

## FinTech: Marrying Finance and Technology

### Backdrop:

Financial Technology or popularly known as FinTech is a buzz word in the finance world. FinTech is the application of technology across the value chain of the products and services of the finance industry. Almost every new generation start-up is a FinTech company. If one were to look at pony to unicorn journey, the role of FinTech can very well be appreciated. By the end of 2020, India had a total of 26 Unicorn startups out of which 6 are the FinTechs. The FinTechs are rising in India from Minicorns to Soonicorns to Unicorns.

In the success journey of the most of the new startups, the typical narrative would be the role of RPA (Robotic Process Automation), AI (Artificial Intelligence), Blockchain, IoT (Internet of Things), API (Application Programming Interface) and so on. FinTech is also known by different names, depending on the industry, where it is being implemented. For example, RegTech, InsureTech, EdTech, PaymentTech etc. These are also considered as subsets of FinTech.

The five Technological Revolutions defined by Perez (2002) are the Industrial Revolution, The Age of Steam and Railways, The Age of Steel, Electricity and Heavy Engineering, The Age of Oil, Automobiles and Mass Production and, The Age of Information and Communications. The FinTech is at the helm of this creative disruption

### Learner frame of reference:

Abhishek is studying MBA and is in the first semester. He is planning to opt for finance specialisation. He realises that:

- Technology is the common platform, denominator and under pinning for any discipline.
- This is more factual for the world of finance.
- The technology is more critical for the practice of finance and plays a vital role in realizing the value for the end user.
- The scope of operations of FinTechs has broadened, moving from crypto assets to payments, insurance, stocks, bonds, peer to peer lending, robo-advisors, regtech and suptech. [RBI Bulletin, Nov 2020]

He too is obsessed by the word FinTech. He gathers basic facts, news and anecdotes about FinTech. He could gather several observations like:

- Every company is having either in house FinTech team or outsource the facility.
- Most of the incumbent large corporate houses are buying FinTech companies.
- The Government (regulations and legal), Company, Competitors, Technology App Developers, FinTech Labs, Infrastructure providers, APIs (Application Programming Interface), Customers etc are the important stakeholders of FinTech.
- A popular choice for machine learning and artificial intelligence (AI), Python saw an uptick in usage in 2019, and has consistently been ranked as one of the top languages that developers want to learn year over year (<https://research.hackerrank.com/>).
- Emergence of new generation FinTech companies like Paytm, CRED, Acko Insurance, Zerodha, BharatPe, Policybazaar, Billdesk, Khatabook, Zestmoney, Razorpay, Cleartax etc.

### News Headlines

- Walmart said Monday that it will launch a fintech start-up with Ribbit Capital, one of the investment firms behind Robinhood.
- Goldman teams up with fintech startup Marqeta to build checking accounts
- ECB's Lagarde calls for regulating Bitcoin's "funny business"

- Analysis: Digital banks gain U.S. customers during pandemic, thanks to early deposits
- Fintech startup MX, Blend each raise \$300 million
- BharatPe to raise up to \$200 mn equity funding
- Fintech the way forward for Indian banking, payment system, says SBI MD
- Fintech, insurance companies may get direct access to CPS (Centralised Payments Systems)

### **India and FinTech:**

According to the 'Global FinTech Adoption Index 2019', the adoption of FinTech services globally has progressed from 16 per cent in 2015 to 33 per cent in 2017 and 64 per cent in 2019. Interestingly, India, along with China, leads emerging markets with a high 87% FinTech adoption rate in 2019. FinTech is mostly prevalent in payments and transactions, lending, wealth management, brokerage, insurance and neo banks. The growth of FinTech in India is due to:

*Supply Side Push:* Start ups with innovative intent and well supported by investors

*Demand Side Push:* Unmet demand for financial services, less or no competition from traditional finance, conducive macroeconomic conditions, favourable demography etc.

*Other Enablers:* Revolution in telecom, digital push, pandemic, benign policy push for tech adoption etc.

### **Challenges:**

FinTech is a double edged sword. No doubt, it has invaluable worth but at the same time it has posed many challenges. The regulatory machinery has to on its toes always. There are privacy issues and breaches and cyber security risk. Due to highly innovative and out of box business models, regulatory eco system needs to gear up for the occasion.

### **Required / Prompts:**

- (a) Prepare a note on the role of FinTech in the world of finance.
- (b) FinTech has variations like Bankingtech, Insuretech, Regtech, Suptech, Wealthtech and so on. Identify at least one company specialising in each one of these variations and document the business model.
- (c) Develop a model in any one of the finance verticals to illustrate the application of FinTech.

### **Pre-reading Material:**

*FinTech: The Force of Creative Disruption*, RBI Bulletin November 2020 pp. 75-93

### **Further Reading:**

Perez, C., (2002), "Technological Revolutions and Financial Capital: The Dynamics of Bubbles and Golden Ages", Elgar Publishing, Inc.

### **Target:**

Students of Finance Specialisation, 2<sup>nd</sup> Semester

