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Fintech and BFSI: Driving Growth and Inclusion

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A B S T R A C T

Financial Technology solutions, often called Fintech has made huge developments in business world. Worldwide, fintech took major steps during the financial crisis of 2008. In India, demonetization further fueled its growth. The present paper tries to present the ways in which fintech has changed the way of delivering financial services. As the financial services sector is the most data-intensive sector in the economy, digitalization and big data demands banks and other financial institutions to follow a data-driven approach so as to stay competitive. Fintech changed the way Banking, financial services and insurance (BFSI) players operate in the industry. Government and regulatory body develop systematic regulations that can accelerate the growth and adoption of fintech services in the country. A win-win business model of collaboration between financial service sectors and FinTech companies will make them more competitive in a digitally driven economy. This paper examines the role of FinTech in driving growth and inclusion within the BFSI sector

Keywords: Fintech, BFSI, Big data, Financial Inclusion, Fintech adoption, Financial Sector Regulation

Introduction

The world is currently witnessing one of the most significant transformations in financial history—the FinTech revolution. This revolution, driven by technological advancements, is poised to revolutionize the way financial services are delivered and reshape the Banking, Financial Services, and Insurance (BFSI) sector.(Anne 2019)

FinTech stands for financial technology and describes technologically enabled financial innovations. Fintech companies exist with the intent to simplify various financial procedures and to improves and automates the delivery of financial services. Fintech operations in Digital banks, payment wallets, UPI apps, internet banking, and digital lending and insurance is viewed as a potentially transformative force in the Indian market.

FinTech companies provide services in all areas of financial services, including payments, peer-to-peer lending, crowd funding, investment advice, block chain technology, capital markets, insurance etc. FinTech is truly changing the background of the financial services sector. Just as Uber and Airbnb have resulted in changing consumer attitudes to taking taxis and booking hotels, FinTech can change the way consumers use financial services, including insurance.

The Banking, Financial services, and Insurance (BFSI) sector is an industry term used to define companies that provide a range of several financial products or services. Its potential for growth is especially stronger in developing nation like India, as it is one of the fastest growing economies in the world.

This paper contributes in many ways to the literature. It examines the role of FinTech in driving growth and inclusion within the BFSI sector

Fintech Revolution

The financial service industry from funding to insurance, from consumer finance to investment banking is witnessing a rapid technological intervention. Fintech gives opportunities to the startups to find new ways of doing things in an efficient manner. The growth is Fintech industry shows a tremendous growth in the year 2019. The fintech is disrupting and changing the game of financial services sector. ((Arner, Barberis, & Buckley, 2015; Feyen, Frost, Gambacorta, Natarajan, & Saal, 2021; Najaf 2021)

The Power of FinTech:

FinTech companies have emerged with the aim of simplifying financial procedures and leveraging technology to improve the delivery of financial services . These companies operate in various areas, including payments, peer-to-peer lending, crowdfunding, investment advice, blockchain technology, capital markets, and insurance. By harnessing technological innovations, FinTech has the potential to transform the financial landscape and disrupt traditional banking and insurance models.

One of the notable advantages of FinTech is its ability to democratize financial services and promote financial inclusion. By leveraging digital platforms and mobile technology, FinTech companies are able to reach underserved populations, particularly in developing nations. In countries like India, where traditional banking infrastructure may be limited, FinTech is bridging the gap by providing accessible and affordable financial services to the unbanked and underbanked segments of society .Covid pandemic is a black swan event on a global scale. The sudden arrival of the pandemic severely impacts both the supply and demand side of the economy and leads to extensive stagnation of production and a significantly decreased operating income in enterprises. However, enterprises continue to incur unavoidable maintenance costs, which result in unprecedented financial pressure. Financial market risks and uncertainties also increase worldwide (Al-Awadhi et al. 2020).

The demonetization drive in 2016 in India, can safely be called the landmark moment which redefined the fintech ecosystem as it was understood until then and put many fintech startups in India on the map. The ban on INR 500 and INR 1,000 currency notes, which wiped out 86.4% of cash from the economy overnight, forced the public to switch to digital payments and online transactions.

The flagship scheme of the Government to promote the efforts of startups in the country by providing regulatory and financial support which has led to a growth in the number of FinTech startups in the country.

The RBI has issued licenses to 11 FinTech companies to offer e-banking services like remittances, deposits and savings, paving the way for new-age branchless banking services offered by FinTechs. The RBI provided legitimacy to the P2P lending segment by categorizing them as NBFCs, boosting the sector's growth.

The other key drivers for growth of Fintech in India are increase in penetration of smartphones, affordable data connection, favorable demography, change in spending habit and digital infrastructure created by Government like formation of business through GST registration. JAM Trinity (Jan Dhan Yojana, Aadhaar and Mobile number) of Government of India also deliver direct benefits to the new ecosystem. India's real-time money transfer platform IMPS (Immediate Payment Service) has been rated the best global payments innovation by US-based research firm FIS (Fidelity National Information Services).

Fintech Adoption

EY's Global FinTech Adoption Index 2020 says that India, along with China, leads emerging markets with a high 87% fintech adoption rate in 2019. The 2019 global average adoption rate is much more moderate 64%. In 2017, the first time the index was created, India's fintech adoption rate was 52% - still higher than the global average of 33%. Fintech adoption locally is driven by greater use of money transfer and payments (at 94%). All other categories also have high adoption compared to global average. Within money transfer, adoption is led by peer to peer and non-bank money transfers (85%), and in-store mobile phone payments (88%).A lot of Indian fintech markets are unicorns and India's market is currently valued at $31 billion, and are expected to grow to $84 billion by 2025.

The disruption

The disruption is the new buzzword today and financial services are highly vulnerable to disruption. Financial services industry is now driven by advancement in technology, Industrialization of Artificial Intelligence, Machine learning, virtual reality, robotics and cloud computing. Fintech might be further classified as banking tech, Insurance tech, Regtech etc.

Fintechs and Banks

Fintech firms are coming with faster and cheaper banking service models to customers. Banks are much worried about the entrance of fintech banks because they have got customer touch points as well as they gained their trust and confidence. Traditional banking models have struggled around mainly five areas such as – financial inclusion, customer experience, increasing transparency, compliance, and timely decision making. Fintech can bridge these gaps by developing innovation, customer centric products and delivery channels.

What also worries banks is that there are thousands of new and dynamic Fintech startups that now offer products that used to be dominated by traditional financial players. For example, peer to peer lending Robo-advisory platforms etc..Fintech's entry into finance has the potential to spark rapid change in the industry. They may even become dominant through their collection of valuable data and their large, established networks (BIS 2021).

Big tech firms like Google, Amazon, Facebook and Apple (GAFA) have their presence in India and are doing banking activity in terms of payment and settlement. So banks are now associating with such companies to their advantage and to leverage data for their business.

Banks have enormous amounts of customer data (i.e. deposits/withdrawals at ATMs, purchases at point-of-sales, payments done online, customer profile data collected for KYC), but due to their silo the effectiveness in utilizing the rich data has to be analyzed.

Financial inclusion has gone beyond the oratory surrounding social development and financial stability, but also expanding into pathos of arbitrage benefits made from cheap retail deposits by large banks and banks from technologically developed regions.

How InsurTech is reshaping insurance?

Insurtech seeks to use technology to simplify and streamline the insurance industry. Insurance companies are very much aware of the FinTech revolution. Insurance providers are meeting their customers in online marketplace. The way insurance company deliver services right from meeting customers, selling products to processing claim has changed. In today's tech-savvy age, insurance claims can be settled within a day, if not hours. A radical change of insurance services which enable customer to conveniently buy insurance products just like buying any other products online than buy from intermediaries such as individual agents, corporate agent (banks) or insurance brokers. Insurance products are now customized in terms of its features as well as premium and claim amount by analyzing personal data of customers and risk exposure. Internet of Things (IoT) , Big Data &Analytics and Block Chain Technology are new terminology associated with insurance.

On the light of Covid Pandemic health and wellness initiatives are technology-driven and aim to make the lives of our customers easier.

According to Nicholas Boyle DLA Piper (2021)- The insurance sector is being particularly affected by Fintech disruption. Smart phones have created a new means of distributing insurance products and lodging claims. The vast amounts of data generated and collected each day create opportunities for better development of new products. Furthermore, the importance of digital assets has created opportunities for new insurance products, such as cyber-insurance.

There is enhancement in the InsureTech Investment mainly due to the advancement in the FinTech InsurTech startups in India. But streamlining the partnering of incumbent players with insure tech start up need more attention. Insurance Industry have made a presentation to IRDAI to allow them to own 100% in Insure Tech startup companies." Many insurance companies still rely on legacy software.

Role of Regtech and Sup Tech

The Indian FinTech space has been governed by multiple entities such as the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Telecom Regulatory Authority of India (TRAI) and Insurance Regulatory and Development Authority (IRDA). Thus, there is no single regulatory body or specific set of guidelines dedicated to FinTechs Regulators and supervisors have to undertake accelerated off-site surveillance. This also brings in the need for a transparent, technology and data-driven approach The majority of the above risks can be eliminated by advances in the current system regulating financial markets. The financial revolution is based on open innovation and bringing together incumbents and third-party providers. Smart regulation will ease sharing data, knowledge and ideas between market players. Regtech, which seeks to help financial service firms meet industry compliance rules, especially those covering Anti-money Laundering and know your customer protocols which fight fraud.

The regulatory system particularly for Fintech companies should primarily concerns compliance issues, transactions tracking, trading, and reporting systems. For example in 2017 RBI instruct wallet companies like Paytm to go through the same KYC norms like banks, when they sign up users.

Fintechs also have something to offer regulators. Knowledge sharing between regulators and fintech companies can enhance regulator awareness of consumer habits, behaviors, and desires. This awareness can then contribute to the construction of regulatory systems that help build consumer trust in fintech platforms. On the other hand, innovation managers can help regulators achieve their goals by integrating a behavioral insights approach in fintech innovations, maximizing their potential to create desired behavioral changes (Lockton, Harrison, and Stanton 2010)

In August, 2019 RBI permitted startups, banks and financial institutions to set up regulatory sandbox (RS) for live testing of innovative products in areas like retail payments, digital KYC and wealth management. This will enable authorities to take a considered view on the regulatory changes or new regulations that may be needed to support useful innovation.

The regulator manages core payment systems (such as RTGS) enables an umbrella organization such as NPCI to create and operate similar systems (such as UPI). Regulated entities, such as banks, and pre-paid instrument providers have direct access to these systems. And finally, the regulated entities can enter into business relationship with innovators to build new solutions for the market. This architecture balances regulatory safety and innovation. It also combines the safety and trust of banking institutions with the reach, and convenience of non-banks. Praveena Rai , COO , NPCI says NPCI's objective is to have a very healthy multi-party ecosystem with all our partners.

The Report of the Committee on Deepening of Digital Payments (CDDP) May 2019 noted the recent growth in volume of digital payments by a factor of 10 over five years and has set a target for additional growth of 10x in three years. The committee recommends the use of risk based, light touch regulation (Like SRO-Self Regulated Organization), allowing greater freedom for the regulated players to serve the customer in a viable manner, and to allow the markets to determine the right price points for these services.

Integration of BFSI with Fintech

Identifying promising start-ups, and determining how Financial Services companies can collaborate with start-ups by integrating their technologies with existing business processes helps incumbents stay in touch of emerging trends and leverage new start-ups for the mutual growth and development.

Firms are increasingly competing or partnering at different points along the financial services value chain to take advantage of unmet customer needs, less efficient cost structures, high capital usage and attractive returns. These changes can bring enormous benefits to the financial services system.

The use and challenges of "big data"

Data analytics is the biggest driving force which improvise the performance of BFSI sector. Insurers have been accumulating vast amounts of data for many years, but the rate at which data is now growing is unprecedented. This presents both opportunities and challenges. If big data is used effectively, it has the potential to drive growth and innovation and gain a competitive edge. At the same time, this presents challenges. One challenge faced by the BFSI sector is how to effectively and efficiently analyze and make use of the ever increasing data available to their advantage. The use of big data also brings with it the difficulties and challenges associated with protecting data, such as complying with privacy laws, protecting personal data and cyber security risks.

All the personal records kept in gadget storages refer to Big Data and if applied appropriately can reveal behavioral patterns of existing and potential clients. Paytm is a good example of how technology gives opportunity to expand business to almost every corner of India especially after demonetization. There are about 14 million merchants using Paytm services and they enable 800 million – 900 million transactions a month. Paytm is into flight and hotel booking, movie and event tickets and digital gold. It also forayed into Paytm mall. Vijay Shekar Sharma, Founder, Paytm said they are going to launch insurance services and expanding its lending and booking services in the coming years. He said the ability to process nearly half a trillion payment transactions in the next two years will give Paytm an opportunity to scale up its financial services and commerce business.

But companies such as Google, Amazon and whatsApp are not only looking to make money from their payment business. For them, payments are the means to get data that can be used for developing new products, personalized content and ads.

For Companies such as Walmart owned Phone-Pe and Amazon it helps to understand where consumers are spending. Google also threw its hat in the payment business and chose UPI." Money is information, Cash transaction carries a lot of information". If UPI's launch was a game changer, whatsApp payment services and Apple credit card in future can win P2P game.

The Facebook – owned mobile messaging app has more than 400 million users in India and has been beta testing its payment services on a million users .(Outlook business , December 2019). So the transaction data becomes more valuable than the transaction itself and that is why companies are providing cash back and other offers to attract customers.

As digital adoption increases, the question to ask is how safe is it to adopt technology?

The adoption of electronic means of financial transactions is the order of the day as India has predominantly been a cash-heavy economy, but the volume of retail cashless transactions has increased by nearly 124 per cent from FY 2016- 17 to FY 2018-19, as per the Reserve Bank of India (RBI) Annual Report 2018-19.In today's time when technology is becoming all-pervasive and cybercrimes are increasing, the need for a data protection law is dire. The first draft of the Personal Data Protection (PDP) Bill was submitted in 2018 to Ministry of Electronics and Information Technology (MEITY). The Personal Data Protection Bill, 2019 has been cleared by the Union Cabinet on December 4, 2019.

The provision – which some analysts described as "blanket surveillance" – finds a place in the Personal Data Protection Bill) . It classifies data into three broad categories – personal, sensitive personal and critical personal. As per this provision government of India have the power to order or direct any social media providers like Google, Twitter, Facebook, Flipkart etc) to share data. Payments companies, banks and regulators use behavioral biometrics and algorithm to detect fraud and reduce risk by preventing frauds.

The way ahead

The rapid rise of FinTech has changed the business landscape in financial service sector asking for more innovative solutions. These recent tendencies require the banks and other financial service sector to increase investment in FinTech, rethink service distribution channels, especially the business-to-consumers models, increase further standardization of back-office functions, etc. (Kandpal 2019). Some members of the financial services industry see the boom in FinTech as a threat to traditional banking industry. Others believe that FinTech has become a challenge that can be turned into an opportunity as it provides more flexibility and better functionality in many areas.

Changes happen quickly and for those that drive the changes along with fintech brand new model can survive and grow. It implies that BFSI partner with fintech companies by handing over users' data to the latter via application programming interfaces or any other model of collaboration is the way ahead. It is expected that open banking practice will boost competition, drive innovations, and deliver better users' experience. The synergy generated by the FinTechs and incumbents partnership will benefit all the stakeholders.

Compete Vs. Collaborate

A successful model of collaboration between financial institutions and fintech is a win to win business for both. Financial institutions can keep up with the pace of innovation to efficiently serve customers with lesser cost and to the fin tech firms it provide access to fund for future growth. So banks and other financial institutions need to Partner with or invest in or acquire fintech companies in this technology driven era.

In the context of the compete-vs-collaborate debate, the increasing trust in the financial service ecosystem has brought incumbents and FinTech players together to explore more opportunities for collaboration.The methods of collaboration can be in the form of Supplementary Offerings, Partnerships, Acquisitions, Incubators or Setting up venture funds to invest in FinTechs.

Future Prospects of Fintech towards Financial Inclusion

The importance of MSMEs as a major driver of the economy and a critical employment generator cannot be overstated. Moreover, there is a large market of unserved/underserved populations that Fintech can reach out to. The need of the hour is to innovate for the mass market and address challenges such as lack of financial and digital literacy and restrictive regulatory policy. Initiatives such as 'Digital India', 'Make in India', the recent demonetization drive ,the push to make India a cashless economy and COVID Pandemic situation are laying strong foundations for synergies between Fintech and MSMEs.

Conclusion

From 'start-ups' to 'big-techs' to established financial institutions, all the key players are harnessing this technological edge along the financial services' value chain to provide receptive, efficient and differentiated experiences to the end-user. BFSI sector is always attentive on "next-techs "so as to continuously revamp its business model. The success and growth of BFSI sector as well as FinTech companies now largely depends on the extent to which they can collaborate on designing and delivering of customized financial products and services and understanding the strengths and weaknesses of each other so that the capabilities of both entities can be leveraged for the future growth.

There is an ongoing need for researchers, policy makers, practitioners, and civil society agents to closely monitor the advancements in the FinTech space, as it continues to raise new issues and research questions. The global community, driven by initiatives such as the UN 2030 Agenda for Sustainable Development (UN-2030-ASD) and the G20 High-Level Principles for Digital Financial Inclusion (G20-HLP-DFI), recognizes the pressing need to leverage the potential of FinTech in addressing financial exclusion and the persistent problems of inequality in sectors like health and education, which have been further exacerbated by the COVID-19 global pandemic. The pursuit of breakthroughs in research and policy is imperative to tackle these challenges.

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