

Finance and Technology Courtship: A Mere Dating or Marriage on the Anvil?

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Abstract:- Aspirations of mankind have been ever-growing and never-ending. The increased desire to have better standards of living for the human beings, especially by the 'haves', is driving the firms to invent new solutions to satiate their customer needs. In this race of technology-serving-finance, FinTech emerged as a new paradigm in the recent past. The very term is loosely defined as this is still emerging. In general, the term 'FinTech' is used to describe technologies as diverse as cryptocurrency tools, financial transaction platforms and industry-specific middleware programs. This concept paper on FinTech attempts (i) To examine various definitions of the term 'FinTech' and arrive at its meaning; (ii) To explore the reasons for the spurt in FinTech in the recent years; (iii) To understand the significance of FinTech; and (iv) To summarize the challenges for FinTech. The paper adopted exploratory approach on this emerging concept, and collected data from authentic published sources. This pioneer attempt has room for lots of improvement – which can be attempted by the same or other researchers in the near future.

Key Words: FinTech, Growth and Challenges, Concept Paper

JEL Classification: **O33, G10, G21**

1. INTRODUCTION

Human wants are never saturated; they keep going in leaps and bounds decade after decade. To make money out of the process of satisfying those wants, firms attempt to develop and provide innovative and customized products and services forever. This is more on the rise in the recent years – thanks to the spurt in the internet and mobile penetration all over the globe. What was unheard off a decade or two back is a simple possibility today and these possibilities keep enhancing month after month, if not week after week. This scenario is getting charged up further and faster on account of emergence of 'FinTech'. What is coined to be a merger of two terms - 'Finance' and 'Technology' – FinTech is growing beyond finance with the help of technology. This paper attempts to summarize the development of the term 'FinTech', evolution in its concept, meaning and scope in the recent years, significance of FinTech, core areas in which it is getting applied, challenges and opportunities as well as the future directions. This is in the nature of a concept paper which draws information from authentic sources – predominantly available on the internet, since this being technology-related work. The purposes of the study are:

- To examine various definitions of the term 'FinTech' and arrive at its meaning
- To explore the reasons for the spurt in FinTech in the recent years
- To understand the significance of FinTech
- To summarize the challenges for FinTech

Definitions of FinTech

Financial Technology, nowadays better known under the term 'fintech', describes a business that aims at providing financial services by making use of software and modern technology. (FinTech Weekly)

Fintech is a portmanteau of financial technology that describes an emerging financial services sector in the 21st century. Originally, the term applied to technology applied to the back-end of established consumer and trade financial institutions. Since the end of the first decade of the 21st century, the term has expanded to include any technological innovation in the financial sector, including innovations in financial literacy and education, retail banking, investment and even cryptocurrencies like bitcoin. (Investopedia)

The term "fintech," sometimes capitalized "Fintech" or "FinTech," is a general comprehensive term for financial technologies, many of which are rapidly changing the financial industry. As a portmanteau of the words "finance" and "technology," fintech is often used by technology journalists and others to describe technologies as diverse as cryptocurrency tools, financial transaction platforms and industry-specific middleware programs. (Techopedia)

Broadly speaking, FinTech (financial technology) is anywhere technology is applied in financial services or used to help companies manage the financial aspects of their business, including new software and applications, processes and business models. (ComputerWorld)

The term "Fintech" stands for Financial Technology which is better understood as providing financial services by making use of software and modern technology. It was initially applied to consumer trade— financial institutions. By the end of the first decade of 21st century, the term applies to any technological innovation in the financial sector. (CIO White Papers Review)

Peter Schueffel (2016) attempted to provide one single definition to the word "FinTech" by conducting Semantic Analysis of published literature worldwide. He could not conclude with "an academically acceptable definition of FinTech". In his own words: "The overall claim of this article is that no one single definition of Fintech exists. After more than 40 years that the term has been used in practice as well as literature there is no agreement as to what Fintech entails. The process of deriving a shared language for business phenomena has long been recognized to be a daunting task (Daft and Wiginton, 1979). By demonstrating elusiveness of Fintech as a concept this paper corroborated this assertion. The differences in definitions revealed by the literature review, underscore that there are definitional problems with Fintech. This is often compounded by the interchangeable use in the practice, but also in scholarly literature". (Patrick Schueffel, 2016)

2. REASONS FOR GROWTH IN FINTECH

There are a plenty of reasons for the sudden and conscientious growth of FinTech on the globe. Here is an attempt to ponder over some of them:

1. **Changing horizons in generations:** As years pass-by, generations change. Even older generations are forced to learn new technology as it has become the order of the day and the

necessity of life. Many senior citizens have learnt the use of smart phones, whatsapp, Face Book, Video calling, Skype chat, etc. for it has become necessary tools of communication with their wards who are scattered around the globe.

2. **Changes in mentality of the people towards financial services:** Gone are the days for brick-and-mortar banking and insurance services in the world. People have started realizing the power of alternatives (like e-banking, e-insurance, etc.) and started using it to their benefits.
3. **Race against time for all:** Everyone, irrespective of the age, started racing against time. Time has become one of the most precious commodities in the fast-changing world. Saving time has become the priority in most situation. This has led to all kinds of people embracing technology for their financial operations.
4. **Need to transact fast:** Businesses are ever-expanding continuously. Need for liquidity is further growing. Reducing the lag in transacting for money is mandatory nowadays. FinTech offers speed as an integral part of it.
5. **Global exposure:** FinTech offers financial products and services to all the customers across the globe. The terrestrial barriers are no more existing, and people all over the world can buy or sell securities anywhere without any geographical restrictions.
6. **Retail explosion:** Consumerism is the buzzword and has almost come to be settled. The retail explosion makes every kind of products available to every nook and corner of the country/world, and the reach is ensured by the internet penetration.
7. **Improvements in standards of living:** Enhancements in earning potential, and increased income of individuals in many countries lead to better standards of living. As people want to live with comforts, their consumption pattern demands higher use of technology in their buying operations and financial payments.
8. **Attitude towards rich life style:** The hitherto thrift mentality of many conservative countries has paved way to Happy Living mentality. This has led to increased consumption of durables and perishables.

Moreover, the increased consciousness on the physical well-being of the people has also contributed significantly towards the spurt in transactions on the internet and the use of FinTech.

9. **Growth of Consumerism:** Consumer is King – is not an old-saying anywhere; it is the guiding principle in today's marketing too. Producers started acknowledging diverse needs of the consumers, and started improvising their products with multiple variants (in terms of colour, design, pattern, model, pricing, level of quality, etc.). This resulted in the growth of e-commerce in unbelievable proportions.

10. **Increased awareness on financial products:**

The choice of financial products and services available to potential investors are on the continuous rise – thanks to what is called 'financial engineering'. Many new and innovative products and services have emerged in the market, with many of them gaining the acceptance by the investing public. Since most of these innovative financial products are technology-based, there is further growth of FinTech today.

3. SIGNIFICANCE OF FINTECH

Significance of FinTech can be understood by the multiple benefits it offers to various sections of the society. Some of those are briefed hereunder:

1. **Extended outreach:** FinTech, through the wide-range of products and services available, makes the outreach of financial and other services extended to various sections of the society. It attempts to cater to the needs of the sections of people who were hitherto not covered by the service.
2. **Informed decisions:** Through transparency measures, FinTech makes the potential users make the 'informed decisions'. They are provided with appropriate level of needed information based on which they make decisions knowing well the level of risks they are involved in.
3. **Innovative products:** FinTech creates a possibility of designing and floating innovative products by using technology. 'Ease of use', 'Security' and 'Speed of service' are the benchmarks with which FinTech offers new products especially in Banking, Insurance, and Finance domains.

4. **Ease of operations:** FinTech makes the operations comfortable and easy at the touch of a button. Thanks to internet and mobile technology, many of the services are offered to the investors at their hands. They will never leave the comforts of their home or office, yet still avail the services offered.

5. **Ever-Expanding Horizon:** Innovation is the root of FinTech. As technology develops further and farther, there is no end for the innovative products. People are offered with new and improved products consistently and continuously – which is ever-expanding.

6. **Bridging the gap between expectations and service delivery:**

FinTech consistently attempts to bridge the gap between 'expectations of the customers' and the 'actual service delivery of the products'. It enables to a great extent meeting the customer expectations – by identifying their needs quite exactly and trying to match them with appropriate products and level of service.

Challenges in FinTech

There are a number of challenges to the growth of FinTech. Most significant of them are outlined briefly hereunder:

1. **Awareness level** of the potential users of the technology – Still a sizeable score of population are not using smartphones or internet frequently
2. **Continual change in technology** – what was new technology an year ago becomes outdated by now upon the emergence of a new and improved technology
3. **Level of Internet Penetration** – Growing yet not attained a satisfactory level
4. **Bandwidth challenges** – even the urban users face a lot of bandwidth and connectivity issues
5. **Scanty Policy Framework** – Being ever-growing, it is quite difficult
6. **Unreliable and Inconvenient OTPtechnology**– The One-Time-Password idea that is currently in use has its own limitations and challenges. Frauds and scams emerge by duping the OTPs leading to huge losses to individuals and institutions.

4. THE FUTURE OF FINTECH

According to MarionaPrat, Project Manager of The Electronic Wallet Samsung Pay: "Future tech will include newbiometric authentication methods such as facial recognition. Financial institutions will incorporatethese new methods across their offerings, strengthening security and enabling their service offeringexpansion online with ideas such as payments through VR" "The possibility of holographic bank tellers that can perform almost any service the banking offers in the comfort of your home is not just a dream but a real possibility as technologies convergeto make our lives easier," is the opinion of Joy Schoffler, Executive Chair of FinTech Professionals. In the near future, according to Nicholas Harding, CEO of P2P Lending Platform Lending Works, we are bound to see:

- More collaboration between traditional financial services and FinTech
- FinTech being perceived as part of financial services
- Performance being driven by Data Science and Big Data Analytics
- Sustenance of FinTech predominantly dependent on the availability of data connectivity in the country and the level its geographical penetration

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