FINTECH
&
ITS STABILITY

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INTRODUCTION

FinTech (short for financial technology) is an emerging tranche within the financial services and technology sectors where technology-focused companies and new market neophytes innovate products and services currently provided by the conventional financial services industry. FinTech is gaining significant momentum and has impacted the traditional financial system. Radical FinTech companies and new market undertakings are reshaping the entire structures that outline players in the financial sector.

SIGNIFICANCE AND CHANGES IN THE MARKET STRUCTURE

In response to this fast paced environment, incumbent financial institutions have approached fintech in various ways, such as through joint partnerships or start-up programmes. But whichever strategy an organisation pursues, it cannot afford to completely ignore fintech in today's tech-savvy world.

- **Effect on the traditional banking system**

Consumer banking, fund transfer, and payments are presumed to be disrupted over the next subsequent five to ten years. In the case of commercial lending, for instance, the emergence of online platforms allows individuals and businesses to transact with one another. Lending innovation demonstrated itself in alternative credit models, use of non-traditional data sources and robust data analytics to price risks, customer-centric services, and lower operating costs. In recent years, the payments industry has also experienced a high level of disruption with the surge of latest technology-driven payments processes, new digital applications that facilitate easier payments, alternative processing networks, and therefore increased use of electronic devices to transfer money between accounts.

- **Insurance**

Although a high level of disruption triggered by FinTech has already reshaped the nature of lending and payment practices, the second wave of disruption is making its way into the asset management and insurance sectors. Most of the insurance managers consider their industry to be the most disrupted. Over 74% of the insurance companies identified their own industry as the most likely to be disrupted by FinTech over the next five years, while only 26% of players from other sectors agreed; 51% of asset managers said their industry will be disrupted, while only 31% of other players agreed. However, professionals from other industries do not agree with the above-mentioned statement. The fact that only insiders are conscious of this situation, while outsiders don't perceive it could indicate that the impact is still in its early stages. But venture capitalists are focussing on the start-ups dedicated to changing the way customers invest money

and buy insurance. Annual investments in InsurTech start-ups has increased fivefold over the years. The pace of change in the global insurance industry is ever increasing.

- **Investment**

The investment industry is at a crucial stage as it combats with changing customer behavior, new technologies, new distribution, and upgraded business models. The investment industry is additionally being pulled into the jaws of new technological developments. The emergence of data analytics in the investment space has enabled firms to hone in on investors and deliver tailored products and automated investing. Moreover, innovations in lending and equity crowdfunding are providing access to asset classes formerly unavailable to individual investors, such as commercial real estate.

- **Easy customer access**

As customers are becoming accustomed to the digital experience offered by companies such as Google, Amazon, Facebook, and Apple, they expect the same level of customer experience from their financial services providers. FinTech is riding the waves of disruption with solutions that can better address customer needs by offering enhanced accessibility, convenience, and tailored products. Over the next decade, the consumer profile will change dramatically as the Generations X and Y and Baby Boomer generation ages take over significant roles in the global economy. The former group known as 'Millennials', is bringing radical shifts to customer demographics, behaviors, and expectations. Millennials are likely to generate a high degree of customer centricity to the entire financial system.

RISKS

While many of the developments in fintech are still in the nascent stage in many countries across the globe, the sector is vulnerable to potential risks, in sequence,

1. Cyber risk: The sector is prone to cyber risk. Almost 98 percent of the top global fintech companies are exposed to cyberattacks such as phishing, attacks through certain apps, etc.
2. Data Breach: Many fintech companies store their customer's personal and card details. A breach of the customers' data could put sensitive information into jeopardy.
3. Speed: Rapid transactional speed is a benefit of fintech; however, it requires companies to adapt to fast processes, for example in fraud and regulatory reporting, that will match this speed. Few firms fail to keep up with this speed and accuracy.
4. Anti-money laundering and countering terrorist financing: This is considered a major risk; it must be alleviated appropriately from the sector. Regulators could share black lists or white lists for this purpose.

5. Legal and regulatory risk: The structure and frameworks of regulatory laws are still unconnected with fintech. Presently, some areas of fintech activity are regulated while others are not. The lack of commonly applied standards in the unregulated business may add up to risks.

BENEFITS OF FINTECH AND ITS

ROLE IN PROMOTING THE DIGITAL ECONOMY

Financial services, especially the banking sector, are an industry that has seen a great interference from technology in recent years. A number of start-ups are harnessing innovations such as blockchain and machine learning to improve their services. This industry is responsible for consumer welfare and consumption patterns. Whether consumers receive a mortgage or a loan, etc, are all decisions taken by the Financial Services industry. FinTech is a complicated area that is developing at a very fast pace and showing no signs of slowing down in Asia-Pacific. As fintech has grown from niche players into a major industry, the trend has moved from new businesses acting purely as disruptors to an environment where FinTech and incumbent companies work together to deliver game-changing commerce experiences. According to a study by the management consultancy Ernst & Young, around a third of digitally active people in the world's 20 largest economies are already using fintech services. China and India top the so-called "Fintech Adoption Index". There, more than half of all digitally active people also use digital financial technologies. The International Monetary Fund (IMF) has estimated that upwards of $100 billion has been invested in fintech since 2010. Most fintech is in India, China, and the United States. Fintechs' services have already found widespread use. The success of the industry comes from and is dependent upon its customer service orientation which in turn manifests itself in transparency, efficiency, low costs / favorable conditions as well as speed and accessibility. Although fintech represents potential competition, many banks and insurance companies work closely with financial startups. Access to financial services plays an important economic and social role in developing countries and fintech has great potential there. In their fintech agenda, the World Bank and IMF see great opportunities for the industry in combating poverty and adding value. Traditional players are still in the early stages of customer-oriented solutions, at least when compared to what fintech proposes. Fintechs prioritize 24/7 access and thus, can carve a niche in offering services via non-traditional channels such as social media which has the potential to empower customers to a great extent. By 2020, social media will be the primary medium to connect, engage, inform, and understand customers as well as the place where customers research and compare banks' offerings. The banking sector is the market that is and will be changed the most in the coming years. Channel diversification will be a key driver of change in the banking sector. Massive expected growth in the usage of mobile applications (much higher than any other financial sector) and traditional providers increasingly designing their products

and services with the aim of enhancing customer engagement via mobile are just a few changes that technology has brought about in the finance industries, especially banks. For customers who are unable to secure loans from traditional sources, fintech is also providing peer-to-peer marketplaces. Peer-to-peer (P2P) lending typically refers to digital marketplaces through which companies or individuals can borrow money, provided by other individuals or companies, e.g. their peers. This provides a solution for customers unable to get loans with no or poor credit scores. We have gone from paying utility bills over the counter to over the phone and eventually through BPAY, PayTM, and internet banking. Gen Y, millennials, and Gen Z might be the obvious consumers of fintech resources but businesses are also carving out their demographic from baby boomers. This is the generation that has either already retired or is on the verge of retiring and looking for new ways to unwind and enjoy their golden years. With the benefits that fintech brings in terms of easy loans, transactions, and accessibility, people have rapidly moved towards adapting to this new convenient, digital way of life. Countries like India have enabled and promoted fintech players in the past decade or so, in an attempt to go "cashless" or establish a digital economy where most transactions take place via technology that is easily downloadable on smartphones.

IMPACT ON TRADITIONAL FINANCIAL SYSTEMS

It is becoming increasingly important that banks and finch companies establish strong, stable relationships with each other in a "new meets old" way. As we move towards a society where possessing cryptocurrency will be as natural as owning paper money, we need a strong legislative base that covers issues related to the activities of non-bank institutes, otherwise, the use of cryptocurrencies may cause price volatilities and affect payment systems. The new laws and rules will also enable financial firms to easily enter the market and high-street banks. 'Open banking' will offer more choice for bank clients. The new concept was initially offered in the UK and then spread to the rest of European countries. The initiative implies that banks will partner with third-party companies by handing over users' data to the latter via application programming interfaces. It is expected that open banking practice will boost competition, drive innovations, and deliver better users' experience. Platform-based banking is evolving, gradually replacing the traditional vertical business models and allowing third-party providers to develop banking solutions. It resonates and complements the idea of Open Banking.

Several major impediments inhibit business relations between banks and Fintechs. From the banks' perspective, Fintechs lack the proper IT security and regulatory certainty, while Fintechs believe banks can be hard to work with due to differences in management and culture as well as differences in operational processes. The banks' concerns are valid. The more companies digitize, the higher the risk of cyber-attacks and data theft. With more than half of all digitally active people using digital financial technologies and a significant number in possession of cryptocurrencies, the challenges of the financial sector are increasing constantly. AI has been

making consumer welfare decisions with the advent and invasion of technology in sectors traditionally handled by humans. So the question arises- Can technology such as machine learning or artificial intelligence be trusted to make a totally fair decision? Experts say that AI has its faults but over time, we can try to audit the AI and make it better. Eventually, one can hope that AI will be making unbiased decisions. There are great advantages to be gained from technology if we make sure that we rein in the more problematic areas.

A new breed of startups has emerged and they focus on using technology to achieve financial equity for populations that have been underserved due to barriers to access, among other things. Their aim is to build profitable enterprises while engaging in social good, along with tapping a variety of highly accessible and affordable digital innovations, from machine learning to cloud computing. R3 is such a start-up and focuses on making credit reporting fairer. "By analyzing a complex array of data, its platform provides a more nuanced and in-depth analysis of an individual's past record and future potential, all summarized in a score that's easy for banks and other financial institutions to understand.

CONCLUSION

With digital transformation and customer experience being given utmost importance, financial institutions are looking at AI solutions to deliver superior customer experiences, reduce costs, and unlock new revenue streams. They are either developing in-house capabilities or forming partnerships with fintech players to leverage the technology. Artificial intelligence (AI), the internet of things (IoT), and robotic process automation (RPA) technologies have gained relevance over time and are slowly taking the front rows. However, their use is restricted due to data vulnerability and cyber and security risks thanks to the internet. With the emergence of a new system of recording known as the blockchain, complex issues can be resolved by creating indexed records that are risk-free and referenceable without censorship. The emergence of new technologies may still not present complete solutions, but the convergence of technologies should help players customize solutions. Diversity in technology can disrupt multiple business models as well as conventional systems. Thus, it is on the radar of many governments and companies. In the future, we might see fully operationalized systems with enterprise-ready blockchain solutions, blockchain-based cities, standard and frictionless global identity systems, and many other comprehensive solutions that strengthen the fintech service industry.

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The Parley Project is a student-led initiative which focuses on research-driven solutions for global agendas. Started in 2020 the project aims to be a platform where students like us can voice their opinions and hone the understanding of the world around them. It is an endeavour to explore the intricacies of the increasingly globalised world and to unpack the politics behind the same.

We aim to connect students to professionals for mutually insightful discussions and conversations about various pressing agendas. Through various youth conferences and carefully curated agenda-specific events we wish to bring together inquisitive minds to research and provide new insights to contemporary issues and come up with solutions for the same.

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