



## **Journal of Internet Banking and Commerce**

*An open access Internet journal (<http://www.icommercecentral.com>)*

*Journal of Internet Banking and Commerce, March 2024, Vol. 29, No. 2*

### **Cryptocurrency's Role in Financial Inclusion and Bank Disruption**

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**Received date:** 21-02-2024, Manuscript No. JIBC-24-135275;

**Editor assigned date:** 23-02-2024, Pre QC No. JIBC-24-135275 (PQ);

**Reviewed date:** 08-03-2024, QC No. JIBC-24-135275;

**Revision date:** 15-03-2024, Manuscript No: JIBC-24-135275 (Q);

**Published date:** 22-03-2024

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#### **Description**

Cryptocurrency, led by the pioneering Bitcoin, has disrupted traditional banking systems and financial paradigms worldwide. Its decentralized nature, innovative technology, and potential for financial inclusion have challenged the conventional banking model in several ways.

#### **Disintermediation and decentralization**

One of the most significant impacts of cryptocurrency on traditional banking systems is disintermediation. Cryptocurrencies operate on decentralized networks, powered by blockchain technology, which enables peer-to-peer transactions without the need for intermediaries like banks. This disintermediation threatens the traditional banking model, where banks act as central authorities for financial transactions.

With cryptocurrencies, individuals can transact directly with one another, bypassing traditional banking channels. This reduces transaction costs, speeds up settlement times, and increases financial autonomy for users. Moreover, cryptocurrencies offer access to financial services for unbanked populations, who are excluded from traditional banking systems due to various barriers.

### **Competition and innovation**

The rise of cryptocurrencies has sparked competition and innovation within the financial industry. Traditional banks are now compelled to adapt to the changing landscape by exploring blockchain technology and developing their own digital assets and payment solutions. Some banks have integrated cryptocurrency services into their offerings, allowing customers to buy, sell, and store digital assets directly through their bank accounts.

Furthermore, cryptocurrency startups and fintech companies are challenging traditional banks with innovative products and services. These include Decentralized Finance (DeFi) platforms, which offer a wide range of financial services, such as lending, borrowing, and trading, without the need for intermediaries. DeFi has the potential to disrupt traditional banking services by providing more accessible, transparent, and efficient alternatives.

### **Regulatory challenges and compliance**

Cryptocurrency presents regulatory challenges for traditional banking systems, as it operates outside the conventional regulatory framework. Regulators worldwide are grappling with how to regulate cryptocurrencies effectively while balancing innovation and consumer protection. Concerns over money laundering, terrorism financing, and consumer fraud have led to increased scrutiny and regulation of cryptocurrency activities.

Traditional banks face compliance challenges when dealing with cryptocurrency-related transactions. Anti-Money Laundering (AML) and Know Your Customer (KYC) regulations require banks to verify the identities of customers and monitor transactions for suspicious activities. However, the pseudonymous nature of cryptocurrency transactions makes compliance more challenging, as it is often difficult to trace the origin and destination of funds.

## **Financial stability and systemic risks**

The growing popularity of cryptocurrencies raises concerns about financial stability and systemic risks for traditional banking systems. Cryptocurrency markets are highly volatile, prone to speculative bubbles and crashes that can impact investor confidence and market stability. Moreover, the lack of regulation and oversight in cryptocurrency markets increases the risk of fraud, manipulation, and market abuse.

Traditional banks may also face risks from exposure to cryptocurrencies through investments, custody services, or lending to cryptocurrency-related businesses. Market fluctuations and regulatory uncertainty in the cryptocurrency space can affect the value of bank assets and liabilities, potentially leading to financial losses or systemic disruptions.

Cryptocurrency has had a profound impact on traditional banking systems, challenging established norms and fostering innovation and competition. Disintermediation and decentralization have empowered individuals with greater financial autonomy and access to services, while also posing regulatory challenges for banks and regulators.

As cryptocurrencies continue to evolve and gain mainstream acceptance, traditional banks must adapt to the changing landscape by embracing innovation, exploring blockchain technology, and enhancing regulatory compliance measures. Collaboration between traditional banks, fintech companies, and regulators is essential to harness the potential of cryptocurrencies while mitigating risks to financial stability and consumer protection.

Ultimately, the impact of cryptocurrency on traditional banking systems will depend on how effectively banks and regulators navigate the opportunities and challenges presented by this disruptive technology. By embracing innovation and fostering responsible regulation, traditional banking systems can evolve and thrive in the digital age.