The financial economics landscape has been significantly transformed by the rapid rise of shadow banks—non-deposit-taking financial institutions—that challenge the traditional banks' informational monopoly. Conventional banks hold a distinct advantage through borrower-specific, non-transferable soft information accumulated over time. However, despite lacking this informational edge, shadow banks have grown substantially over the past decade. This paper explores the comparative advantages enabling shadow banks to thrive and examines whether their growth is driven by technological innovation or regulatory arbitrage.

Two primary theories explain shadow banks' market expansion. The first attributes their success to technological superiority, allowing them to process hard information efficiently, assess credit risk, and expedite lending decisions. The second highlights regulatory arbitrage as a key factor, as shadow banks operate under less stringent regulations than traditional banks. Distinguishing between these drivers is crucial for understanding their implications for consumer welfare, financial intermediation, and long-term market dynamics. While technological advancements promise sustained growth and enhanced credit access, reliance on lax regulations may lead to temporary advantages that dissipate with regulatory tightening.

Existing studies predominantly focus on shadow banks in the mortgage market, which emphasize regulatory advantages due to the market's high regulation, collateralization, and long-term nature. However, this paper broadens the scope to analyze shadow bank dynamics across diverse credit markets, revealing that their comparative advantages vary significantly by market segment. Key findings include:

1. **Uncollateralized markets:** Technology is the dominant factor. Fintech shadow banks leverage digital platforms and cashless transaction technologies to mitigate information asymmetries and respond effectively to demand shocks, particularly in regions with high adoption of cashless systems like India's Unified Payments Interface (UPI).
2. **Collateralized markets:** Regulatory arbitrage plays a leading role. Non-Fintech shadow banks utilize local physical presence and flexible regulatory frameworks to compete effectively with traditional banks.

The research contributes novel insights by distinguishing the roles of technology and regulation across different product types, credit scores, and geographies. It demonstrates that Fintech shadow banks excel in markets where efficiency, convenience, and real-time decision-making are critical, while non-Fintech shadow banks capitalize on regulatory gaps in more traditional lending markets.

Additionally, this study enriches the discourse on the integration of cashless technologies within open banking frameworks, showing their potential to reduce information asymmetries and enhance credit outcomes. These findings offer valuable implications for policymakers and industry stakeholders by highlighting the need for market-specific regulatory and technological strategies to ensure sustainable growth, financial stability, and improved consumer welfare in an evolving financial ecosystem.