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FINTECH: OPPORTUNITIES AND CHALLENGES

Isha H. Tanna

Bcom, Mcom, NET

Assistant Professor

Harivandana College, Rajkot (India)



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ABSTRACT:

Financial Technology (FinTech) is a technological alternative of all kind of banking as well as financial services. It is an emerging concept in financial industry which has been introduced in India just before 2 to 3 decades. This paper mainly contains opportunities, benefits and challenges of FinTech in India along with future perspectives. It also contains tools of FinTech as well as current stake of FinTech in banking activities. As FinTech provides digitalized transactions with easiness it has been proving more user friendly with passing of time. India is one of the fastest growing countries in all sectors in which finance industry is not an exception. More adoption of FinTech and its tools is going to change the perspectives, habits and behaviour of Indian financial industry.

KEY WORDS: Financial Technology (FinTech), Artificial Intelligence, Future Perspective, Financial Services, Challenges, Opportunities

INTRODUCTION:

There is only one thing in the world which is constant, 'Change'. From last few decades the world in changing so fast that it is really difficult to survive in the market if one fails to adopt the change. This change is not limited to one unit/organization/industry/country. It can be seen in each and every activity human beings perform in day-to-day life and at work place. If we see the major change in all the activities, it is of technology. In today's life style, there is not even a single/smallest sector exists, which has not been affected by the technology.

Among all the sectors, 'finance' is one of the fastest changing/growing sectors. Almost all the financial activities have been transmitting from traditional method to modernized method of financial activities. This method is to be digitalized and use technology for the any activity related to finance and its management. This combination of finance with technology is known as Financial Technology. Popular abbreviation for the term financial technology is "FinTech".

FinTech is the technology and innovation which aims to compete and change the traditional financial methods in the delivery of financial services in virtual form. It improves activities related with the finance with the help of technology and making it more user-friendly. Use of smart mobile phones for financial services like net banking, mobile banking, borrowing, investing are few examples of technologies aiming towards the digitalization of finance.

According to a report by Ernst and Young in the year 2016; "Capital market: Innovation and the FinTech Landscape" identified 9 technologies that individually or collectively, facilitates current and future FinTech innovations:



Cloud Technology



Process and Service Externalization



Robotic Process Automation



Advanced Analytics



Digital Transformation



Block Chain



Smart Contracts



Artificial Intelligence (AI)



Internet of Things

1. Cloud Technology: It is an on-demand availability of computer system, without active management by the user especially for computing and cloud storage. The term cloud computing is used for the description of data centres which are available to number of users over the internet.

2. Process and Service Externalization: The basic meaning of externalization is to share resources of business with partners or suppliers or customers or any other channels. In other words, this term means to share some activity of business organization with the person or professionals who are expert in the same and to minimize the work burden of business by increasing the productivity of business.

3. Robotic Process Automation: It is a kind of technology which allows a person to configure



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computer software to integrate the actions of human-beings interacting within systems to perform business activities.

4. Advanced Analytics: It is a term used for the group of analytical tools and methods which are useful to get more and much specific information from the data.

5. Digital Transformation: It is an adoption of technology to transform business activities and services from manual to digitalization. This replacement from non-digital to digital is known as digital transformation.

6. Block Chain: To make the system so secure that it becomes almost impossible to change or hack the system, is known as Block Chain.

7. Smart Contracts: A computer program or a transaction protocol which is aimed to execute, control or document legally relevant actions automatically, according to the contract or an agreement, is known as a Smart Contract.

8. Artificial Intelligence: Simulation of human intelligence in the machine to be programmed to think and do activities just like human beings, is, what is called Artificial Intelligence (AI). This term can be used for any machine which exhibits actions like human mind.

9. Internet of Things: Internet of things means a network of physical objects or things which are connected with the sensors or any other technology for the exchange of the data with other systems via internet.

METHODOLOGY:

Presented paper is based on secondary data and the data presented over here, is collected from the internet via research papers, journals, and opinions of other authors on the same subject matter.

OBJECTIVES:

The objective of this paper is to understand FinTech in a broader manner, let the readers know about the opportunities in emerging trend of Finance industry as well as aware the readers about the challenges they may face while entering or dealing in financial technology. Moreover, an attempt has also been made to describe the tools of finance and current stake of FinTech in banking activities.

WHAT IS FIN-TECH?

Financial Technology popularly known as FinTech is a system or programs and technology used to support banking and financial services. In other words, this term used to describe new technology which seeks automation of delivery and services of finance. Simply, we can say that combination of Finance and Technology is known as Financial Technology. Core objective of FinTech is to be useful to the companies, customers' banks, government and other parties to smoothen their financial operations and processes with



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the utilization of specialized software, application and algorithms via computer, smartphone or any other personal devices.

Earlier, when FinTech first introduced to the market, application was limited to the financial institutions only but now it contains the very broaden sense and it has been becoming more consumer oriented with passing of time. Now it is applicable and useful to many sectors like; banking, investment, education, fundraising etc.

The understanding of FinTech among people is generally limited till the online transactions and net-banking or online banking services. But in the real sense FinTech contains much broader sense than this. If we try to understand this in simple words, we can elaborate that when any activity related to “finance” is done with the help of technology, it can be known as Finance. Here, the term ‘any’ can contain; online transaction, investment, fundraising, financial advising, financial management, financial advising and any other activity which include even least finance.

TOOLS OF FINTECH:

FinTech has been already revolutionizing traditional methods of doing any activity related to finance. FinTech entrepreneurs are also challenging financial services industry in many forms. Let’s understand the tools of FinTech which are affecting and which will affect more to the traditional financial industry in the coming years.

- 1. Block-chain:** Earlier, there was a need of third party for the validation and execution of a contract. Now block-chain has come which has replaced the third party with the cryptographic security. It has been spread in some sectors but it is expected to spread in many more or almost all sectors the sectors.
- 2. Alternate lending:** Bank found it costly to lend to the small entrepreneurs. FinTech entrepreneurs grab this opportunity smartly and collect the small lenders and borrowers on web platform and name it a peer-to-peer lending. This web platform brings lenders and borrowers together and avail the low interest loans.
- 3. Robo-Advisory:** Before there were intermediaries between stock market and investors for the easiness of investors to take decision for their money to be invested. Many times it has turned into inefficient transaction. Robo-Advisory is a digital platform which gives the investors advice about where to invest their saving as per their expected return and risk bearing capacity. It has been making it easier for the investors to access and find the best investment decision from the available options. This process is easy to access, transparent and accessible for investors. It also gives value addition to the smart investors.
- 4. Digital payments:** Nowadays it is possible to pay any amount of bill with just few touches of buttons with the help of digitalization of payment applications and internet bank. This is one of the important gifts of the FinTech only. Mobile wallet is taking place of traditional wallets very quickly day by day it will become easier to be accessed and used.
- 5. Insurance Sector:** Currently, there are many online market places available for the consumers to compare their insurance plans and select accordingly. It is very important as not every consumer is

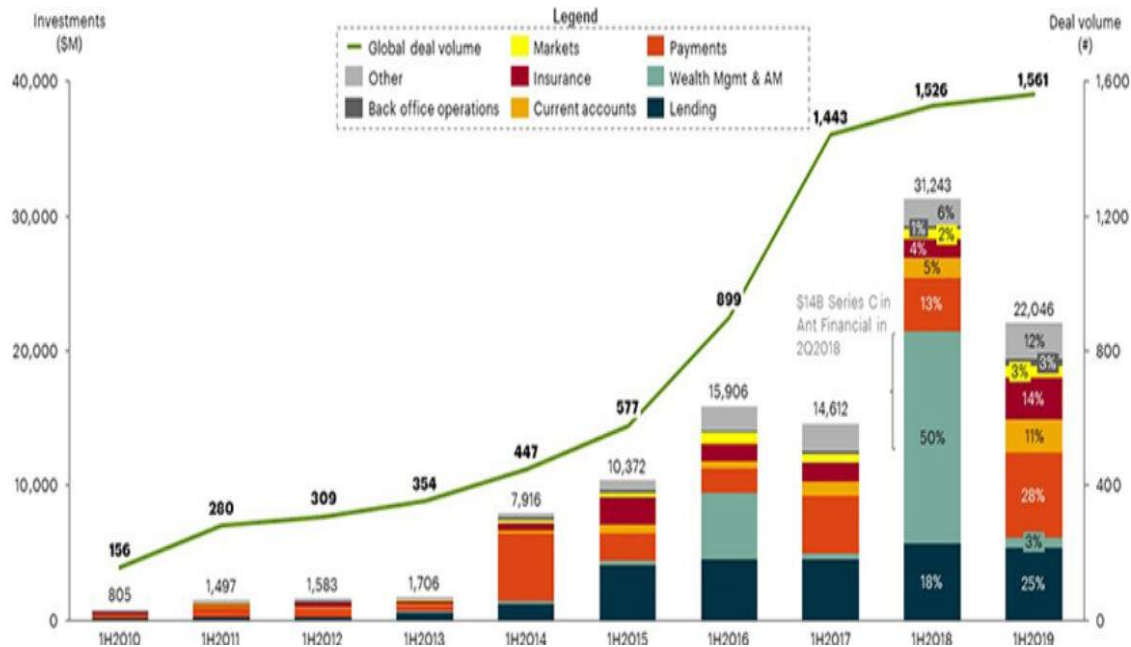


having knowledge of analysing various insurance plans in the perfect way. FinTech has been making it easier by providing service of automation for doing the same activities. It has decrease the cost but increase the length and width of available market products.

GLOBAL FINTECH FINANCIAL ACTIVITY:

GLOBAL FINTECH FINANCING ACTIVITY BY PRODUCTS

TOP 3 PRODUCT CATEGORIES BY FUNDING IN 1H2019 WERE PAYMENTS (28%), LENDING (25%) & INSURANCE (14%).



From the above figure, we can say that Global Investment in FinTech venture in showing only upward trend from 2010 to 2018 but it can be seen falling in the first half of the year 2019. The reason behind it was downfall of fundraising and deal activity in China had soared a year which was partial offsetting the strong gain in US UK and some other European countries (According to Accenture analysis of data and from CB insights, a global venture analytics firm and a global venture finance data).

In the first half of the year 2018, value of FinTech deals globally till 30th June was of USD 31.2 billion. The same in the first half of the year 2019 was USD 22 billion. It shows the decline of approx. 29%. This result was mostly due to lack of some giant deals. One of them is discounting the deal of Ant’s financial of USD 14 billion. This only could give the 28% climb in FinTech investments.



CURRENT STAKE OF FINTECH IN BANKING SERVICES: (Till 2017)

Adoption rate of FinTech among 10 different country markets:

Countries	Percentage
China	69%
India	52%
United Kingdom	42%
Brazil	40%
Australia	37%
Spain	37%
Maxico	36%
Germany	35%
South Africa	35%
United States	33%
AVERAGE	33%

From the above tabular data, we can analyse that almost more than 30% transactions or services are digitalized and people are adopting more and more innovation for their finance and financial activities. This technology is adopted in China with the highest percentage of about 70. It means that any minor or major changes in China’s economy will affect the economy of any other countries more or less as in this aspect China is far better than any other countries. You could see it in above point, Global FinTech Financial Activities, which shows that some transactions in China resulted to fall in investment in FinTech about 29%. It is noticeable that every country is positively adopting new financial technology and world is growing nicely by the same.

It is very positive and noticeable figure that India has adopted about 52% of this technology which is 2nd highest among above taken countries. It shows the growth of India through this technology and it can also attracts foreign investments as well as students for the future opportunities.

OPPORTUNITIES/GROWTH POTENTIAL OF FINTECH IN INDIA:

Various studies and reports have stated and suggested various opportunities and benefits of FinTech for the financial industry from different aspects. These opportunities are related to market integrity, financial inclusion and competition, consumer and investor protection and in addition with this it also provides opportunity to co-ordinate and co-operate to avoid duplication of work and reap synergy from the various efforts at the multinational level. Following are some opportunities of FinTech in India:

- ✚ Greater capital access can be seen as small lenders and borrowers are able to lend and borrow from one another. Also important for SMEs who don’t have bank loan access and opening new possibilities for accession of equity finance.
- ✚ FinTech has made it possible to reach financial services to the under-served groups also. Technology is flexible enough to reach remote locations. Basically FinTech platforms are targeting larger sized trades and shifting towards the more executable orders. Inclusion of assets is also another opportunity of FinTech. A good example of which is DLT (Distributed Ledger Technologies) which in turn, provide the advantage of securitization which makes the products available for trading and



collateralisation.

- ✚ Banks are now able to provide their services to the consumers in the more cost effective ways.
- ✚ FinTech provides cost advantage as FinTech firms offers lower transaction costs with faster banking services. Sometimes speeding up the transactions also minimizes the cost. Some costs can be avoided by doing payment immediately. With this service, in business world, players can also get more cash discounts.
- ✚ Banks have to update the services as new players and competitors are coming in markets. This helps to reduce the systematic risk.
- ✚ Upgraded technology is also helping FinTech to fulfil its regulatory requirements and to take care of the consumers. It can also improve their compliance and risk management in more effective ways.
- ✚ One of the most important developments of FinTech is its security which is through block-chain. It provides encryption and links between the blocks. Moreover, it saves the data from duplication, theft of data or the misuse of the same.

BENEFITS OF FINTECH IN FUTURE:

With the passage of time, FinTech is becoming a mainstream and more and more commercialized. With this, it needs to be regulated more precisely by number of different federal and state regulators. It has also been becoming a major source of creating job and attracting more start-ups with its growth.

Countries in which higher acceptance of FinTech has been seen and more start-ups are taking place, like New York, have begun implementing more protection for their consumers by co-ordination and co-operation of FinTech start-ups and government department for the finance.

India is also one of the major adopters of FinTech which has created very abundant impact on the economy.

CHALLENGES AND FUTURE PERSPECTIVES:

Like any coin has two sides, FinTech is not the exception from it. With the opportunities and future benefits, FinTech is also having some challenges. With lots of easiness and transparency, it is also having tactical and strategic risks. Some of the challenges which the FinTech start-ups are facing/will face in future are as under:

- ✚ Regulatory transparency is one of the very big challenges the FinTech is facing.
- ✚ Adoption of other techniques of FinTech like; crypto-currency, block-chain management etc. has not been done at its fullest.
- ✚ This industry is also facing challenge in new start-ups as these kind of start-ups are facing difficulties in rising or growing phase of the business cycle.
- ✚ Adoption and collaboration of fintech firms are at the lower ratio but positively it is moving upward.
- ✚ More acceptance of digitalization in fintech industry has been done after the demonetization. It seems like government itself encouraging people to use cashless transaction, adopt mobile and net-banking and become more technology friendly.
- ✚ Link of UPI, BHIM, eKYC etc had restructured the financial sector in India. As per one research paper, after the demonetization of the notes of 500 and 1000, digital transections has raised approx.



22% in India. Fintech startups, websites and applications experienced much more traffic after this event and it led to more growth of FinTech start-ups in India as people saw more opportunities to grow in this field.

- ✚ Various changes has been come in Indian economy, financial structure of Indian banks and institutions related to finance are also changed as well as digital wallet and digital transactions are becoming mandatory for the transfer of payments.
- ✚ Integration of information technology with the financial sector led to the increase in the value of block-chain, crypto-currency etc and this led to faster transections of digital payments.
- ✚ Many governments policies are also in favour of digital finance firms and RBI is also allowing an easy way to start a FinTech start-up. As government allowing financial assistance to the FinTech start-ups upto 1crore people are adopting digital currency in personal as well as professional use.
- ✚ HDFC and Federal banks are the examples of acceptance of FinTech positively in banking sector as these banks has linked their digital transactions with small FinTech start-ups in India. It has led to growth of even small FinTech start-ups.
- ✚ Digitalization of transactions of finance has been saving the time as well as cost of the customers. It is having more and more attention by the people in the country as it is more transparent and user friendly.

CONCLUSION:

FinTech is such an innovation through which the entire world is experiencing new and different techniques of transactions and services related to finance. Banks and financial institutions have whole market of willing as well as able customers to offer them better financial products and services at lower cost. It is very clearly known that lower cost always attract the customers even before better quality. As per one research about half of the population in India adopting the advancement of financial inclusion. In today's era, technology is the chief equalizer as it has created number of new flows of trade for market which are overlooked till the date. One example with which we can understand this is; subscription of cell-phone which has increased and crossed the one billion. This shows that people are adopting digital services and connecting to the good.

It is also noticeable here that, government of the country is also supporting this innovation and modernization in financial sector. There are number of policies which support and promote FinTech start-ups in India which must not be overlooked. RBI is in continuous efforts towards secure payments and develops a less-cash system by publishing lesser cash which highlights the need for development and innovation in payment space. Now India has one of the best digital infrastructures for the universalization with the layer of Jan-dhan, Aadhar and Mobile. Here, we can say that India has become Data Rich Country from the Data Poor Country. Moreover, under GST network, a company can upload nearly 2.75 billion invoices every month and government will have real time economic data 24*7. Of course, such a big change is not and will not be free of complications.



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