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## A STUDY ON THE FINTECH REFORMULATING FINANCIAL SERVICES IN INDIA

Miss. Navsin Mistry\*

### ABSTRACT

Technological and digital revolutions are taking place in all the spheres and zones across the globe, same is happening in financial services sector. Various types of digital and technological developments have taken place as a contribution to financial technology by the new FinTech Companies. These last few years have made the financial services faster, easier, convenient and cheaper by constant innovation. These continuous affords in FinTech is having both positives and negatives, but over a passing term the negatives are reducing by providing securities and checks on personal and sensitive information of the customers. The study was conducted to understand the various developments and prospects of technology in financial services sector. Secondary data was collected through various sources available which help in fulfilling the objectives. The study also gives detail on opportunities and challenges in implementing these developments of Financial Technological Innovations.

**Keywords:** FinTech, Financial Technology, FinTech Companies, Financial Services.

### INTRODUCTION

The words quoted by Bill Gates in 1994, which states that "Banking is necessary Banks are not" become quite through with the introduction of various technologies in financial service sector. With different interdisciplinary approach, one of the popular and fast evolving approaches is technology in financial sector, which is "FinTech" the word which has been quite heard of now a day in various newspaper, journal, article etc. There are thousands of companies who are working towards giving us a way of getting financial service. These few thousands of FinTech companies are attracted towards banking. They are advertising to share a part of banking company profit.

Fintech weekly (2016) define that FinTech describes a business that aims at providing financial service by making use of software and modern technology. The financial institution have been working and using a lot of their funds towards finding various way to provide faster, cheaper and convenient service to the customer by the way of technology Fintech companies is a light in this

sphere which are capable enough to initiate better solution to various financial institutions.

The innovations and development in FinTech will have benefits for global economy, social and environmental dynamics. Any new way providing these services grew because of the available IT enabled environment, the reach of internet and the increase in the use of mobile phones. The ongoing pace of FinTech enabled service will pave the way for getting the unbanked under banking system.

### REVIEW OF LITERATURE

- According to Anjan V. Thakor (2019) has stated that paper is a literature review in relation to FinTech and its impact on banking. The researcher mentioned that FinTech has provided innovative services in payment systems, cryptocurrencies, credit markets, P2P lending, and insurance, with the help of Blockchain, a smart technology. The paper provides reviews on the theoretical and empirical literature on FinTech, along with

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examining some statistics and facts systematically. The paper summarizes knowledge and concludes with future research.

- According to Landa Ramesh (2019) mentioned in her paper that the rise and growth of FinTech companies startups and widening of the world's digital ambitions are putting high pressure on traditional operating system of banks, insurers, and other financial players. Customers' don't any longer expect their bank to provide them the best experience digitally. Due to the new vast and improved data, FinTech companies have gained market grip significantly, by new innovative and successful offering products and services for consumer demand, conveniently at lower operating cost. The paper mentioned the collaborations of Banks with FinTech startups companies, challenges and supportive environment.

#### OBJECTIVES OF THE STUDY

1. To understand the FinTech as a term used in the study.
2. To analyse the growth and development of FinTech in different verticals while providing financial services.
3. To study the opportunities for FinTech in providing financial services.
4. To study the challenges of FinTech in providing financial services.

#### RESEARCH METHODOLOGY

The data has been collected through various sources of secondary data. Secondary data has been collected through journals, research papers, books and websites. Secondary data which is collected from other researchers have served a good source for collecting the required data for analysing the objectives, which will further add to derive a justifiable conclusion for the study.

#### DEVELOPMENT OF FINTECH

The specific verticals where FinTech was able to make its place may be varied but the major ones are discussed further below. These verticals were able to make a significant growth for there were number of factors which have contributed over years. The contributing factors are the sound advancement in technological environment, the expectance and preferences of customer and

investor, the shift in the landscape of regulations, and the coverage provided by mobile phones usage.

#### • Digital & Electronic Currencies

Over the period of time there are now more than two hundred digital currencies existing in independent and non fiat form. From amongst these 12 are the ones which have market capitalization of more than dollar five million. Digital currencies in the form of Bitcoin to litecoins offering new p2p channel for demolish and international payment, now there are many merchants globally accepting Bitcoin wallets as a mean of remittance The users are expected to increase tapping over 765,000 users and crossing more than dollar 5 million transaction value the fiat currencies and money transfer service are a part of electronic currencies which is experiencing growth. The money transfer services have helped to being greater financial inclusion. Across all the countries more than 30% of countries GDP are the transactions which are handled through electronic currencies.

#### • Digital Payment System

Other than the over currencies, digital payment systems is gradually evolving and reshaping the way consumers and businesses interact for payment. The innovations and reformation in communicating and making the payments have improved. FinTech companies are looking forward to work even more on digital security for making payments. The innovation of in the same respect is continuous. Future of communication, transfer, authentication and security in payment being made in digital space is good and rapidly evolving.

#### • Online Finance and Investment Platforms

Challenges such as efficient services, lower cost of operation, user friendly products and environmental friendly approach has made the traditional financial service to suffer out the hands of new online finance and investment services. These new platforms are made available to the customers and Investor by the leading FinTech companies. FinTech enable finance and investment platform providing loan to small-business, loan for start ups and so on. The innovation in this variable through online financial service is innovative investments and crowd funding platforms are providing to be beneficial is specially for new and small entrepreneurs.

## • **Big Data**

Large data combination and analytics are allowing the financial services providers to use the platform for offering innovative services and products at comparative low price. The waiting times to get access to loans have been reduced drastically. FinTech platforms are also trying to make the credit available to the unbanked share of population with the development the risk is also posed about cyber security and personal privacy. However they are working to overcome these challenges. So that the share using this could be increased and felt most satisfied and delighted.

## **OPPORTUNITIES OF FINTECH**

Different researches, studies and reports have suggested the following benefits and opportunities of FinTech in financial sector by keeping in view the varied perspectives. According to studies and reports such as Peters & Panayi, 2016, Financial Stability Board, 2017, BCBS, 2017; IOSCO, 2017 the below mentioned opportunities are summarized:

### • **Increased access to capital**

The capital appears in the Peer to Peer and Equity Crowd Funding platforms in providing capital to the borrowers, with special emphasis to Small and Medium Enterprises. It tries to provide access to those in needs and face difficulty in getting loans from banks. FinTech also helps in opening new possibilities of accessing equity finance.

### • **Financial inclusion for underserved groups**

Digital transformation and development in financial sector has been supportive enough to provide financial services to each and every section of the society. The under-served groups like small scale business, rural population, people who resides at remote locations and so on are now connected included in financial services sector because of the technological improvement taking place day by day. Increasing FinTech platforms are targeting larger sized trades by shifting them from to firm and executable orders. New asset classes are another beneficial side.

### • **Better tailored banking services**

Banks has been benefited a lot from the specialization of FinTech firms. The traditional offerings of the banks are improved and they are

able to deliver services to the customer in more flexible, convenient and cost effective way.

### • **Cost effective**

FinTech firms are able to offers better and faster financial services at lower transaction costs. FinTech players have speed up payments, transfers at a comparatively lesser costs. Various markets have been benefitted from the reduced counterparty and settlement risks in shortened. Blockchain technologies have the potential to reduce the settlement cycle from 3 days to 2 days, and then lead to near-instantaneous settlement.

### • **Increased competition, a positive impact on financial stability**

The entry of new competing players with incumbent banks will eventually fragment the financial services market and help in reducing the systemic risk associated with players of systemic size.

### • **Regulation Technology (Regtech)**

Contemporary innovative technologies provide help to financial institutions for complying with regulatory requirements such as prudential requirements which includes reporting and consumer protection. Banks can benefit from RegTech which is more effective ways to improve their regulatory compliance and management of risk.

### • **Enhanced security**

One of the core developments in FinTech, security is built into blockchain through encryption of the blocks and providing the links between the blocks. Attacking every node build in a blockchain is more difficult with the present state of technology than to attack a central database. FinTech services is also providing various methods to protect personal and confidential information by providing anonymity and preventing information leakage.

## **CHALLENGES OF FINTECH**

Like any other developments, FinTech too as challenges along with various opportunities, these challenges are spread across various areas/sectors. FinTech challenges. The following are the few challenges of this new technology.

### • **Competitive market share**

Rapid unbundling of banking services to non-banking FinTech or BigTech firms have

increased the potential risks to profitability of the banks. As these new entrances are considered to be having the potential of providing better services at lower cost is making the already existing financial institutions to lose their market share and profit margin because of innovation and customer satisfaction.

#### • Risk of malpractices

Risk of malpractices like fraud, collapse, theft and so on is more on such platform. Some of its users have faced certain cases of materialisation by fraud on such platform. These malpractices are most common in case of buying and selling of securities.

#### • Operational risk

With the development of FinTech in various sectors the need and information technology interdependence between market players and required market infrastructures will increase. This interdependence would cause escalate into a systemic crisis, especially where services are concentrated in hands of few dominant players. The FinTech firms in reformulating the banking services will increase the complexity of the system and IT risks.

#### • Difficulties in meeting compliance requirements

The Compliance of Anti-money laundering and countering financing of terrorism AML/CFT obligation are difficult to be met. The increasing automation and distribution of the product or service between banking companies and FinTech companies can result in lesser transparency on transactions execution and compliance responsibilities. Risk of conducting solicitation / unlicensed activities became more than before, for FinTech platforms may not be able to regulated activities because they only offer execution services, information services, matching services and such others.

#### • Data privacy risk

Risk associated to not complying with data privacy rules may increase with the development of big data, more outsourcing have increased the cases of fraud mostly amongst retail investors and users, over a span of 18 months. The platform of FinTech is being operated by entities with no proper registration and this in turn increases the risk of privacy.

#### • Cyber-risk

Increased reliance on cloud computing, application programming interfaces (APIs), and other new technologies have improved the interconnectivity and making the banking system more vulnerable to cyber-threats, and exposure of large volumes of sensitive data to other potential breaches.

#### • Liquidity risk

Use of new technology creates opportunities for customers to easily change between different savings accounts or mutual funds for obtaining better return. This will most likely increase efficiency; it can also affect the loyalty of the customer and increase the volatility of deposits leading to higher liquidity risk for banks.

#### CONCLUSION

The study states the ease in growth of FinTech which is making it to provide day by day by new, improved and innovative services to the customer at an affordable price and convenience. This growth and development is making the services better for the customers and in turn is helping these technology oriented companies to gain the market share making traditional services outdated. If the technical infrastructure is improved and updated with more security will help them to provide more customer satisfaction. The potentiality and opportunities are ample with a few challenges which need to be solved and handled very crucially.

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