INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT AND ALLIED SCIENCES (IJBMAS)
A Peer Reviewed International Research Journal
www.ijbmas.in
ISSN: 2349-4638
Vol.5. Issue.S2.2018 (Nov)

EMERGING CHALLENGES AND OPPORTUNITIES OF FIN-TECH SECTOR

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Abstract

Global economy, growing importance of innovations as well as wide use of technologies has changed the financial services business worldwide. Financial technologies (FinTech) have become an integral part of financial institutions, and nowadays banks have started to compete beyond financial services facing increasing competition from nonfinancial institutions. Technology has been a key enabler in the growth of a digital economy. Over the years, Indian banks and financial services providers have gradually adopted technology to improve reach, customer service and operational effectiveness with evolving market and technological advances. However, the pace of technology adoption has not been commensurate with it's potential and hence there have been gaps in the penetration of financial services. The rapid rise of FinTech has changed the business landscape in financial institutions asking for more innovative solutions. Some members of the financial services industry see the boom in FinTech as a threat to traditional banking industry. Others believe that FinTech has become a challenge that can be turned into an opportunity as it provides more flexibility, better functionality in some areas, and aggregation of services. The aim of the paper is to analyze the recent trends in financial services, identifying emerging opportunities and challenges of FinTech sector. This paper provides an extensive study of recent trends in FinTech in financial services based on the secondary data. To Conclude FinTech in India remains very promising. Financial inclusion and the digitalization of services in the industry are likely to boost investment in the area going forward and will rapidly increase the adoption of emerging technologies in the financial services industry.

Key Words: Innovations, technology, digitalization, Financial services, Financial inclusion

INTRODUCTION

The digital delivery of financial services has been a focal point for investors over the past several years. While the macro-economic and political dynamics are changing in 2017, it is believed that the fintech industry remains ripe for continued innovation of the years to come.

Technology has been a key enabler in the growth of a digital economy. Over the years, Indian banks and financial services providers have gradually adopted technology to improve reach, customer service and operational effectiveness with evolving market and technological advances. However, the pace of technology adoption has not been commensurate with it's potential and hence there have been gaps in the penetration of financial services.

Traditional Banks and Financial Institutions have viewed technology as an enabler to business propositions, rather than creating new business propositions themselves. Financial Technology (FinTech) Companies however are changing that role by leveraging digital technologies to create new business propositions and target new market segments which hitherto were not possible. FinTech in the truest sense is the application of technology to offer new financial products and services to new market segments in an economically viable manner. From a business model perspective, the FinTech sector is marked by technology companies that either intend to disintermediate, or partner with incumbent Banks and Financial Institutions depending on strategic narrative and market landscape. Hence, FinTech is increasingly becoming an important focus area for all the key stakeholders in India’s Financial Services industry – Regulators, Traditional Banks, NBFCs, Payment Banks, Investors, Payment Service Providers, Broking and Wealth Management Companies, Insurance providers and pure play FinTech players.

Emergence of fintech companies in India is a prelude to the transformation in payments, lending and personal finance space that has manifested in significant investor interest in the recent times. Fintech is enabling the entire value chain of the traditional financial institutions to establish better connects with customers and to provide new offerings in the market. There are numerous start-ups cutting across multiple business segments and functions, predominantly in payments and lending space.

Objectives of the study:

- To analyze the recent trends in financial services, identifying emerging opportunities and challenges of Fintech sector.

- To provide an extensive study of recent trends in FinTech in financial services.

Methodology:

Provides an extensive study of recent trends in FinTech in financial services based on the secondary data from RBI Reports, World Bank Reports, Credit Suisse reports, World Economic Forum Report, RBI – website, Other News articles etc.

Emerging challenges and opportunities:

Blockchain in financial services:

Blockchain has been in existence since 2009, it garnered mixed reviews from the industry in its early years. It has now been taken up as a new innovative model globally. Blockchain can be defined as a way of initiating and verifying transactions in a distributed environment. The decentralized record keeping and reporting functionalities promise opportunities in reducing cost, fraud and increasing speed of transactions. With initiatives such as R3CEV, leading banks are battling their way for developing block chain applications, thereby enabling a change in the traditional financial systems.

Blockchain is being perceived in India as a game changer that, if used to its full potential, can offer an innocuous, quick and economical way for transactions. Though it is at a very nascent stage and is yet to mature into a mainstream application, the technology is receiving encouraging reviews from market players in the country. In India, blockchain adoption is still very premature, but the impact is significant enough to guarantee assessment, experimentation and implementation by enterprises. Fintech enablement could be seen as a vital area in the Indian market and the next few years are likely to see increase in accelerators, incubation programmes and VC funding with fintech incumbents, for achieving scale sophistication and establishing a wider reach for the applications of blockchain. As a probable list of use cases -remittances, micro transactions, financial inclusion, gold trading and record of asset ownership -are a few key near-term applications of blockchain that could be expected in India.

Innovative digital technologies disrupting the traditional payments valuechain:

Globally, banks are moving from their traditional conservative mindsets, to align their strategies and better collaborate with fintech players in the payments space. They have realized that failure to do so might leave them with a risk of being swayed away by nimble competitors. To achieve this, banks are collaborating with fintech through a number of ways such as venture capital investments, incubator programmes, innovation labs, strategic partnerships and accelerator programmes.

A major breakthrough in payments transformation has been due to the support of regulators in laying down the foundation for technology companies and non-payment providers in innovating momentously in this field. Undoubtedly retail and consumer payments are leading the way in adoption of innovative payments capabilities. This has been aided by the growth in e-commerce and the increased penetration of mobiles.

The Indian payments sector is in the midst of rapid innovation, propelled by changing consumer patterns and initiatives taken by regulatory and banking institutions. This has been supplemented by large scale adoption of mobile payments.

Some of the key trends in digital payments have been around:

- Adoption of contactless payments-NFC (Near Field Communication) adoption, Host card emulation and QR code generation have been leading the way for electronic interactions between consumers and retailers. Globally, mobile proximity payment is expected to reach user base of 939 million by 2019
- Adoption of payment hubs -Financial institutions are aggressively looking at investing in harmonising their payments infrastructure by moving to payment hubs. These hubs are expected to allow the processing of any form of payments irrespective of the origination channel.
- Move towards Cashless Societies -Few of the countries in the Scandinavian region including Sweden, Norway and Denmark are on course of becoming cashless societies and are adopting no cash models. This has been possible because of banks in these countries adopting the fintech revolution and responding in a positive way to innovations.
- Real Time payments –This is revolutionising the retail funds transfer by providing electronic cash to anyone in the span of a few minutes. Peer to Peer money transfers has been an area which has witnessed high growth and attention in the last few years. Almost 35 countries have implemented or put the framework in place for real time payments. Recently, Australia has implemented its New Payments Platform; Single Euro payments in Europe is envisaged to be a level breaker and the U.S. is on the brink for adoption of real time payments.

Robo-advisory: A momentous shift in the delivery of financial advisory services from man to machine:

Globally, robo advisory is reforming the landscape of wealth advisory services. At a minuscule share at present, it is projected to grow by CAGR of 68 per cent over the next five years and manage USD 5 trillion worth of assets by 2025. Robo advisors are the next level in the evolution of asset management and financial advice, primarily driven by millennials. Digital advice is becoming a prerequisite for wealth management firms serving mass market as well as prominent clients.

The growth of robo advisory services could be attributed to its ability to offer low cost services, scalability, cognitive advice and a next generation user experience. On an average, a robo advisor charges 0.25 per cent of asset under management as against 1 per cent for human advisory. Asset management firms are increasingly venturing into this space via tie-ups, acquisitions and independent efforts, leading to record high valuation of robo advisory start-ups.

Robo advisors in India are sprouting across the retail investing space. Many new entrants and traditional broking firms have launched robo advisor services in India such as Aditya Birla Money's My Universe, Big Decision, Scrip Box, Arthayantra, Funds India and finance.

Demographic swing and technology enablement in India have been the prime enablers unleashing new opportunities and taking the business model of financial advisory to the next level. In India, robo advisors are distinguishing themselves as the responders to the digital trend and crafting a model resonating with early adopters. The services offered range from mutual funds, portfolio allocation, and insurance plan selection to pension fund selection.

Bank in a Box -New kid on the block promising cost leadership and operational efficiencies:

To respond in a rapidly changing business environment, it has become imperative for banks to use technology as an enabler. A catalyst for banks to gain technology competence is the 'Bank in a Box' model, which is a white labelled solution spanning across multiple core banking modules, channels and payment solutions to meet the operational needs of a bank. The rise of the Bank in a Box solution has led to generation of significant prospects for early adopters. Some of the leading non-financial corporations across the globe are seeking to monetise on their existing customer base and disrupting the traditional banking models using these solutions.

With the emergence of new payments and small finance banks in India, the road is set ahead for surge in adoption of Bank in a Box solution. With the adoption of these solutions, banks can be more nimble in tapping the unbanked segments and increasing their top line. Bank in a Box solutions has received wide acceptance by small co-operative and RRBs (Regional Rural Banks) in India. Thus, it has become imperative for banks to move towards boxed solutions and liaise with fintech companies for rapid deployment and superior customer experience.

P2P lending is transforming consumer lending by redefining the standards:

Global P2P lenders are radically reshaping the consumer loan industry by redefining the lending standards. Initially the concept which started with individuals has extended its reach to include smaller SMEs, retailers and many more. Upcoming fintech companies in the lending space are attracting significant attention from investors.

In India, the P2P lenders broadly focus their portfolio under the categories of micro finance, consumer loans and commercial loans.

The growth potential of the market in India is huge as there are about 57.7 million small businesses in the country. Currently, in the absence of a regulatory framework, Indian P2P start-ups are registered under the Companies Act and abide by The Negotiable Instruments Act. RBI recently released a consultation paper on P2P lending business model where companies need to be registered as a special category NBFC and spoke about six prime areas including permitted activity, reporting, prudential and governance requirements, business continuity planning and customer interface, thereby providing an approach to curtail the risk in this sector. The idea is to bring the P2P lending platforms within the scope of NBFC governance. Moving forward, we believe that technology convergence is likely to make P2P lending safer and faster. UPI and blockchain are two big technology revolutions that are projected to have a favourable impact on the expansion of P2P lending business in India. With an intent to have a robust P2P market, the government of India has to address certain key areas for P2P lenders such as on capital structure, requirement of fund for lender protection, process of transfer of money and infrastructure needs and making sure that objective of introductory regulations is to control the unruly practices rather than posing barriers for fintech adoption in the country.

Financial Inclusion:

Globally banking sector is grappling with the dearth of financial inclusion in rural areas. At the global level, 38 per cent of the adults do not use any formal financial services and 73 per cent of the poor people are unbanked. This is attributed primarily to the burdensome requirements involved in opening a financial account and lack of awareness about the product or channels to leverage for banking products.

In India, financial inclusion is projected to be driven largely by creation of an ecosystem where people get the opportunities to use financial instruments in their daily lives and banks make best use of the spread of fintech and non-financial firms operating in these inaccessible areas.

Even Government of India's financial inclusion mission is working on the same lines with an aim to provide following banking services to all households with the following steps:

•Access to bank account with an overdraft facility.
•Unique identifier to every Indian in the form of Aadhar card.
•Rupay-enabled ATM debit card.
•Accident insurance cover of INR1akh

Security and biometrics:

In the wake of growing cyber-attacks against the banking industry, financial institutions are becoming even more vulnerable than any other industry globally. Hence, there is a pressing need for financial institutions to deploy biometric technologies and adopt cyber security solutions. As the Indian customer evolves, banks are leveraging new technologies to improve the banking customer experience since more and more financial transactions are now conducted through electronic banking. As the consumer acceptance of e-KYC and biometric authentication increases, fingerprint recognition has the potential of becoming the most commonly used technology for customer interactions.

A leading bank in India started offering voice recognition service to authenticate customer identification based on their speech pattern, resulting in faster banking transactions, as the customers are not required to enter their card number in every transaction, and will use customer's Aadhar details for credit profiling. Similarly, the facility of "Smart Vault" offers automated locker facility in a secure lounge with biometric authentication.

Banks in India are also leveraging biometric technology for faster loan approvals.

A leading fintech start-up is working with leading private banks in India in the area of cyber security and assisting them in protecting the information shared externally.

Opportunity for India to solidify its position as a global fintech hub:

The rendering of financial services is changing at an accelerated pace, as Fintech start-ups emerge as enablers for the business of extremely large traditional financial institutions. While start-ups seem to be in the spotlight for the most part, government bodies and market players across the mature markets have been robustly serving their part to establish an environment for the growth of innovation and technological advancement in the financial services sector. A continued strong commitment from the government, the industry and the fintech firms is critical to allow the fintech revolution dig its roots deep in any financial system.

Conclusion:

Indian FinTech companies could address a few of the critical structural issues afflicting Indian financial services - increase outreach, improve customer experience, reduce operational friction and foster adoption and usage of the digital channel. Legacy prone processes and higher operating cost models of incumbent banks and financial service providers will give digital FinTech companies an edge, as banks play catch-up with these more nimble and innovative start-ups. The opportunity for FinTech lies in expanding the market, shaping customer behavior, and effecting long term changes in the financial industry.

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