

Fintech: Unleash A New Era Of Competition

Bristi Bose

Student, Post Graduate Department of Commerce, St. Xavier’s College (Autonomous), Kolkata

Dr. Sumanta Dutta

Assistant Professor, Post Graduate Department of Commerce

1. Introduction:

The Micro, Small and Medium Enterprises’ landscape has seen a stark increase in its number in the recent past. In most of the South Asian countries, SMEs contribute a large share to their GDPs. This has, obviously, led to the increase in significance of these enterprises in the economy and now, needless to say, these enterprises have been successful in participating in modern day capitalism. The debate around technology, of it being a disruptor or an enabler has been doing the rounds in the business world often leading us to the similar conclusion that perhaps it is both. If an economy has to embrace the changes as brought in by the wave of technology and reap its benefits, it has to ensure that these budding or small enterprises are not left out. On doing a review of literature, we understand that technology has almost replaced the necessity of physicality in between the processes, causing a paradigm shift in the treatment of financial procedures like payments, banking, investing, and etc. FinTech has created a change in the banking and borrowing habits of both the banks and the customers and it has been found that the future of banking and investment depends on FinTech.

In India, the demonetization in 2016 had brought in a slump in the economy but apart from the ruckus it created, the economy experienced a rise in the usage of digital or mobile payment (an element of FinTech) as a staple instrument to carry on business activities leading to the dream of a cashless economy. Not only did individuals and large businesses use digital and mobile payments but also ordinary and minimal businesses (like grocery stores, medicine stores, fruit vendors, etc.) incorporated them in their daily activities causing the profits of these corporations to surge. So, we might say that not all are averse to the idea of embracing technology in their routine especially when there is a crisis.

Financial Technology, also known as FinTech, can be said to be an intersection of finance and information technology. The FinTech Weekly defines FinTech as “a business that aims at providing financial services by making use of software and modern technology.” The Merriam Webster dictionary defines FinTech as “products and companies that employ newly developed digital and online technologies in the banking and financial services industries.” David Varga writes that *FinTech refers to non- or not fully regulated ventures whose goal is to develop novel, technology-enabled financial services with a value-added design that will transform current financial practices.* The famous FinTech companies functioning in India are Paytm, Mobikwik, BHIM, Policy Bazaar, KredX, Lending Kart, etc. In India, the number of MSMEs is a whopping 42.5 million which is around 95% of the number of industrial units in India and constitutes 40% of its exports. With the advent of FinTech, the existing operational intricacies in banking procedures of lending, payments, investing has been slashed down thereby helping to add value. By intricacies, we mean the operational costs, time and paperwork. Previously, trade finance was a tedious process and involved complex sequence of steps which involved intermediaries but FinTech helps in removing these complexities thereby giving a boost to the MSMEs who want to avoid such formalities (see. Table: 1).

Table: 1

Most Promising FinTech Opportunities in India

Leverage Existing Data and Analytics	56%
Improve Customer Retention	56%
Expand Products and Services	56%
Increase Customer Base	40%
Differentiate	40%

Reduce Costs	24%
Decrease IT Costs	12%
Respond to Competition Faster	8%
Other	4%

Source: FinTech Trends Report: India 2017 by PWC, pp-5
(<https://www.pwc.in/assets/pdfs/publications/2017/fintech-india-report-2017.pdf>)

At their preliminary stages, MSMEs would require loans, for that a bank or a financial institution needed to incur costs on customer acquisition, credit risk analysis, ascertaining the creditworthiness of the MSMEs but with help of FinTech, much of these processes have been eradicated as client's data are being handled by wide network of data analysis tools which slices down the time taken to complete the work. Chances are very slim for these tools to do inaccurate analysis leading to a finer delivery of the Know Your Customer (KYC) process because of in depth analysis of customers' data and studying their behaviours. FinTech consists of several elements like digital and mobile payments, banking and finance, Big data and analytics, Bitcoin and Cryptocurrency, Blockchain technology, Crowdfunding and Peer to Peer (P2P) lending, personal finance management, etc. It is pertinent to say that FinTech will enable the smoother and faster application of the Industrial Internet of Things (IIoT) in the near future. Many banks in India have collaborated with FinTech companies to revamp their value chain and better understanding of their prospective clientele. Previously, International Transfers and remittances required maintenance of multiple ledgers, agreement between two institutions, monotonous paperwork but FinTech has transformed the existing narrative of remittance transfers ushering in a reform in the modus operandi of world markets.

2. Opportunities and challenges of FinTech:

Now, it is important for us to understand the opportunities and challenges of FinTech. It is governed by certain advantages but it also comes with several threats and risks. The opportunities include:

- **Increased Efficiency-** FinTech has been successful in enhancing the way banks and financial institutions carried on their financial operations. They can reap the benefits of scalability, harness a strong consumer base by clear disclosures and avoid collective economic wastages by downsizing paperwork, saving time in between processes and reducing operational costs.
- **Quality Customer Experience-** FinTech has led to the increase in the quality of customers' banking experience by ensuring transparency in its processes, increased understanding, and better access to financial information.
- **Better connect-** FinTech helps the banks in connecting the areas where banking opportunities have not yet been explored like several unbanked areas and bottom of the pyramid customers. According to a 2017 World Bank report, India has the second largest unbanked population in the world. So, it becomes inherent to use FinTech to tap the unbanked population.
- **Supports the 'going cashless' dream-** It is apparent that to support the cashless economy one must have a foolproof system to manage the various transactions. Only, through FinTech, mobile and digital banking is made possible by integration of bank account number and mobile number facilitating payments in a click.

The major risks and threats that accompany FinTech are-

- **Data security-** Many FinTech firms deal with collection of data, studying customer information and behaviours. It might happen that many third party applications have access to them which can often lead to data security issues and unethical handling of data exposing the system to more cybercrimes.
- **Operational risk-** Banks and financial institutions must focus on training their workforce and acquaint them with the trends of FinTech as they must understand the procedures to handle data with the help of FinTech.
- **Privacy-** Few FinTech models connect third party with its customers' data for giving them an elevated experience. This might have positive impacts but needless to say, this compromises the privacy of the customers.

- **Conservative behaviour-** There is several traditional banks who do not feel the urge to change their business model by embracing FinTech and use it to full potential. Also, many conservative investors and customers are not inclined to the idea of using elements of FinTech in their daily lives and therefore, to gather trust from them is difficult. Many banks who have a base of customers, predominantly governed by tradition, do not take added risk of modernization as they might fear losing their customer base.

Conclusion

According to Amitabh Kant, CEO of the NITI Aayog, the FinTech market of India will touch a huge estimate of 31 million dollars in 2020. The Indian FinTech environment is one of the fastest growing in the world. The Reserve Bank of India (RBI), in a great effort to support budding FinTech companies, have rolled out a new concept of 'regulatory sandbox' which allows these companies to test their products and services on a selected group of users prior to their further diffusion. According to RBI Governor Shaktikanta Das, this idea will enable the FinTech companies to test their product virtually or on a real-time basis. He also stressed on the formation of a supervisory and regulatory framework which is to be followed by these companies. A matter of concern that necessarily follows the discussion of FinTech is data governance. Data Governance (DG) constitutes of the proper management of data and ensuring maximum data security to the public (from whom the data has been collected). Naser and Sifter emphasized on a Data Governance model which fulfills the criteria of *trust, consistency, commitment, and clarity* for the desired outcomes.

Technology has touched financial institutions and revolutionized the way they performed their processes. It has been found that there lies a sizeable credit gap in the Asian continent. If FinTech can help shrink the gap, the MSMEs will benefit the most from it. We must understand that if these enterprises have better access to working capital, they will be more resilient and their financial health will be in check. The MSMEs and the startup culture are on the rise in India. Generally, start-ups do not harvest the benefits of experience and maturity and are predominantly innovative businesses but if they had an access to finance in the very initial stages of development, it will save them from bankruptcy and help them survive the competition. Traditional banks and financial institutions must collaborate more with FinTech companies to tap the unbanked population to participate in financial inclusion. As FinTech is futuristic in nature, it can help MSMEs to explore newer opportunities and mitigate operational risks thereby amplifying the process of value creation.

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