FinTech: A Revolution in Financial Access and Financial Usage



Kajal Kiran*

Dr. Mandeep Kaur**

Dr. Gunjan***

Introduction

Access to finance is the key enabler of financial inclusion. A number of policies have been made by governments and central banks to widen the access to finance. There was a time when traditional banks enjoyed monopoly to provide financial services. Later on privatisation and globalisation reforms put a challenge to the traditional banking system to meet stiff competition from new banks as the new entrants were rich in providing innovative products and services, backed by good customer response, wide spread bank branches and promotional services. As a result, customers were benefitted with better quality financial products and services at competitive prices. Still, Global Findex Report 2011 by World Bank brings out that only 51% adults around the world had an account at financial institution. However, the era of digitalisation, internet and mobile penetration, digitalisation of banks and FinTech companies have accelerated financial access across countries. Global Findex Report 2017 brings out that now 74% adults around the world have an account at financial institution.

The term "FinTech" in its expanded form refers to Financial Technology. This term was first coined in the year 1972 by a New York banker and has become a buzz word in 21st century. As per Financial Stability Board, FinTech can be defined as technology enabled financial innovations that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services. In fact, FinTechs are the startup companies created to disrupt well established financial system and the organisations which are not technology savvy (Gnanmote, 2018). FinTech firms focus on providing innovative products and services to create more value to end user. This is done via partnership of startups focused on technology and startups meant for providing specialised financial services. Beginning with niche area of business, then creating satisfaction to end user, these FinTechs gradually expand their coverage and market share. FinTech domain has gained huge market share by providing innovative, technology based, secured, affordable financial sevices characterised with mobility and faster pace. The global market share of FinTech is reported to be USD 112.5 billion in the year 2021 and it is expected to be 332.5 billion by the year 2028 exhibiting compound annual growth rate of 19.8% (Vantage Market Research, 2022).

*Research Scholar, IKG Punjab Technical University, Kapurthala & HoD, JC DAV College, Dasuya.
**Assistant Professor, IKG Punjab Technical University, Kapurthala.
***Assistant Professor, Mehr Chand Mahajan DAV College for Women, Chandigarh.

FinTech innovations

FinTechs are growing at fast pace with innovations in various categories like mobile payments, digital currency, peer to peer lending, robo advice and artificial intelligence etc. Table 1 reveals the major FinTech innovations.

Table1 : Fin Tech Innovations

Category	Innovations
Deposits, Lending and Capital raising	crowd funding, peer to peer lending, distributed ledger, digital currencies
Market Provisioning	smart contracts, e-aggregators, cloud computing
Payment and Clearing Settlement	mobile and web based payment, digital currencies, distributed ledger
Investment Management	robo advice, smart contracts, e-trading
Data Analytics and Risk Management	big data, artificial intelligence, robotics

Source: Report of the working group on Fin Tech and Digital Banking (RBI)

Impact of FinTech on banking sector

Last financial crisis in 2008 led to the beginning of FinTech disruptions in banking industry. This financial crisis led to the retrenchment of many professionals in finance. These professionals created FinTech startups by partnership with professionals in IT sector to solve people problems concerning finance. This crisis had also shattered the faith of people in banking industry and they were searching new avenues of savings and managing finance. It was quite realised that banking is necessary, banks are not (Bill Gates, 1994). FinTechs took the benefit of this opportunity. FinTechs have brought revolution in the banking functions by introducing innovative business models, products and services. Now, customer's outlook of financial access and usage has changed and they are using innovative products and services offered by FinTechs to avail banking services. FinTechs provide the facility of online lending and borrowing money to individuals and businesses. It has proved to be a win-win situation for all the participants whether it is lender, borrower or a facilitator. Peer to peer model of online lending by FinTechs connects lenders and borrowers and thereby generating revenue for FinTechs in the form of fees and charges without any investment. The advancement in mobile technology, internet penetration and innovative applications and products offered by FinTechs have moved the attention of customers toward online platforms for making payment. Many e-commerce companies have acquired reputed mobile wallet and online payment providers to win the faith of customers by providing them good experience of making payment. FinTech revolution in banking is the result of many flaws in traditional banking system like more regulations, huge operating cost, risk averting tendencies, less customer involvement, lack of innovation and technology etc.

FinTechs have the core competency to use superior technology, provide consumer friendly interface, more focus on business activities yielding higher return, more equity funding and the ability to attract best talent. These potentials were lacking in the traditional banking system. However, FinTechs have some bottlenecks in the form of absence of loyal customer base, limited access to soft information, no banking license, less expertise and experience to manage risk and lack of regulations.

FinTech in India

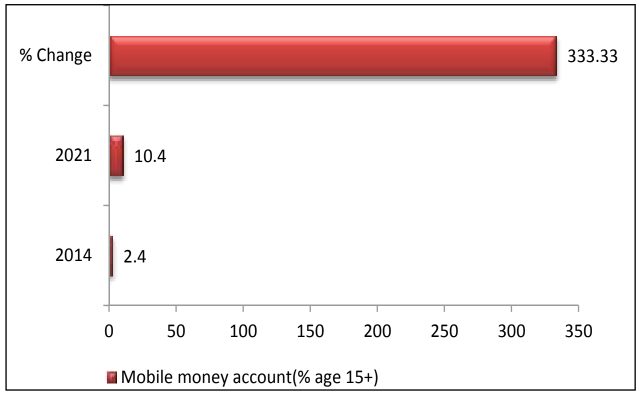
As per KPMG (2016) report, India is moving into a dynamic eco-system offering a platform to FinTech startups to grow into billion dollar unicorns. As per EY Global FinTech Adoption Index 2019, FinTech adoption rate is highest in India and China at 87% for both the countries. Backed by mobile wallets, Unified Payment Interface (UPI) and other FinTech innovations, Indian consumers have greeted the use of mobile payments in their daily transactions. Many FinTech companies are FinTech unicorns in performing banking and payment functions in India. Some of the examples are given in Fig 1.

Fig1: FinTech Unicorns in India

FinTech and Financial Inclusion in India

Internet and mobile revolution in India has provided a ground for FinTech to boost up financial inclusion in India. Internet and mobile penetration in India has proved to be the medium for FinTech for financial access. India has also witnessed increase in financial usage in terms of increase in mobile money accounts as well as increase in volume of mobile money transactions. Fig. 2 reveals that 2.4% people (% age 15+) in India report to have a mobile account in the year 2014 while it increased to 10.4% in the year 2021. There is overall 333.33% increase in mobile money accounts from 2014 to 2021 showing access to formal financial system through FinTech.

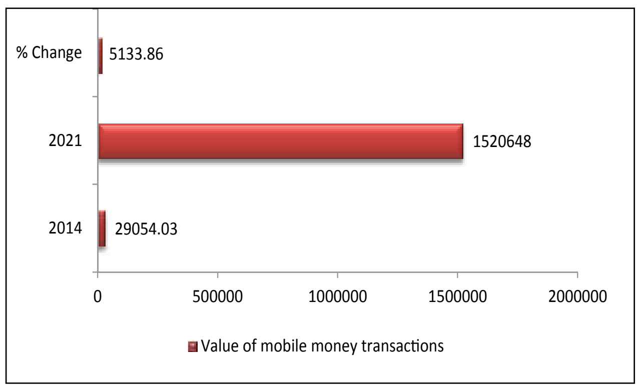
Fig 2: Mobile Money Accounts (% age 15+) in India



Source: World Bank Global Findex Report

Increase in number of mobile money accounts is supplemented with increase in value of mobile money transactions also. Figure 3 reveals that value of mobile money transactions increased from 29054.03 billion in 2014 to 1520648 billion in the year 2021 depicting 5133.86% increase in value of mobile transactions in India. Such a leap in percentage of value of mobile money transactions indicates the potential of FinTechs to boost financial usage.

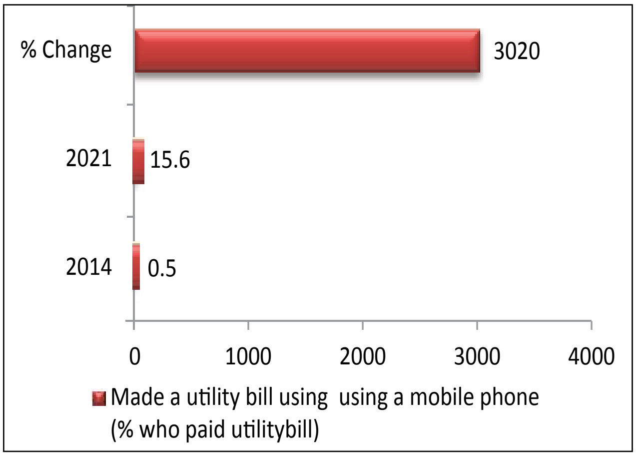
Fig 3: Value of Mobile Money Transactions in India



Source: World Bank Global Findex Report

Fig. 4 reveals the popularity of mobile phones in India to make utility payments. 0.5% people reported to use mobile phones to make utility payments in the year 2014 and this percentage increased to 15.6 in the year 2021.There has been overall increase of 3020% from 2014 to 2021. This shows that people in India find FinTech domain convenient, innovative and affordable characterised with mobility and faster pace to make bill payments.

Fig 4: Utility Bill Payments using Mobile phone in India



Source: World Bank Global Findex Report

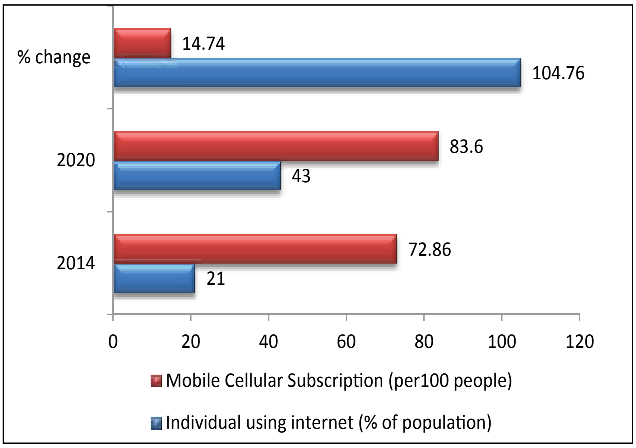
Enabling environment in India acting as pillars for FinTech to grow

The contribution of FinTech to broaden financial access and increase financial usage can-not be neglected. Various factors in India have helped FinTech to make their huge market share.

1. Internet and mobile penetration

India has witnessed sharp increase in percentage of people using internet and having mobile cellular subscription. Fig. 5 reveals that from the year 2014 to 2020, there has been 104.76% increase in internet users and 14.74% increase in mobile cellular subscribers in India. Mobile and internet have fulfilled the basic need of FinTech to provide apps which facilitate people to make or receive payments.

Fig. 5 Internet and Mobile penetration in India



Source: World Development Indicators Database

2. India's Aadhaar System, e-KYC and simplified account opening

Aadhaar card system in India, being operated by the Unique Identification Authority of India, has facilitated access to financial accounts, increased efficiency, lowered cost and enabled digitisation of government payments and services. Till October 2021, there are 1.31 billion aadhaar card holders in India. Further, e-KYC based on aadhaar cards help to establish the identity of prospective financial customer much easier. Till August 2018, over 22 billion identity authentications and over 6 billion e-KYC requests have been processed. Moreover, 289 million Basic Savings Bank Deposit Accounts (BSBDAs) have been opened till Dec 2021 under financial inclusion plans. These three pillars i.e. Aadhaar Card, e-KYC and Basic Savings Bank Deposit Accounts acted as basic infrastructure to FinTech to reach the masses.

3. Funding support to Startups

The Government of India has created a fund of ₹ 10,000 cr. to meet capital requirements as well as to catalyze private investments and thereby, boost the growth of the Indian startup ecosystem. Moreover, Department for Promotion of Industry and Internal Trade (DPIIT) has created Startup India Seed Fund Scheme (SISFS) with an outlay of ₹ 945.00 cr. which aims to provide financial assistance to startups. Many FinTech startups have flourished in India due to funding support from government.

Challenges to banking sector and a way ahead to meet challenges

FinTechs are growing at faster pace and making their remarkable place in all the sectors. People are opting for FinTech offered banking services to fulfill their banking needs. FinTechs are posing stiff competition to banking sector. Banking system has to innovate new business models to serve fast evolving and technology savvy customer base to survive in this cut throat competition.

- Banks should plan more investment to bring digital transformation in their operations to ensure fresh perspective to target customers and meet competition with FinTech.
- Innovation should become the culture of banking system and be practicsed on regular basis. Recruiting innovative minds can help banking system to cut down its operating and resource cost.
- Advanced customer relationship management tools can help banking sector to target customer demand area and customize their services as per the needs of the customers.
- Banks should have good forecasting team to predict the upcoming trends and ideas. Banks still are financially strong and have loyal customer base. Upcoming trends and disruptive ideas of FinTechs can be used by banks to innovate new business models.
- Banks should analyse their core strengths and weaknesses. They can plan for collaboration with FinTechs for such areas where banks identify their core weakness and cannot benefit by being alone. Areas with growth prospects and low customer value proposition should be identified and accordingly right FinTechs partner should be selected to cover up the service gap.

Collaboration of Banks with FinTech a win - win situation

Banks and FinTechs have their own core competencies. They can collaborate together to better serve the customer base and move the economy towards inclusive growth.

- Banks are in the possesion of financial information of their customers which FinTechs do not have. Collaboration with FinTechs will help the banks to use the technology of FinTechs to serve the customers and still be the sole authenticating authority. It will result in safe and secure customer transactions.
- Collaboration will result in higher return on investment in long run due to large scale economies which will be beneficial for banks, FinTechs as well as customers.
- Association with FinTechs will help the banks to offer a variety of services to its customers. It will help banks to attract new customers and face cut throat competition.
- Pooled investment by banks and FinTechs in technology, innovation and other projects will bring sharing of risk and more courage to serve the customers.
- Collaboration with FinTechs will mean constant acceptance of changes in the financial market and improving and upgrading the services accordingly which will ultimately meet the customers' expectations.

- Low operating cost and large number of transactions due to such collaboration will help the banks to provide more offers to customers thus adding new customers in its existing customer base.

In simple words, FinTech companies and Banks in collaborative way can provide innovative and improved financial services to people and bring win-win situation for all the players.

Conclusion

FinTechs have made their own space in all the sectors of the economy and banking is no exception to it. The Darwin theory "It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change" is still true in today's age of cut throat competition. The banks, to face the competition from FinTechs, have to offer innovative and technology based services at less cost to its customers. Banks need to identify their core strengths and weaknesses. They have to work on their weaknesses and where they find no alternative to overcome such weakness on their own, they should collaborate with FinTechs. However, customer faith, trust, privacy norms and loyalty should be given top priority.

References

Beck, T. (200). FinTech and financial inclusion : Opportunities and pitfalls. ADBI Working Paper Series, No.1165, Asian Development Bank Institute (ADBI), Tokyo.

Cortina, S. (2018). The FinTech Revolution: A Threat to Global Banking. Research and Policy briefs, World Bank Chile Center and Malaysia Hub.

Kanagala, A. (2019, September). FinTech Issues and Challenges in India. International Journal of Recent Technology and Engineering .

Vijai. (2019). FinTech in India: Opportunities and Challenges. Saarj Journal on Banking and Insurance Research , 8 (1), 42-54.

Report of the Working group on Fin Tech and Digital Banking, Reserve Bank of India, November 2017.

World Bank Global Findex Report 2014, 2017.

World development indicator database of World Bank.

IMF Financial access survey.

EY Global FinTech Adoption Index 2019

☯

Bank Quest Articles - Honorarium for the Contributors

Contribution	Amount
Article / Research Paper	₹ 7,500/-
Book Review	₹ 3,000/-
Legal Decisions affecting Bankers	₹ 3,000/-