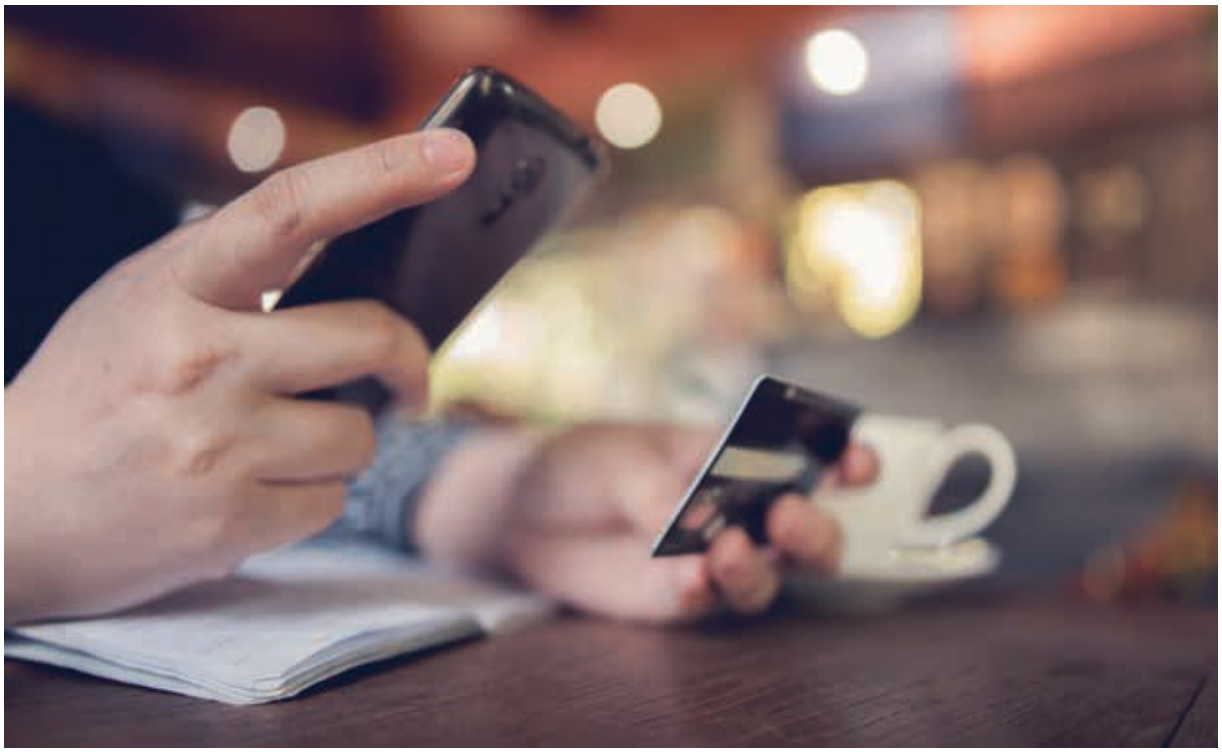
Fintech: Innovation, Solutions and Collaboration Culture



With the rapid advancement of technology and change in customer preferences, the power of financial technology to deliver last mile financial services and for achieving financial inclusion is now being increasingly taken note of, more than ever before. "Fintech", which refers to technology-enabled financial solutions–an inter-linkage of financial solutions and information technology – is witnessing a new era of growth both in developed and developing worlds, especially since the global financial meltdown of 2008. This article focuses on Fintech from the perspective of professional accountants in Business and Industry. Read on…

Tracking the Fintech Evolution

Evolution of fintech has a long history spanning over six decades or more. The advent of credit cards in the 1950s was the first electronic replacement for cash in our wallets. Some experts claim it was the deployment of the world's first ATM or automated teller machine by the Barclays Bank in 1967, which marks the commencement of the modern evolution of today's FinTech. ATMs diverted away the long queues from the bank teller counters and ensured cash availability for the public 24x7.

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The 70s decade was the beginning of the electronic stock trading with the establishment of NASDAQ in 1971, which marked the transition from physical trading of securities dating to the late 1600s to today's fully electronic securities trading.

By the 80s, the banks started getting computerised and sophisticated systems started to be deployed for

record and data keeping. Online banking was first introduced in the US in 1980 and in the UK in 1983 by the Nottingham Building Society (NBS). By this period, most of the financial institutions increased their use of IT in their internal operations, gradually replacing most forms of paper-based mechanisms by the 1980s, as computerisation proceeded and risk management technology developed to manage internal risks.

By the late 1980s, electronic transactions were being done around the world, making financial services largely interlinked with technology. People by then had started to communicate over fax, which supplemented the telex and the first of mobile phones were introduced in 1983. The effect of the "Black Monday" stock market crash in the US in 1987, four years after the introduction of the first mobile phone, proved how financial services had begun to be interlinked through technology in a new way all together.

The next phase, from the late 80s to 2008, was the era when financial services became completely digitised. However, till this period, technology was primarily used by the traditional financial service providers which operated under strict regulatory rules.

The technology innovations in Fintech helped in modernisation, process automation and last mile connectivity of banks and financial services firms.

Technology tools were also deployed for more sophisticated risk management, trade processing, treasury management and data analysis processes. Setting up of Bloomberg terminals by Michael Bloomberg is an early example of such FinTech innovation, which is all the more relevant today.

Fintech in the Present Day

The Fintech space, in its present form, is essentially a post-crisis paradigm. The new era post 2008 is defined not just by the innovative product and services but more on who is delivering these financial services. Technology giants and even tech start-ups are conjoining with financial services institutions worldwide to reinvent their offerings as per the market demand and consumer convenience. The United States, Hong Kong, Singapore and the United Kingdom have bloomed as global hubs for Fintech.

With consumers increasingly doing business with non-traditional players in the financial services industry, fintechs and financial institutions are coming together more than ever before.

According to a global accounting firm's Global Fintech Report 2017, the fintech space is currently "all about innovation, disruption and transformation, and will undoubtedly impact and shape the way financial institutions around the world operate." The report states that FinTech has evolved from start-ups that "want to take on and beat incumbents, to a broader ecosystem of different businesses looking in many cases for partnerships."

Due to the rapid growth in global financial innovation and technology around FinTech, it has become core to the government policies for achieving financial inclusion and inclusive growth in nations across the world.

Fintechs today have become a global phenomenon with mind boggling innovations attracting huge investments worldwide. From an investment perspective, the global fintech sector has witnessed H1 2018 investments surpassing 2017 total to reach USD57.9 billion, as per a reliable report of September 2018.

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What Makes the Indian Fintech Opportunity Unique

India opportunity for Fintech is one of the most promising ones considering a large population of over 1.3 billion people and the largest unbanked or underbanked population, backed by a strong technology and entrepreneurial ecosystem.

Among the Asian economies, India along with China are making giant strides towards Fintech revolution, as is evident from emergence of new-age fin-tech start-ups, huge inflow of investments and presence of non-core players in the financial services industry.

India's rapid phase of economic growth along with a large market base, huge manpower and skill-

set availability and the right kind of policy push for startups has been the biggest boosters for the county's FinTech sector.

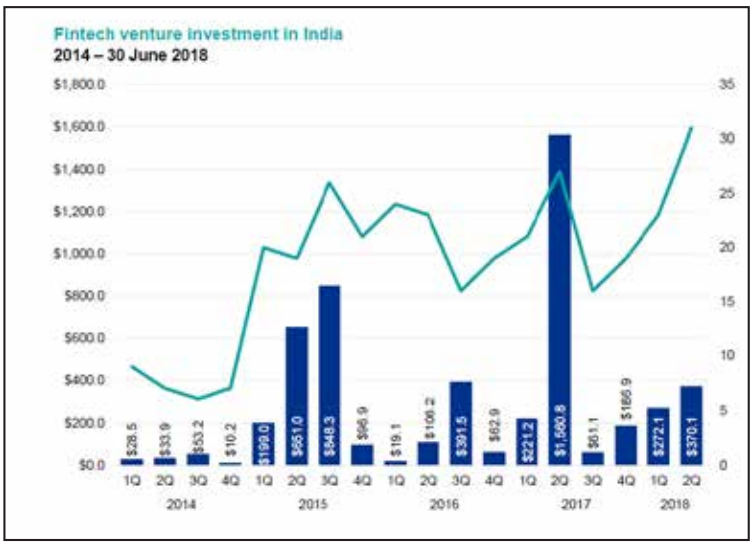
Fintech Innovations in India led by Collaborations

The post Liberalisation era of the 1990s was the beginning of technology-driven developments in the financial industry, starting with the banking industry and all the efforts were government driven. The initial innovations such as MICR, electronic funds transfer and other electronic payments revolutionised the banking system.

The banking correspondent (BC) model which came in 2005, is one of the initial examples of fintech start-ups, which helped in enhancing penetration of financial services in the interiors of India.

Next came the start-ups in mobile wallets; e-bill payment and mobile recharge services in 2010 following which there have been multiple Fintech start-ups in different segments such as lending, personal finance management and investment management.

The positive interest from venture capitalists (VCs) has helped in the start-ups to flourish – between 2014 and 2016, there was 40% growth in investments or funding activity from VCs.



***(Data Source:** Pulse of Fintech 2018, Global analysis of investment in fintech, KPMG International (data provided by PitchBook) 9 July, 2018.)*

According to some reports, the private equity (PE) and venture capital (VC) space in India is on track to record investments of $28-29 billion in 2018 due to a vibrant economy and high returns

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This will make it a landmark year for the sector; its current best performance is $26.2 billion, recorded in 2017.

The rapid growth and investor interest in the Indian Fintech space over the last few years have been the result of conjoined efforts by the start-ups, traditional financial service providers like banks, as well as the government and regulators to develop, implement and propel innovative solutions.

Symbiotic Collaborations Speed up Growth

Some landmark initiatives by the government and regulators in conjunction with the huge growth in internet and smartphone penetration, have led to have created huge opportunities for FinTech and financial services sector to for deliverance of last mile services. Technology giants and even tech start-ups are conjoining with financial services institutions in newer ways than ever to reinvent their offerings as per the market demand and consumer convenience.

Among one of the most prominent initiatives undertaken in the recent years to connect the people financially and digitally such as the Prime Minister's Jan dhan Yojana, the 'Digital India' and the 'Mobile Stack' initiative, the 'Aadhaar' scheme to provide a unique identification number to every India, the stress on manufacturing with 'Skill India' and 'Make in India schemes, in addition to the huge surge in mobile and internet penetration, all together have thrown open a million of new investment avenues for our citizens.

The Jan Dhan scheme was launched with the aim to provide 'Banking for All' and has led to inclusion of an additional 320 million people into the formal banking

sector. More than 24 crore RuPay debit cards have been issued to beneficiaries of these accounts so far.

Symbiotic collaborations between ecosystem players have been at the heart of innovation in the financial ecosystem infrastructure in the country. While launch of UPI – Universal Payment Interface – was yet another very significant move that leveraged the increasing usage of smartphones and mobile apps to facilitate account-to-account transfers, UPI also led other Fintech innovations.

UPI, which offers a superior payments experience, pushed banks to partner with technology companies to improve their service to customers. In April 2015, e-retailer Snapdeal acquired digital wallet Freecharge and sold it to Axis Bank in July 2017. In April 2016, Flipkart acquired UPI-based payments startup PhonePe. Taxi-hailing company Ola, picked up 100 per cent stake in wallet firm ZipCash. In July 2017, e-commerce company Infibeam announced the acquisition and merger of payment gateway firm CCAvenue. Tech giants Amazon and Google have launched their own payment product solution in form of Amazon Pay and Google Pay respectively.

The latest form of such symbiotic linkeages in the Indian fintech space are banks moving indirectly into the e-commerce space through payment services to compete with the likes of Flipkarts and Amazons. Banks have reinvented their mobile apps and are offering their customers products and services that are technically not their core business.

Such sweeping changes at the policy level along with unique collaborations have spurred innovation in the industry and led to mushrooming of fintech start-ups in India, ultimately altering the way the traditional financial services industry delivered their services and products to the customers at the last mile. There are 1,500 fintechs in India and 82 per cent of them are located in the three metros–Delhi, Mumbai and Bengaluru. Payments and credit have attracted the most attention, while savings and insurance remain far behind. About 75 per cent of investments are made in 10 fintechs and 74 per cent of the investments are made in credit and payments fintechs.

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Way Forward – To Forge Win-Win Relations

Despite such massive efforts to create conducive environment for the growth of FinTech and Financial services, the business growth has been rather skewed. As per an international report, Fintechs till now have succeeded in catering to only 23 per cent of the elite/affluent section of the Indian economy while a huge portion still remains untapped. Further as per report jointly by Bain & Co, Google and Omidyar Network, while India has the second-highest active Internet users globally (~390 million), the transacting user base is small – only 40% of 390 Mn i.e. 160 Mn transact online. As per same report, top reasons for not transacting online comprising overall 60% of respondents are lack of trust, no touch and feel, convenience of offline and offline being more reliable.

Given the large demographic dividend of India, there obviously exists a large opportunity to tap the potential of providing financial services through FinTech solutions to the remaining population, especially to the lower and middle income segment.

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The next wave of innovation and growth in the Fintech and financial services space would be triggered by meaningful collaborations that help in sustaining the existing growth momentum and helping the existing players to create sustainable business models. While some consolidation in the industry is likely to bring in such sustainability, understanding and working within the regulatory policy framework would also be a key to triggering the next phase of growth.

Fintechs indeed have a sea of opportunity awaiting them considering the growing mobile and internet usage. The need of the hour is to think out of the box and introduce innovative solutions and services to effectively use digital channels in serving this segment which is still not digitally and financially included. At the same time, Fintech start-ups and established financial service providers should recognise the objectives of regulatory framework especially in terms of stability of system & customer protection and collaborate with them in sharing the innovative solutions on anvil. ■