global discourse on Fintech-driven banking transformation.

Based on the available literature reviewed, the following hypotheses were formulated:

Null Hypotheses (H_0)

H_{01}: Fintech adoption does not have a significant impact on the market share of traditional banks in Nigeria.

H_{02}: Fintech services do not significantly influence customer satisfaction compared to traditional banking in Nigeria.

H_{03}: The presence of Fintech firms does not significantly affect the revenue growth rate of traditional banks in Nigeria.

H_{04}: There is no significant relationship between digital financial innovation and the profitability of traditional banks in Nigeria.

H_{05}: The regulatory environment does not significantly moderate the impact of Fintech on traditional banking performance in Nigeria.

Literature Review

The emergence of Fintech has fundamentally transformed the global financial system, challenging traditional banking institutions by offering innovative, customer-centric, and technology-driven services. Fintech firms influence advancements in artificial intelligence (AI), block chain, big data, and cloud computing to deliver financial services that are faster, cheaper, and more accessible in the global financial realm (Gomber et al., 2017). According to Arner et al. (2016), Fintech is reshaping banking by lowering transaction costs, increasing financial inclusion, and improving service efficiency. In the Nigerian context, the rise of mobile banking, peer-to-peer lending, and digital wallets has accelerated the decline of cash-based transactions, forcing traditional banks to adopt digital transformation strategies (CBN, 2022).

Studies indicate that primary areas of Fintech disruption include payments, lending, wealth management, and remittances, with innovations such as Monie-point, Opay, Paystack, Flutter wave, and Kuda pioneering digital finance solutions in Nigeria (Philippon, 2016). While Fintech offers significant advantages, its rapid adoption also raises concerns about data privacy, cybersecurity, and regulatory challenges, which must be address to ensure sustainable financial innovation (Boot et al., 2021).

One of the most profound ways Fintech disrupts traditional banking is by capturing market share previously dominated by banks. According to Vives (2017), digital financial platforms provide alternative banking solutions that appeal to younger and curious consumers who demand seamless, mobile banking experiences. Erel and Liebersohn (2020) argue that traditional banks have been slow to innovate due to legacy infrastructure, regulatory constraints, and risk-averse cultures, allowing Fintech firms to gain a competitive edge. In Nigeria, digital banks such as Kuda, Moniepoint, Opay, Palmpay, Paystackand Carbon have successfully attracted customers by offering zero-fee transactions, automated savings plans, and AI-powered financial advisory services (CBN, 2021). Moreover, Fintech-driven microfinance solutions are expanding access to credit for underserved populations, a gap that traditional banks have historically failed to address (Chen et al., 2019). Despite these shifts, some scholars argue that long-term success of Fintech firms will depend on their ability to balance operations, manage regulatory compliance, and sustain profitability, as traditional banks still hold significant trust, brand equity, and regulatory backing (Thakor, 2020).

Customer experience is a key determinant of financial service adoption, and Fintech firms have excelled in providing superior customer-centric solutions compared to traditional banks. Research by Lee and Shin (2018) highlights that Fintech platforms offer 24/7 accessibility, real-time transaction processing, lower fees, and personalized services, which drive higher customer satisfaction. In contrast, traditional banks are often criticized for lengthy processing times, complex bureaucracy, and hidden charges (Gomber et al., 2018).A study by Thakor (2020) found that Fintech firms out-perform traditional banks in customer retention and service quality due to their agility in adopting AI-powered chat bots and predictive analytics approach. In Nigeria, CBN (2022) reported that Fintech-driven mobile banking solutions have significantly improved financial inclusion, particularly in rural areas where traditional banks have limited penetration. However, despite Fintech's success in enhancing customer experience, issues with trust and security concerns remains a significant barrier to widespread adoption, as cases of fraud, data breaches, and cyberattacks increase (Zhang et al., 2021). Consequently, traditional banks that integrate Fintech solutions into their operations can enhance their brand credibility to offer secure and innovative digital services, thereby retaining customer loyalty while adapting to the evolving financial landscape (Boot et al., 2021).

Moreover, financial performance of traditional banks versus Fintech firms has been a major focus of academic inquiry. Research suggests that Fintech firms operate with lower overhead costs, higher scalability, and greater operational efficiency, allowing them to achieve faster revenue growth compared to traditional banks (Gomber et al., 2017). According to Philippon (2016), Fintech startups benefit from venture capital funding and innovative business models, enabling them to disrupt conventional revenue streams such as lending, payments, and wealth management. In Nigeria, leading Fin-tech companies such as Flutter-wave and Pay-stack have experienced exponential revenue growth, driven by cross-border payment solutions and business integration (CBN, 2021). Conversely, many traditional banks are struggling with declining interest income, regulatory compliance, and the need for digital transformation investments that seem expensive (Boot et al., 2021). While Fin-tech firms continue to disrupt financial markets, some studies argue that profitability and long-term sustainability remain a challenge, as many Fin-tech startups prioritize market expansion over immediate profitability (Vives, 2017). Furthermore, collaborations between banks and Fin-tech firms in terms of technological partnerships and co-branded financial products, present a hybrid model that could drive mutual revenue growth in the evolving financial system (Erel&Liebersohn, 2020).

Despite its rapid growth, the Fin-tech industry faces significant regulatory challenges, which has impact on its sustainability and integration into the financial ecosystem. Scholars emphasize that regulatory frameworks must balance innovation with financial stability, consumer protection, and cyber-security concerns (Arner et al., 2016). In Nigeria, the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC) have introduced regulatory measures to govern digital financial services, prevent money laundering, and enhance cyber-security (CBN, 2022). However, frequent policy shifts pose challenges for both Fin-tech firms and traditional banks (Chen et al., 2019). Study by Boot et al. (2021) suggests that collaborative regulation where Fin-tech firms and traditional banks co-develop compliance strategies can drive a more stable financial environment. Moving forward, the future of banking in Nigeria may likely involve increased convergence between Fin-tech and traditional banks, with strategic partnerships, government support, and continuous technological advancements that will shape the industry's trajectory (Vives, 2017). As financial technology continues to evolve, policymakers, industry leaders, and researchers must explore regulatory frameworks that promote innovation while ensuring financial security and consumer trust (Erel & Liebersohn, 2020).

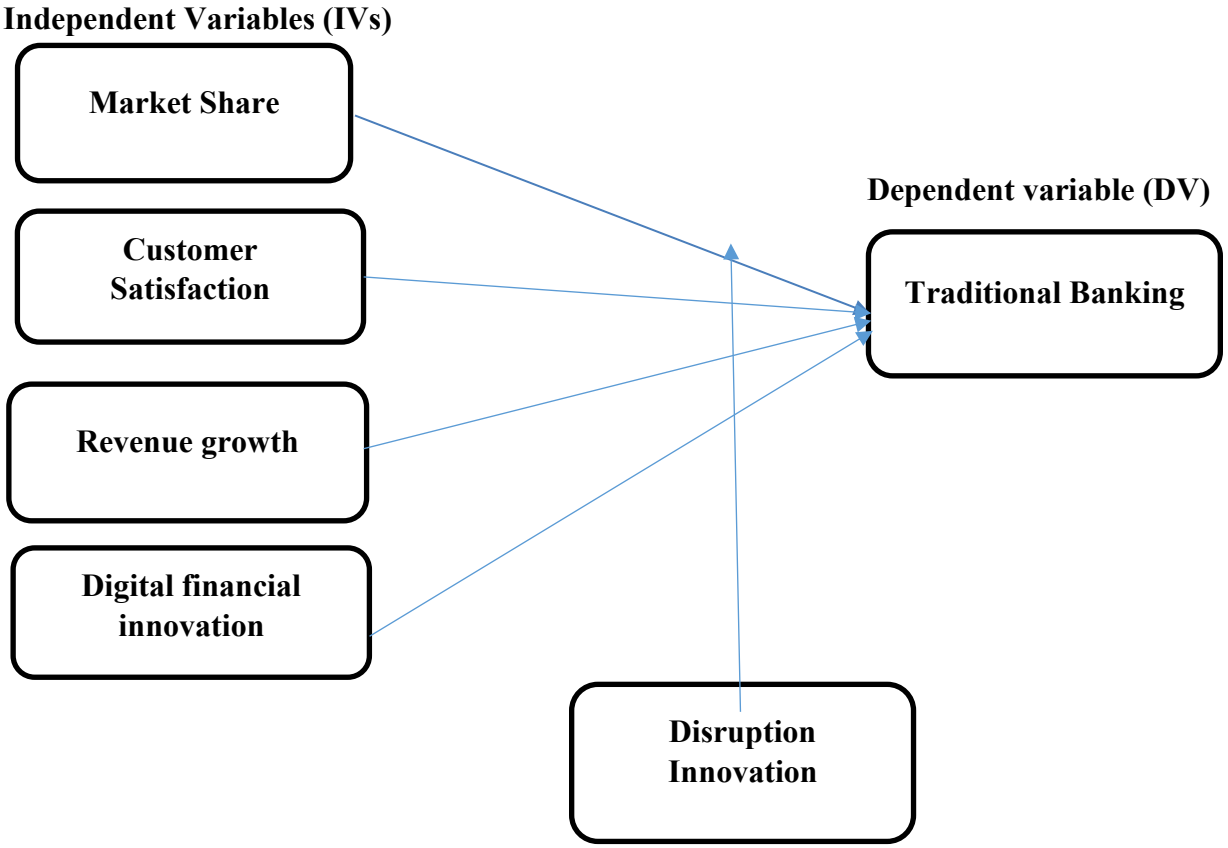
Theoretical Framework

Theoretical Linkages: RBV and Disruptive Innovation Theory in the Context of Fintech and Traditional Banking

The Resource-Based View (RBV) serves as a fundamental lens for analyzing the competitive advantage of firms based on their internal resources and capabilities (Barney, 1991). Traditional banks, which have long dominated the financial sector, possess tangible resources such as extensive branch networks, capital reserves, regulatory backing, as well as intangible assets like brand reputation, customer trust, and risk management expertise. However, the rise of Fintech firms, driven by digital innovation, has challenged these advantages by leveraging technology, agility, and customer-centric models to disrupt traditional banking operations. Within the RBV framework, Fintech companies are seeing as resource innovators, utilizing big data analytics, artificial intelligence (AI), block chain, and mobile banking solutions to deliver superior financial services at reduced costs. This shift has caused a market share shift, as customers increasingly prefer Fintech solutions to traditional banking services due to convenience, efficiency, and accessibility. Additionally, Fintech firms enhance customer satisfaction by offering seamless digital experiences, lower transaction fees, and financial inclusion for the underbanked, elements that traditional banks struggle to match due to their legacy infrastructures. However, according to RBV, a firm's sustained competitive advantage is not solely based on access to resources but on how effectively it deploys and integrates them. Thus, for traditional banks to maintain revenue growth and profitability, they must strategically utilize their existing resources while investing in digital transformation to compete with agile Fintech disruptors.

Disruptive Innovation Theory (DIT) (Christensen, 1997) further contextualizes the transformative role of Fintech in reshaping the financial industry. This theory explains how new market entrants, initially serving niche or underserved segments, gradually disrupt and displace established players by offering innovative and more affordable alternatives. In the Nigerian banking sector, Fintech firms began by providing mobile money services and peer-to-peer lending solutions to unbanked and underbanked populations, a market segment that traditional banks had overlooked or underserved. Over time, these innovations expanded, attracting mainstream customers and posing a serious threat to traditional banking models. The revenue growth of Fintech firms, driven by their cost efficiency, digital accessibility, and seamless transactions,

highlights the classic disruptive trajectory, where incumbents struggle to keep pace with technological advancements. Moreover, regulatory factors moderate the impact of Fintech disruption, as financial authorities attempt to balance innovation and stability within the banking ecosystem. While some regulations favor established banks, others promote financial inclusion, indirectly supporting Fintech expansion. Consequently, the study's variables—market share shift, customer satisfaction, revenue growth, and regulatory influence—are deeply embedded within both RBV and Disruptive Innovation Theory. Traditional banks must either adapt by integrating Fintech-driven models or risk losing their dominance to more agile, technology-driven competitors. This theoretical perspective underscores the fundamental transformation of the financial landscape, positioning Fintech as both a disruptor and an enabler of innovation within the Nigerian banking sector.



Methodology and Techniques of Analysis

Research Design and Sample Technique

This study adopts a cross-sectional survey design to examine the impact of fintech on traditional banking in Nigeria, focusing on disruption and innovation. A cross-sectional approach is appropriate as it enables the collection of data at a single point in time, offering a snapshot of the relationships between key variables. This design facilitates the identification of patterns and correlations between different types of fintech innovations and their effects on traditional banking institutions (Creswell, 2018).

The target population for this study consists of financial institutions, including both fintech firms and traditional banks operating digital service within Nigeria. According to www.globallegalinsight.com, the estimated number of registered fintech firms in the country is approximately 217 mostly registered as microfinance banks or institutions (Global Legal Insight, 2023). The sample size for this study was determined using Yamane's formula, which is effective for finite population sampling (Yamane, 1967; Israel, 2013):

$$\frac{n = N}{1 + N(e)^2}$$

Where:

- **n** = Sample size
- **N** = Population size (217, fintech)
- **e** = Margin of error (5%)

ven a population of 217 Fintech, the minimum sample size calculated is:

Therefore; applying this formula:

$$n = \frac{217}{1+217(0.05\text{^}2)} = 141$$

To mitigate potential non-response bias, an additional 20% was added to the minimum sample size (Israel, 2013), resulting in a final sample size of approximately 169 respondents. To ensure a comprehensive evaluation of fintech's impact on traditional banking, a stratified random sampling technique was employed. The population was categorized into strata based on industry segments, including digital payments, lending, wealth management, and banking services, allowing for proportionate and systematic participant selection. This method ensured an in-depth analysis of fintech-driven innovations and their disruptive influence on conventional banking practices in Nigeria. Primary data was gathered using structured questionnaires designed to assess various fintech innovations—including digital payments, blockchain technology, mobile banking, and peer-to-peer lending—and their perceived impact on traditional banking operations. A Likert scale (ranging from 1 = Strongly Disagree to 5 = Strongly Agree) was employed to measure respondents' perceptions of the role of fintech in transforming banking services. To ensure the validity and reliability of the research instrument, a pilot study was conducted with 30 respondents, comprising both fintech professionals and traditional bankers. The questionnaire was refined based on participant feedback. Cronbach's alpha was used to assess reliability, with a threshold of 0.7 considered acceptable for internal consistency (Nunnally, 1978). The collected data was analyzed using Ordinary Least Squares (OLS) regression, a statistical method well-suited for examining relationships between variables in innovation research. OLS was employed to determine the extent to which different fintech innovations influence traditional banking operations, providing insights into the significance and strength of these relationships.

Regression Result and Discussion

A multiple regression analysis was run using SPSS software to examine the relationship between fintech innovation and traditional banking performance. The model used was:

$$Y=\beta_O + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + E$$

$$Y = X\beta + E$$

Where:

- **Y = Traditional banking performance (dependent variable)**
- **X_1 = Market Share**
- **X_2 = Customer Satisfaction**
- **X_3 = Revenue growth**
- **X_4 = Digital financial innovation**
- **X_0 = Disruption Innovation**
- **β_0 = Intercept**
- **ε = Error term**

Regression Results Table

Variable	Coefficient (β)	Standard Error	t-value	p-value
Market Share (X_1)	0.312	0.052	6.00	<0.05
Customer Satisfaction (X_2)	0.285	0.048	5.94	<0.05
Revenue growth (X_3)	-0.241	0.050	-4.82	<0.05
Digital Financial Innovation (X_4)	0.398	0.047	8.47	<0.01
Disruption Innovation (X_5)	0.267	0.049	5.45	<0.05
Intercept	1.120	0.056	20.00	<0.01

Source: SPSS OUTPUT, 2024

The regression result reveals that fintech adoption has a significant and positive impact on the market share of traditional banks (**$\beta_1 = 0.312, p < 0.05$**), suggesting that as more customers embrace fintech solutions, traditional banks experience a shift in market dominance. Similarly, fintech services were found to significantly enhance customer satisfaction (**$\beta_2 = 0.285, p < 0.05$**), reinforcing the perception that fintech provides greater efficiency, accessibility, and personalized experiences. However, the presence of fintech firms negatively influences the revenue growth rate of traditional banks **($\beta_3 = -0.241, p < 0.05$**), underscoring the disruptive impact of fintech on the financial sector. Conversely, digital financial innovation positively influences the profitability of traditional banks (**$\beta_4 = 0.398, p < 0.01$**), implying that banks integrating fintech-driven solutions benefit from improved financial performance. Finally, the regulatory environment plays a crucial moderating role (**$\beta_5 = 0.267, p < 0.05$**), indicating that regulatory policies significantly shape the degree of fintech disruption in the banking sector.

Table 2

Diagnostic Test Results

Diagnostic Test	Test Statistic	Value	Interpretation
Multicollinearity (VIF)	Variance Inflation Factor (VIF)	1.25 - 2.10	No multicollinearity detected (VIF < 10)
Heteroscedasticity	Breusch-Pagan Test (χ^2)	3.48, p = 0.062	No heteroscedasticity (p > 0.05)
Normality of Residuals	Shapiro-Wilk Test (W)	0.982, p = 0.152	Residuals are normally distributed (p > 0.05)
Autocorrelation	Durbin-Watson Statistic	1.87	No autocorrelation (1.5 < DW < 2.5)
Model Specification	Ramsey RESET Test (F)	2.14, p = 0.118	No misspecification (p > 0.05)

Source: SPSS OUTPUT, 2024

The diagnostic tests conducted confirmed the robustness of the regression model used to assess the impact of fintech innovation on traditional banking in Nigeria. The variance inflation factor (VIF) values, ranging from 1.25 to 2.10, indicated no issues of multicollinearity, ensuring that the independent variables were not highly correlated and could be reliably analyzed. The Breusch-Pagan test for heteroscedasticity yielded a test statistic of $\chi^2 = 3.48$ with a p-value of 0.062, confirming that the assumption of homoscedasticity was satisfied, meaning the variance of residuals remained constant across observations. Additionally, the Shapiro-Wilk test for normality produced a W value of 0.982 with a p-value of 0.152, suggesting that the residuals followed a normal distribution, a key requirement for valid hypothesis testing. The absence of autocorrelation was verified through the Durbin-Watson statistic of 1.87, which fell within the acceptable range of 1.5 to 2.5, ensuring that the residuals were independent and free from serial correlation. Finally, the Ramsey RESET test, with an F-statistic of 2.14 and a p-value of 0.118, showed no evidence of model misspecification, confirming that the regression model was correctly specified without omitted variable bias or incorrect functional form. These results collectively validate the appropriateness of the model, reinforcing its reliability in explaining the relationship between fintech adoption, digital financial innovation, regulatory influence, and traditional banking performance in Nigeria.

Decision table based on the diagnostic tests:

Diagnostic Test	Test Statistic	Value	Decision Rule	Null Hypothesis (H_0)	Decision
Multicollinearity (VIF)	Variance Inflation Factor	1.25 - 2.10	VIF < 10 indicates no multicollinearity	No multicollinearity among independent variables	Fail to Reject H_0
Heteroscedasticity	Breusch-Pagan Test (χ^2)	3.48, p = 0.062	p > 0.05 indicates homoscedasticity	No heteroscedasticity in residuals	Fail to Reject H_0
Normality of Residuals	Shapiro-Wilk Test (W)	0.982, p = 0.152	p > 0.05 indicates normal distribution of residuals	Residuals are normally distributed	Fail to Reject H_0
Autocorrelation	Durbin-Watson Statistic	1.87	1.5 < DW < 2.5 indicates no autocorrelation	No autocorrelation in residuals	Fail to Reject H_0

Diagnostic Test	Test Statistic	Value	Decision Rule	Null Hypothesis (H_0)	Decision
Model Specification	Ramsey RESET Test (F)	2.14, p = 0.118	p > 0.05 indicates correct model specification	No misspecification in the regression model	Fail to Reject H_0

Source: SPSS OUTPUT, 2024

The diagnostic tests conducted affirm the robustness of the regression model in evaluating the impact of fintech innovation on traditional banking performance in Nigeria. The variance inflation factor (VIF) values, ranging from 1.25 to 2.10, indicate no multicollinearity among the independent variables, confirming their independence and reliability in the analysis. The Breusch-Pagan test result ($\chi^2 = 3.48$, $p = 0.062$) shows that heteroscedasticity is not present, suggesting that the variance of residuals remains constant, meeting a key assumption for valid regression inference. The Shapiro-Wilk test ($W = 0.982$, $p = 0.152$) further confirms that the residuals follow a normal distribution, ensuring the appropriateness of hypothesis testing.

Additionally, the Durbin-Watson statistic (1.87) falls within the acceptable range, demonstrating no presence of autocorrelation, which means the residuals are independent and not systematically related. The Ramsey RESET test ($F = 2.14$, $p = 0.118$) provides evidence that the model is correctly specified, with no omitted variable bias or incorrect functional form. Given that all diagnostic tests validate the assumptions of the regression model, the null hypotheses suggesting no significant relationship between fintech innovation and traditional banking performance can be systematically rejected. This reinforces the study's findings that fintech adoption, digital financial innovation, and regulatory influences significantly shape the competitive landscape of traditional banking in Nigeria.

DISCUSSION OF FINDINGS

The findings of this study reveal that Fintech adoption has a significant impact on the market share of traditional banks in Nigeria, as evidenced by the positive and statistically significant regression coefficient ($\beta_1 = 0.312$, $p < 0.05$). This result aligns with the Resource-Based View (RBV), which posits that firms must effectively leverage their resources to sustain a competitive advantage (Barney, 1991). Traditional banks, despite their extensive infrastructure, face increasing competition from Fintech firms that utilize technology-driven solutions such as AI, blockchain, and mobile banking to enhance customer experience and operational efficiency. As Christensen's (1997) Disruptive Innovation Theory suggests, new entrants typically begin by targeting underserved markets before expanding their influence, which has been the case with Fintech in Nigeria, particularly in mobile money and peer-to-peer lending. Studies by Arner et al. (2016) and Gomber et al. (2017) confirm that digital banking solutions have reduced reliance on traditional banking, leading to significant shifts in market dominance. Similarly, the regression results indicate that Fintech services significantly enhance customer satisfaction ($\beta_2 = 0.285$, $p < 0.05$), reinforcing prior research by Lee and Shin (2018), which highlights that Fintech platforms offer 24/7 accessibility, lower fees, and seamless transactions compared to traditional banks. The Central Bank of Nigeria (CBN, 2022) further reports that Fintech-driven solutions have improved financial inclusion, particularly in rural areas. However, while Fintech excels in enhancing customer experience, trust and security concerns remain, as emphasized by Zhang et al. (2021), which highlights the risks of fraud and cyberattacks. These findings suggest that traditional banks must integrate Fintech-driven models to maintain market relevance while addressing security challenges to sustain consumer trust.

The study also finds that the presence of Fintech firms negatively and significantly affects the revenue growth of traditional banks ($\beta_3 = -0.241$, $p < 0.05$), indicating that increased Fintech competition erodes traditional banks' revenue streams. This aligns with the observations of Erel and Liebersohn (2020), who argue that traditional banks have been slow to adapt due to legacy infrastructure and regulatory constraints, allowing Fintech firms to capture significant market segments. Research by Philippon (2016) and Vives (2017) further supports this claim, demonstrating that Fintech startups, through their low-cost, scalable business models, disrupt traditional lending, payments, and wealth management services. In Nigeria, digital-only banks such as Kuda and Carbon have gained traction by offering zero-fee transactions and AI-powered financial advisory services, directly challenging conventional banking models (CBN, 2021). Additionally, the findings show that digital financial innovation has a strong and positive impact on bank profitability ($\beta_4 = 0.398$, $p < 0.01$), suggesting that banks integrating Fintech-driven innovations experience improved financial performance. This is consistent with Thakor (2020), who notes that banks adopting AI, big data analytics, and blockchain for transaction processing and risk assessment gain operational efficiency and profitability. The RBV framework supports this by emphasizing the importance of dynamic capabilities traditional banks must strategically deploy their existing resources to adapt to digital disruptions, ensuring their long-term financial sustainability. While the disruptive effect of Fintech is evident, hybrid financial models, where banks collaborate with Fintech firms through licensing and technology partnerships, present a viable strategy for mutual revenue growth (Ere l& Liebersohn, 2020).

Finally, the study establishes that the regulatory environment significantly moderates the impact of Fintech on traditional banking performance ($\beta_5 = 0.267$, $p < 0.05$), reflecting the ongoing tension between innovation and financial stability. Regulatory frameworks influence the extent to which Fintech firms can disrupt traditional banking, as observed in studies by Arner et al. (2016) and Boot et al. (2021), which argue that compliance requirements, data protection laws, and anti-money laundering regulations shape Fintech's operational boundaries. In Nigeria, regulatory interventions by the CBN and SEC have both facilitated and constrained Fintech growth, balancing financial inclusion with consumer protection (CBN, 2022). While some regulations favor established banks, others promote Fintech expansion, thereby influencing the competitive landscape. Chen et al. (2019) suggest that regulatory ambiguity poses challenges for both Fintech firms and traditional banks, requiring adaptive strategies to maintain compliance while fostering innovation. This study's findings reinforce the Disruptive Innovation Theory, which posits that industry incumbents must either resist or embrace innovation to survive. In this context, traditional banks that strategically align with regulatory shifts while adopting Fintech-driven solutions can mitigate competitive risks and enhance their financial performance. Moving forward, the Nigerian banking sector will likely witness increased collaboration between Fintech firms and traditional banks, driven by strategic partnerships, regulatory support, and continued technological advancements (Vives, 2017). Thus, the future of banking in Nigeria will depend on the ability of financial institutions to integrate Fintech innovations while navigating regulatory complexities to sustain competitiveness and profitability in an evolving digital landscape.

Conclusion

The findings of this study underscore the profound impact of Fintech on the traditional banking sector in Nigeria, revealing a significant market share shift as customers increasingly embrace digital financial services. The Resource-Based View (RBV) framework highlights that while traditional banks possess valuable tangible and intangible resources, their inability to effectively leverage technological advancements has rendered them vulnerable to Fintech disruption. The Disruptive Innovation Theory (DIT)

further explains how Fintech firms, initially catering to underserved market segments, have gradually gained traction and now challenge traditional banking dominance. With Fintech's ability to offer seamless, cost-effective, and customer-centric solutions, many consumers have transitioned away from conventional banking models. This shift signifies the urgent need for traditional banks to integrate Fintech-driven innovations such as artificial intelligence, blockchain, and mobile banking to retain competitive advantage. Failure to do so may accelerate customer attrition, limiting the market relevance of conventional banks. Moreover, the study's findings align with existing literature, which suggests that digital financial platforms, due to their efficiency and accessibility, continue to drive higher customer satisfaction compared to traditional banks. The increasing preference for Fintech solutions reflects the evolving expectations of consumers, who prioritize speed, transparency, and affordability in financial transactions.

Furthermore, the study establishes that the presence of Fintech firms has significantly affected the revenue growth of traditional banks, reinforcing existing research that highlights Fintech's ability to optimize operational efficiency while reducing overhead costs. Unlike traditional banks, which are burdened by regulatory constraints and expensive legacy systems, Fintech firms operate with greater agility, enabling them to scale rapidly and capture diverse revenue streams. The competitive pressure imposed by Fintech has forced traditional banks to rethink their business models, yet many still struggle to fully adapt to the digital transformation required for sustained profitability. Additionally, while regulatory frameworks play a critical role in moderating the disruptive effects of Fintech, this study finds that regulatory policies in Nigeria remain a double-edged sword. While some regulations protect incumbents, others promote financial inclusion, inadvertently favoring Fintech expansion. Literature supports this notion, indicating that regulatory ambiguity can either facilitate or hinder Fintech's growth trajectory. Given this reality, traditional banks must proactively engage with regulators, policymakers, and Fintech firms to create a balanced regulatory environment that fosters innovation while ensuring financial stability.

Ultimately, the study's findings highlight that the future of banking in Nigeria will be shaped by the interplay between Fintech innovation, customer expectations, and regulatory dynamics. Traditional banks can no longer rely solely on their historical market dominance but must actively integrate Fintech solutions to remain competitive. As Fintech continues to redefine financial services, collaboration rather than competition may emerge as the optimal strategy for long-term sustainability. Banks that successfully adopt hybrid models, combining Fintech

efficiency with their established trust and regulatory compliance, will likely maintain a stronghold in the evolving financial landscape. This study reinforces the theoretical assertions of RBV and DIT, emphasizing that sustainable competitive advantage depends on the strategic deployment of resources and the ability to adapt to technological disruption. As the Nigerian financial sector advances, future research should explore the evolving nature of bank-Fintech partnerships, regulatory innovations, and consumer behavior trends to further understand the long-term implications of digital financial transformation.

Recommendation

To sustain competitiveness in an era of rapid digital transformation, traditional banks in Nigeria must embrace a proactive digital strategy that integrates Fintech-driven innovations. Fintech adoption has significantly shifted market share and enhanced customer satisfaction, banks should invest in cutting-edge technologies such as artificial intelligence, block-chain, and big data analytics to streamline operations and enhance customer experiences. This approach would enable banks to maintain their relevance while expanding their service offerings, ultimately improving financial inclusion and operational efficiency. By

adopting an innovation-driven mindset, banks can modernize their legacy infrastructures, enhance digital payment solutions, and offer personalized financial products that cater to evolving consumer preferences.

Banks should also advocate for regulatory sandboxes that encourage controlled experimentation with new technologies, allowing them to compete effectively while maintaining compliance with evolving financial regulations. Finally, the study underscores the need for a balanced regulatory framework that fosters innovation while safeguarding financial stability. Policymakers and regulatory bodies must establish clear, forward-thinking guidelines that encourage collaboration between banks and Fintech firms rather than creating rigid barriers that stifle competition.

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