FINTECH DISRUPTION-PRESENT AND FUTURE

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Abstract

The world has seen a dramatic change in our everyday lives due to the advancements in technology. Every one of us has been affected or influenced with the latest technology in a variety of ways. The financial services industry is no different and over the past decade it has witnessed reforms in regulation and the way in which traditional financial services interact with consumers.

FinTech covers digital innovations and technology-enabled business model in the financial sector.FinTech is already growing industry as hundreds of new start-ups design new innovative financial products and services for customers. These new entrants are challenging the traditional financial services model or framework.

An attempt has been made to further look into the financial services industry and gain a much greater insight into where the industry was before and where it is now and where it's going in the future.. One of the key objectives is to understand whether FinTech will disrupt the financial services or it will collaborate with the existing providers.

KeyWods-Fintech, Fintech Disruption,Financial Services,Fintech Fims

Introduction

"FinTech noun: An economic industry composed of companies that use technology to make financial systems more efficient. " (McAuley, D Wharton FinTech, Online 2014)

FinTech is not a financial services innovation - it is a technology innovation directed at Financial Services. Financial technology', or FinTech, refers to the use of technology to deliver financial solutions. Digital technologies are transforming how small businesses access finance and from whom.

With a population of around 1.3 billion, India is a growing market for Fintech. A large percent-age of unbanked or under banked population and the fact that it is a young nation witnessing high growth in digital penetration, makes India an exciting global space for Fintech.

With over half a billion dollars flowing into startups, Fintech in India has grown rapidly in the last three years and the segment is expected to grow further. Banks and financial institutions have taken note of this and are actively participating in the ecosystem. The government and regulators have also taken several initiatives to boost the Fintech ecosystem and provide startups with new opportunities to launch competitive products.

Fintech in India is unique because it is young, growing rapidly, and is fuelled by a large market base. With internet penetration and mobile usage expected to increase rapidly from 53% in 2014 to 75% by 2020, India provides an attractive market for technology startups.

The financial services market in India is largely untapped – 40% of the population is currently not connected to banks and more than 80% of the payments in India are still made by cash. This untapped Indian Fintech market provides a robust opportunity to significantly increase demand in almost every category – consumer lending, insurance, trade finance, digital payments and many more. In each of these areas, new Fintech solutions can help the market to grow significantly.

FinTech can be categorized in many ways, with different analysts taking different approaches for different reasons like fintech in-

- Corporate banking solutions
- Cyber-security and anti-fraud
- Data solutions
- Insurance
- Lending
- Money transfer (including forex)
- Payments
- Risk Management
- Trading systems
- Treasury management
- Wealth, Asset and investment management

Literature Review

Roy S.Freedman (Freedman, Roy S, 2006 pg 1). discusses in his book Introduction to Financial Technology what he perceives financial technology to mean. The author describes financial technology with being concerned with building systems that model, value and process financial products such as bonds, stocks, contracts and money.

Arner et al. (2016) illustrate the evolution of FinTech through three major eras: FinTech 1.0 (1866–1967);FinTech 2.0 (1967–2008); and FinTech 3.0 (2008–present). The authors argue that the advent of the first transatlantic cable in 1866 allowed the initialcombination of finance and technology, culminating in the first period of financial globalisation. Driven by smartphone and application programming interfaces (APIs) and further catalysed by the 2008 global financial crisis (GFC), we are currently in stage 3.0 of FinTech in developed countries andFinTech 3.5 in emerging markets. This paper further argues that the critical difference in FinTech 3.0 lies in who is providing financial services and the speed of development. Examples in FinTech 3.0 are Wealthfront in 2008, which provides online automated investment services; Kickstarter in 2009, which introduces the reward-based crowdfunding platform; and the Bitcoin in 2009, which aims to reform the mobile payments solutions. In emerging markets in Asia and Africa, FinTech 3.5 examples are mobile money such as M-Pesa in Kenya in 2007, SME loans such as Alipay in China in the year of 2010 and new payment banks such as Fino PayTech in India.

KPMG, and Matchi (2016) the research developed by H2 Ventures, is instrumental in defining "what" fintech initiatives are delivering. It provides also some insights about the most innovative and disruptive companies from a global perspective. The research has taken into consideration the 50 leading fintech and emerging stars companies, chosen based on their overall potential from along-term perspective. In this research its well explained "what" fintech initiatives are delivering to their user.

R. Jesse McWaters – World Economic Forum, Lead Author(2017) Beyond Fintech: A Pragmatic Assessment Of Disruptive Potential In Financial Services he reflected on the changes in the financial system and new challenge for the financial system in the form of fintech Report also focused on how new entrants rapidly reshape with fintech and how financial products were structured, provisioned and consumed and reshaped with implications for customers, regulators, incumbents and every other stakeholder in the financial system.

According to the Accenture report, two clearly identifiable approaches are being taken by

FinTech companies and banks alike. ***Collaborative FinTech ventures*** – those primarily targeting financial institutions as customers – seem to be gaining ground over ***Disruptive ventures*** – those that enter the market to compete against those institutions. The Economist Intelligence Unit agrees that the most likely scenario for success in the next five years involves symbiosis. Many of the banks surveyed for this report agree, either partnering with FinTech companies or buying them in completely.

Michael Jordaan, former First National Bank CEO (South Africa) says, traditional banks can be quite good at incremental innovation, but generally fail at radical innovation, especially if such radical innovations threaten existing profit streams. He believes that the acquisition of FinTechcompanies by large banks has proven to have market traction. Dirk Klee, COO of UBS Wealth(Switzerland) sees things differently, preferring to partner with external FinTech startups. Bothagree, though, that engagement is the key. Banks cannot do this with existing resources.

Objectives of the study

1. To understand the concept of Concept of Fintech

2. To understand the role played by fintech companies in financial Markets

3. To find out fintech is a disruption or innovation for financial industry.

FinTech Distruption

Fintech is used to describe new tech that seeks to improve and automate the delivery and use of financial services. At its core, fintech is utilized to help companies, business owners and consumers better manage their financial operations, processes and lives by utilizing specialized software and algorithms that are used on computers and, increasingly, smartphones. Fintech, the word, is a combination of "financial technology".

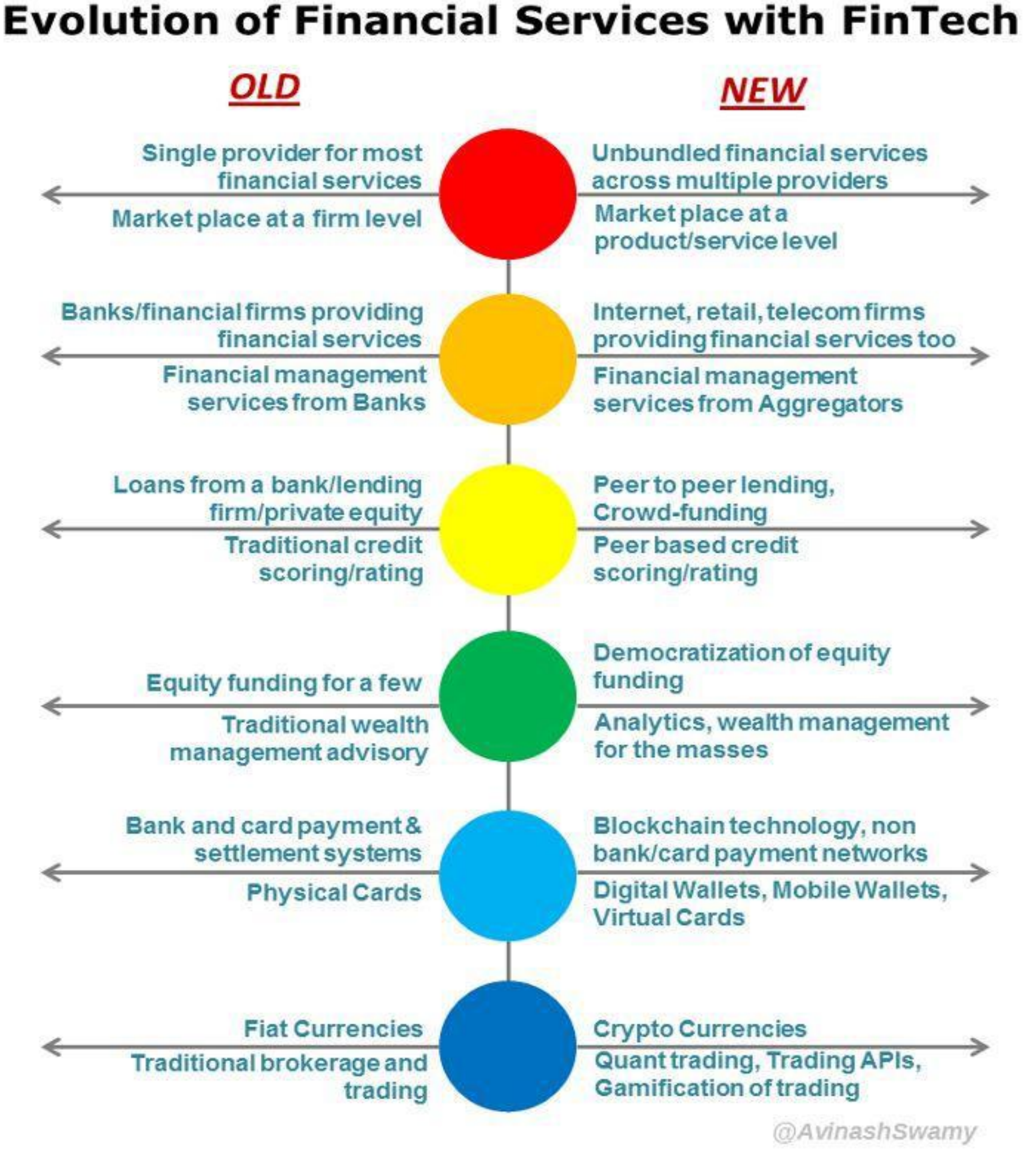
When fintech emerged in the 21st Century, the term was initially applied to technology employed at the back-end systems of established financial institutions. Since then, however, there has been a shift to more consumer-oriented services and therefore a more consumer-oriented definition.Fintech has expanded to include any technological innovation in — and automation of — the financial sector, including advances in financial literacy, advice and education, as well as streamlining of wealth management, lending and borrowing, retail banking, fundraising, money transfers/payments, investment management and more.

Fintech Disruption- We can define here disruption here as Competion, healty Competion or Innovation

Richard Baldwin, one of the world's leading globalization experts, argues that the inhuman speed of this transformation threatens to overwhelm our capacity to adapt. When technology enables people from around the world to be a virtual presence in any given office, globotics will disrupt the lives of millions of skilled workers much faster than automation, industrialization and globalization disrupted lives in previous centuries. What measures will people and governments take in response to such a tectonic economic and cultural shift? How do we avoid the prospect of undermining the very foundations of prosperity?

Recent FinTech innovations and technologies.

- Peer-to-peer financing
- Cognitive AI
- Digital-only banks
- Mobile payments
- White Label Banking
- Telematics (Insurance)
- RegTech
- Virtual and crypto currencies.
- Web-based financial planning tools
- Finacial Learning



Fintech Disruption has took place in following areas of investment, borrowing and lending

Payments - Payments-Payments have continued their migration to digital channels in the face of geographically varied adoption of mobile payment and declining profitability

Peer to Peer Lending & Crowd-Funding – Peer-to-peer lending, borrowers take loans from individual investors who are willing to lend their own money for an agreed interest rate.

Crowd funding can be defined as "an open call, essentially through theInternet, for the provision of financial resources in order to support initiatives for specific purposes"

Block chain -(shared,distributed digital ledgers) Block chain can be defined as a decentralized, transactional database that enables validated, tamper-resistant transactions across a large number of participants (i.e. nodes) in a network

Cryptocurrencies and digital cash-Bitcoin is payment network using peer to peer technology which operates without any central banks. Bitcoin and cryptocurrency is a digital currency and this is issued by the network. When we look at how the federal reserve system where governments can control currency through printing money however; they cannot control crypto currency as this is decentralised. The downside to Bitcoin or cryptocurrency is that although it is not issued by banks nor is it guaranteed by banks

Robo-Advisors - Robo-advisors or robo-advisers are a class of financial adviser that provide financial advice or investment management online with moderate to minimal human intervention. They provide digital financial advice based on mathematical rules or algorithms. These algorithms are executed by software and thus financial advices do not require a human advisor. The software utilizes its algorithms to automatically allocate, manage and optimize clients' assets.

India is the only Fintech hub that provides ample opportunity to target large unbanked population. Coupled with the growing young population who readily accept new technologies, India makes an attractive destination for Fintech startups.

The difficult exercise to change consumer behavior towards accepting Fintech solutions is already underway.

The broad level of technical education provides India with a strong talent pipeline of a comparatively cost efficient and easy-to-hire tech workforce.

India has the second biggest startup ecosystem in APAC after China measured in deal size and number of deals.

Overall, India is confidently moving up the Fintech ladder and provides plenty of opportunities for Fintech startups to enter the diversified market and be successful provided a careful solution-customer match and a strong go-to-market strategy is in place. The two broad segments where Fintech is most active in India are payments and lending. Out of the more than 600 Fintech startups currently active in India, around 40% are payments and lending startups.

Future of Fintech Disruption

Fintech firms will revolve around customers' choices. For instance, as we develop and start saving money, we will have the instant and personal choice to delegate our money management.

The banks of the future will be on smart phones. For example, your phone will keep abreast of current investment opportunities and present them to you on an instantaneous and ongoing basis. Many FinTech offerings will be developed In thedeveloping world, for older feature phones as well (e.g. M-Pesa).

Robo-advisers will prevent you making unsound financial choices, in real time. For Example, if you attempt to over-trade in company shares, an automated Know Your Customer and Suitability Tool will prevent you from doing so. If you make an impulse buy of, say, a jacket that you don't really need (the tool knows what jackets you already have), it will tell you what you're trading off in terms of future savings for your Pension or your children's education.

Powerful algorithms will monitor the behaviour of a bank's data to identify external And insider security threats.

Banks could become identity brokers, analysing and using the information they Know about their clients, and giving that insight over to customers or other vendors for specific products and services.

Banks will be replaced by platforms run almost entirely by algorithms and robots – they will essentially become technology companies that mediate information

The bank account of the future will be bank-agnostic: an open ecosystem where all your current and future financial needs are managed. Bank accounts will be like your cell phone number, you retain your number from one bank to another.

Block chain technology will be widely used to distribute, verify and record a wide range of financial services, making the financial system more decentralized

Social trading will become widespread, with lending, borrowing, and trading on Social network platforms. Face book will lead the way with money transfers, foreign Exchange and payment options embedded in the social platform.

Decentralized and crowd sourced loans, mortgages, and risk management products Will become the norm. Traditional middlemen will be cut out, with institutional investors providing funds to consumers or businesses directly through online Platforms.

Findings and conclusions

Innovation in financial services has been growing across the value chain – from product development, packaging, and delivery, to services. Technological advancement coupled with commoditization trends has led to the development of a new crop of nimble firms providing services in each segment of financial institutions offerings. Fintech startups are redrawing the traditional approach to banking services. However, the ability of these startups to match and – in many cases – surpass the offerings and trust the consumer has built with a bank will be a KPI in the long term.

India, the fastest-growing economy of the world is also home to the second-largest number of Fintech startups in APACwith China leading the pack. The growth in Fintech solutions has seen huge uptick in the last couple of years. This is further expected to grow with the renewed interest from banks and regulatory bodies. Banks have started to actively participate in the Fintech boom by looking for partnerships and investments with startups while the government and regulators are drawing new frameworks and policies that incentivize innovation and entrepreneurship.

Swiss startups have ample opportunities to extend their offerings and establish their presence in India. Below are few key pointers to consider:

India provides a vast user base to startups as the population is rapidly adopting digital technology and hence, the scope for digital services is set to increase.

India, being the home for outsourcing and captive services for decades, offers a huge number of fresh talent and installed talent which Swiss startups can capitalize on.

Indian banks and majority of the large global firms have opened their Fintech innovation hubs and accelerator programs in India. This is further set to increase as this trend has started only in 2016.

Government and regulatory bodies have developed a strong financial infrastructure that is being leveraged for Fintech innovation. Also, there have been multiple policies and initiatives aimed at promoting financial inclusion and innovative banking services.

The need for consumer education, building trust, and getting the right licenses would be the major building blocks to starting up in India.

Overall, India offers a huge market for Fintech that is ripe for disruption. With rising financial awareness, any startup that comes to India would need to strike the right balance between their product and the market, invest in customer education, develop innovative business models and build Fintech in India.

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