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STUDENTS' ECONOMIC FORUM

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To kindle interest in economic affairs...
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Theme 311

"FINTECH"

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SIB STUDENTS' ECONOMIC FORUM

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Theme No: 311: "FINTECH"

A well informed customer will make the policy makers as well as organizations which produce goods and render services more responsive to the customer needs. This will also result in healthy competition among organizations and improve the quality of its products.

The "SIB Students' Economic forum" is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly meeting of the "Forum". This month the topic for discussion is "FINTECH".

Technology and banking have a long close association. Both have been benefitted immensely by this association. Technological developments have been changing the way the banks and financial institutions and their customers interact. These developments have created opportunities for new entrants, not necessarily new bankers, to disrupt traditional business models and penetrate new markets. The plethora of technological products and services have helped emergence of Fintech companies who offer different ways of doing traditional services, that too in more efficient ways.

1. What is FINTECH?

Fintech for short—describes the evolving intersection of financial services and technology. More specifically, we can define fintech as combination of financial services and technological innovations in an ever-changing ecosystem of customer expectations and regulations. Fintech covers diverse areas across banking and financial services into new business models. It encompasses the full gamut of innovations in financial services, where technology is the key enabler.

2. Why there is an enhanced interest in Fintechs?

Fintech is gaining relevance because of two key innovations viz., the Market Place Financing and the Block Chain.

a) Market Place Financing: Market Place Financing is also known as 'Crowd Funding' and generally refers to a method of funding a project or venture through small amounts of money raised from a large number of people, typically through a portal acting as an intermediary. There are numerous forms of crowd funding. Some are charitable donations that provide no financial returns, others, such as equity crowd funding would fall within the domain of financial markets. Person to Person (P2P) lending is a form of crowd-funding used to raise loans which are paid back with interest.

By moving lending online, P2P lenders are able to generate cost advantages compared to traditional financial institutions. Brick-and-mortar offices constitute 30–35% of the total operational expenditure, hence raising the cost of operations. Additionally, traditional loan origination practices are less efficient than those of online market places. This built-in cost advantage enables P2P lenders to offer better prices consistently. This cost-efficient structure and the user-friendly experience are working strongly in favour of P2P lenders.

b) **Block Chain:** The blockchain is a new technology that combines a number of mathematical, cryptographic and economic principles to maintain a database involving multiple participants without the need for any third-party validator or reconciliation. In other words the block chain is an incorruptible digital ledger of economic transactions that can be programmed to record not just financial transactions but virtually everything of value. Block chains are an open, distributed ledger that can record transactions between two parties efficiently and in a verifiable and permanent way.

3. Briefly explain the features of Block Chain?

The blockchain has the potential to disrupt the banking industry to its core through its adoption for storing, lending, moving, trading, accounting, reconciling and guaranteeing money through its consensus ledger, cryptographic security and digital signature.

a) **Storing money:** The traditional mode of storing money/assets will be disrupted through the storage of all assets in future as digital bearer instruments that run on multiple blockchains across the banking network. Digitally signed blocks will maintain an automated audit trail of every single amount of money stored on the network. This will reduce the cost of operations, storage and handling, and also improve transaction time.

b) **Lending money :** Loans against property can be fulfilled easily through the blockchain by lending money/assets against digitally signed property. Smart contract based triggers for loan syndication and disbursement of money against collaterals can be of great use in reducing the time of disbursal and enriching customer experience.

c) **Accounting money :** A typical accounting system follows a double-entry mechanism, where debit and credit entries are recorded on each side of the balance sheet. The blockchain offers triple entry accounting, wherein a third time stamped entry is made. This makes the system transparent and immutable and gives auditors and other stakeholders better visibility into the health of a company.

d) **Remittances :** Remittances usually involve a time lag and intermediary costs, which delays the process and adds significant costs. With its smart contract based algorithms and digitally signed transactions, the blockchain makes money transfer much faster and secure while also reducing the time lag for reconciliation, as the transactions are immutable and audited automatically.

e) **Money trading:** Money trading can be disrupted using smart contracts in a way similar to the one in which lending of money is disrupted.

f) **Money reconciliation**
The blockchain inherently offers reconciliation of assets through its cryptographic hash concept, where every single transaction is immutable and holds a key to the previous transaction. Thus, money is guaranteed and highly secured in the blockchain. This helps banks reduce operational costs considerably and improves regulatory reporting and their management information system (MIS). A fully integrated, full-service blockchain security and technology firm is exploring this property of the blockchain to build solutions for better guaranteeing of money.

4. Briefly explain the opportunities available to Fintech to grow in India?

a) **Increasing financial inclusion:** Fintech play a crucial role in financial inclusion. The push for financial inclusion from the Government helps Fintech lenders, as digital lending platforms can target customer segments that were previously underserved.

b) **High adoption of technology:** Lending is made significantly easier through high adoption of technology, as it helps reach a wider audience when compared to a feet on-street approach. India has already proved itself as being pro-technology. Its high rate of technology adoption can be seen in the penetration of smartphones. India has already overtaken US to become world's second largest smartphone market trailing China, with more than 220 million active unique smartphone users.

c) **Huge working population:** India has a population of more than 1.3 billion and a third of this population is urban. The median age in India is around 27 years, which means that most of the population is working and generating income. Working adults typically adopt technology much faster than the retired elderly. These working adults would have greater enthusiasm to avail the services offered by the Fintech sector.

5. How the Fintech can support the banking Industry?

We can broadly segregate the fintech landscape for banking into three categories:-

a) **Payments and remittances** - Focus on innovative payment solutions in the area of Merchant acquirier Card issuing, Online forex, E-wallets, Money remittances & Mobile/online payments.

b) **Process improvement** - Improve the efficiency of processes to make them more agile and lean in terms of time, cost and people involvement, in terms of Compliance and risk management, Fraud detection, Cyber security, High frequency trading etc.

c) **Customer engagement** - Target customers by enhancing customer experience and convenience, leading to self-consumption of banking services rather than dependence on standard modes of transactions. For example:- Mobile banking, Internet banking, P2P lending, Price comparison website & Online marketplace.

6. Why Fintech is required now?

The changing customer behavior demands the emergence of Fintech

a) Demographic and social changes

- Current generation thrives on social media
- High preference for mobile solutions
- Preference for self-service

b) Rapid urbanisation

- Larger concentration of population in urban areas
- Pay-as-you-use model
- Personalised service

c) Shift in global economic power to emerging markets

- Rising middle class
- Rising disposable income

7. What is the future of Fintech in India?

The global Fintech sector is expected to become $45 billion in value by 2020, growing at a Compounded Annual Growth Rate (CAGR) of 7.1%. India would play a critical role, given that the backdrop is highly supportive. The Indian Fintech market is expected to reach $2.4 billion by 2020. Fintech has bright growth prospects. One of the factors that could propel the growth further would be partnerships between this dynamic sector and the experienced traditional banking sector.

While banks can offer voluminous amounts of money for lending purposes, Fintech companies bring technological expertise, customized credit products and advanced data analytics to the table.

The Fintech sector has young businesses that need help in reaching their true potential. Incubators and accelerators can mentor these businesses and assist them in competing against the big players in an extremely challenging environment.

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