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### The Impact of Cryptocurrency on Traditional Bank Industry: A Literature Review

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#### Abstract

Nowadays, there has been a noticeable upsurge in the use of cryptocurrencies, which has coincided with important developments in artificial intelligence technology that have advanced blockchain procedures to new heights of maturity. This convergence has strengthened cryptocurrencies' dependability in addition to making them more feasible. But this development seriously jeopardizes the standing of Malaysian financial institutions, especially in the banking sector. With their ever-expanding range of benefits, cryptocurrencies immediately threaten the established roles

of banks and even provide further advantages. By analyzing the reactions of the financial industry to the emergence of cryptocurrencies can to uncover potential strategies for banks to mitigate the challenges posed by this disruptive technology. Through an examination of relationship among the bank deposit, capital adequacy ratio, and the market capitalization of cryptocurrency, it helps to explore how the adoption of cryptocurrencies may reshape the banking sector and influence macroeconomic dynamics.

**Keywords:** Cryptocurrency, Traditional Bank Industry and Bank Deposit

#### 1. Introduction

The emergence of cryptocurrencies in 2008 with Bitcoin marked a pivotal moment in finance, challenging traditional norms with its decentralized nature and autonomy from government control. Over the years, cryptocurrencies have evolved beyond speculation, becoming integral components of investment portfolios due to their numerous advantages like minimal transaction costs, enhanced security, and real-time settlements. This shift in sentiment has led to a growing trust in their potential and an increase in their proportion within investment portfolios.

This trend poses a significant challenge to traditional banks, as customers increasingly transfer their deposits to cryptocurrencies, potentially reducing bank deposits and threatening the stability of the banking sector. The survival of traditional banks in this evolving landscape hinges on factors like the volume of bank deposits and the Capital Adequacy Ratio (CAR). A robust CAR is crucial for banks to withstand the unique risks associated with cryptocurrencies and maintain financial stability.

Cryptocurrencies also present opportunities and risks for macroeconomic stabilization, as their widespread adoption could diminish the influence of central banks and disrupt traditional banking systems. This dynamic interaction between cryptocurrencies and the banking industry raises important questions about the future of finance, emphasizing the need for further research to understand its implications fully.

#### 1.1 Problem Statement

The rapid advancements in artificial intelligence and blockchain technology have propelled cryptocurrencies to the forefront of finance, posing a significant challenge to traditional banking systems. Cryptocurrencies offer revolutionary advantages such as reduced transaction costs, streamlined fund management, and enhanced security, potentially reshaping the global financial landscape.

These advantages directly address key issues faced by traditional banks, including high transaction costs, security concerns, and limited fund management flexibility. Blockchain integration with cryptocurrencies enables cost-effective cross-border