



# NEXT IN TECH: REDEFINING FINANCIAL SERVICES THROUGH FINTECH

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## Abstract

Recently, the financial service sector has been witnessing rapid transformation with technology revolution. The collaboration between finance and technology has paved the way to a radical change in several aspects of finances like digitized banking, investment, Crypto currency, Artificial intelligence, Biometrics and more.. This evolution has led to the popularity of a term –Fintech,| a short form for the phrase Financial Technology. Fintech is the technology and innovation that aims to compete with the traditional financial methods in the delivery of financial services. This article sheds light on the concept of Fintech and aims to have a better perspective on the status of fintech in the global market. Presently, fintech has grown into a massive industry that consists of both startups and prestigious financial institutions striving to enhance the services provided by financial institutions across the globe.

Key words: Fintech, Fintech funding, Fintech trends, Challenges

## **Introduction**

Innovation and technology have brought about a radical change in traditional financial services and it paved the way for the evolution of fintech. The term Fintech is much more than just a reference to financial technology, and more precisely it is about the digital innovations and technology-enabled business models that create value and efficiencies in the financial sector.

FinTech is not confined to specific sectors (e.g. financing) or business models (e.g. peer-to-peer (P2P) lending), but instead covers the entire scope of services and products traditionally provided by the financial services industry. The visionary statement made by Bill Gates in 1994 that -banking is necessary, banks are not has become a self-reinforcing prophecy, with 6,000 – 7,000 fintech companies across the world now trying to obtain a slice of the banking industry's profitable business. Now, FinTech has evolved as one of the most innovative and cost-effective disruptive technologies. Early adaptation of FinTech solutions has enabled several start-ups, financial service providers and other diverse sectors to achieve an accelerated pace of growth.

## OBJECTIVES

- To familiarize the concept of fintech
- To provide a better perspective on the status of fintech in the global market

## HISTORY OF FINTECH

Fintech is relatively a new term; however, the process has been around for a while. Gradually, it has grown into a massive fintech industry that consists of both startups and prestigious financial institutions striving to enhance the financial services provided by financial institutions across the globe. As early as the 1900s, the companies have attempted to use constantly-evolving technology to develop modern methods of handling money. Nonetheless, the last 65 years have been quite evidently significant in the evolution of fintech industry and invention of several fintech solutions.

The 1950s witnessed the launch of credit cards, and a decade after there were ATMs that changed the way money was retracted from banks. However, it was only with the advent of the modern Internet in the 1990s, the fintech industry sprung into action and rapidly changed the scenario with fintech solutions like electronic payment system, e-commerce models, online shopping, mobile banking, and digitization of banks.

The world's first ATM was launched in 1967 by Barclays; NASDAQ invented electronic trading and the IPO in 1971, and the first online payment platform PayPal was founded in 1998, the first crypto currency Bitcoin was launched in 2009, Google launched its Google Wallet in 2011 and, the first Fintech bachelor was created in 2016. These are some of the groundbreaking innovations of technology laying the path of fintech revolution.



### 1. Blockchain Technology:

This is one of the greatest revolutions of financial technology that has taken the world by storm. It is forecasted to change the traditional banking systems. In simple words, blockchain technology is the constantly updating digital-ledger system wherein technology is used to create blocks and record transactions permanently, without the ability to alter the information. Banks are exploring the potential of this technology and changing the way the money is transferred, transactions are verified and recorded. It is expected to revolutionize the KYC systems, clearance and settlement systems, loans and credit applications, bookkeeping and auditing.

### 2. Digitized Banks:

Digitization of banks has replaced the brick-and-mortar branches. It has led to the rise of the use of internet or mobile applications to carry out financial transactions. With the rising trend, the need to visit your bank for various purposes has diminished. With the alliance of fintech and banking sector, the bank visits are expected to drop further as people will continue to use mobile and internet for banking procedures.

### 3. Mobile Banking:

Financial technology has given rise to the new trend of mobile banking. Various apps developed using new financial technology for smart phones allow us to perform various banking transactions even on the go. The convenience and transparency it offers is commendable. Fintech companies are committed to making this experience even more user-friendly and simple.

#### **4. Artificial Intelligence:**

The collaboration of Artificial Intelligence with Fintech is expected to be quite a revolutionary one. Using a voice-operated assistant or next-generation chatbot is forecasted to change the customer experience. Use of AI will alleviate the chances of human error and create accurate answers. It can also help to recognize fraudulent behavior easily.

#### **5. Biometrics:**

As the technology advances, so does the chances of cyber-attacks, hacks, and frauds. However, to reverse these side-effects of the technology, Fintech companies are exploring biometric technology. Biometric authentication is a powerful tool to ensure top-class security of customers' account and capital.

#### **6. InsurTech**

InsurTech refers to the practice of using technology-based innovations to drive disruptions across the insurance value chain and achieve cost efficiencies and product democratization. This space is currently dominated by nascent startups which operate across various facets of the insurance life cycle—that is, lead management, underwriting, sales and distribution, claims and renewal. Internet-of-Things or IOT has gained quite some reputation in the InsurTech sector, which is powered by extensive customer data. Linking of data of health and wellness can help the insurers to predict the know-hows of customer behavior and lead to an increase in their earnings through better pricing strategies.

#### **7. Open APIs**

An Application Program Interface (API) is code that allows software programs to communicate with each other. APIs, when used to pull or push data, are an effective way to share data in a usable format. They are platform-agnostic and can facilitate real-time information exchange. They are a scalable and standardized way of sharing information with security in-built as only the information that the API is open for can be shared. APIs may be of different types. APIs can be private, which means that they are used only within an organization to share information and functionalities between programs. They can be partner APIs, which means that they are released only to partners under certain conditions – sometimes payments. Finally, APIs can be open, which means that anybody can use the API to pull or push data or use functionality. For example, open web APIs allow exchange of information with a website for all developers.

#### **8. Internet of Things (IoT), Big data and Predictive analytics**

Internet of Things (IoT) has made possible use of sensors connected to the internet to collect personalized data for a variety of uses. For example, insurance companies can affix GPS tagged speed sensors in insured cars to track driving behavior. Such applications have resulted in explosion of data availability calling for a higher order of computation and storage capacities. Big data analytics involves processing and analyzing large amounts of complex data. The aim of analysis is to find out hidden patterns, correlation between data and other useful insights. With the onset of Big Data and analytics, financial firms have now realized that analysis of data generated during the course of their operations can add significant value. Data analytics is especially critical for fintech companies. Since fintech companies operate almost

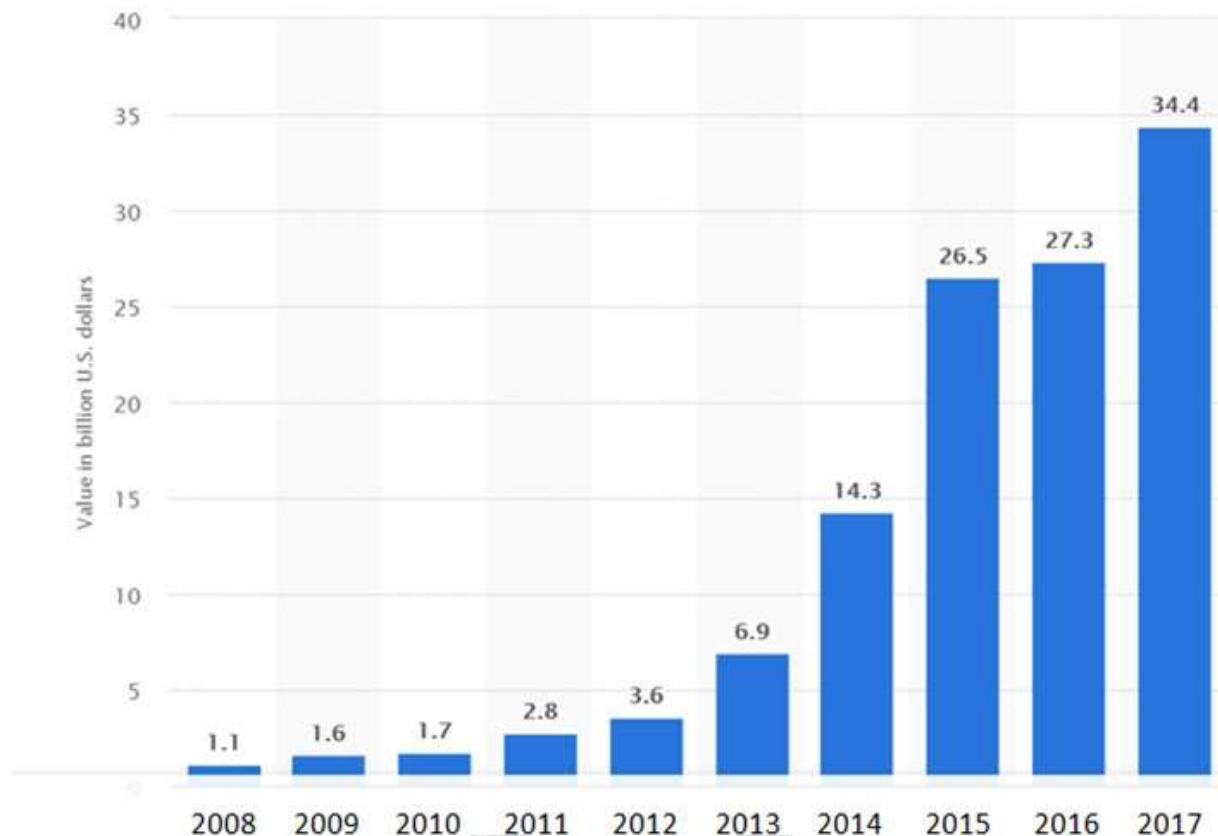


exclusively on the internet, they generate large volumes of financial information and user data. Fintech companies are increasingly analyzing this data to get insights into their operations. Analysis is also used to enable development of new products, increase efficiency and access to consumers. Predictive data analytics by application of AI and ML to IoT or consumer behavior data is being used to predict consumer behavior.

## **GLOBAL OUTLOOK**

### Total value of Fintech investments worldwide from 2008 to 2018

(in billion U.S. dollars)



The total value of fintech investment in the year 2008 was 1.1 USD billion and upto 2013 it had a slow growth. But after 2014, the total fintech investment reached 34.4 USD billion in the year 2017 which shows a steady upward trend in the value of global fintech investment.

## **Global VC backed Fintech Investment**

The below figure depicts the share of global venture capital (VC) backed funding in fintech in the year 2018. The share of Asia in the fintech investment is 57.24% and they occupy the highest position in the global fintech market. Aggressive growth strategies adopted by Chinese technological giants and their expansion into new markets like Southeast Asia and India played a key role in driving global funding to Asia. 31.37% of fintech investment share lies with North America and the share of Europe, South America,

Australia and Africa are very meager.



### Global VC-backed FinTech funding 2014 - 2018

Global VC-backed FinTech funding by continent, 2014 - 2018 (USD billion)



Source: CB Insights, 2019

The diagram exhibits that the Global VC-backed FinTech funding of Asia in the year 2014 was only 1.11USD billion, and it had a slow growth till 2017 and it shows a hike of 22.64 USD billion in the year 2018.

## Number of Fintech companies by segments



Source: Venture scanner data, Deloitte Centre for financial service analysis

The above figure illustrates the total number of fintech startups established around the world under different segments till 2017. It portrays that the banking and capital market segment dominate the fintech industry followed by the Real estate and Insurance sector. At the same time, the number of startups in each of the industry sector subcategories indicate the dominance of property development & management and payment sector.

## Challenges of Fintech

Although FinTech solutions have been gaining increasing attraction in the market, there are a few challenges hampering the industry's growth. Some of these are highlighted below:

- Cyber Security is one of the major concerns of Fintech industry. Many critics are skeptical about the security of the confidential data. The digitization of the banking and finance sector makes it susceptible to cyberattacks. Hence, the government and business firms must collaborate to makes their systems robust enough to ward off any kind of exposure of sensitive data. Options of cyber security concepts like data labeling, selective data sharing and identity-aware data shareholding can be solutions to various risk-related problems for this space.
- Acceptance: Customers must be able to accept and trust the changing systems. Fintech services are expected to override the traditional way of banking and financial services, which remains a major challenge for consumers with conservative mindsets.

- Lack of Human Touch: Chatbots and Artificial Intelligence are expected to replace human contact. This could prove to be a major hindrance in the growth of various sectors, applying fintech technology to serve their customers. Therefore, the companies must work to retain human touch as they try to meet customer needs and satisfaction.
- Lack of early-stage funding: Despite the FinTech space attracting sustained VC investments over the last few years, many smaller startups lack access to early-stage capital, inhibiting their potential to scale up.

## CONCLUSION

Financial technology is said to be a disruptive force in the past and future and is expected to reshape the financial sector, business models and banking structures. There is no doubt that the transition came in with lots of skepticism, but it was eventually accepted. The new financial technology continues to evolve and has attracted investors everywhere, paving the path for emerging markets and a robust fintech industry. This article provided a conceptual understanding and groundwork to understand the rapid and successful growth of emerging financial technologies around the world. 2018 emerged as a phenomenal year for the FinTech sector, as global funding broke new ground on the back of supportive regulatory policies, technological advancements and an increase in consumers' adoption of FinTech solutions. Among the many sections of the financial sector; retailer banking, fund transfers and payments, insurance, brokerage services, insurance intermediary, commercial banking, investment and wealth management are impacted the most by the emergence of fintech.

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