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Banks a Conspicuous Arm of Digital India

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ABSTRACT:-The term "FinTech" is a contraction of the words "finance" and "technology". It refers to the technological start-ups that are emerging to challenge traditional banking and financial players and covers an array of services, from crowd funding platforms and mobile payment solutions to online portfolio management tools and international money transfers.

Fintech enablement in India has been seen primarily across payments, lending, and security/biometrics and wealth management. The modes of payments in India have leapfrogged from cash to alternate modes of payments registering phenomenal growth. The innovations have happened in all spheres - from common USSD channel access through NUUP, Immediate Payment Service (IMPS) – initiation of transactions through various options for real-time payments to end customer, with the latest being the Unified Payments Interface (UPI). Some of the developments in this regard are discussed below.

Fast Payments

Leveraging on the high mobile density in India, with a population of more than one billion, many PSPs utilize mobile payment apps to link underlying payment instruments with mobile phone numbers for fast payments via the Immediate Payment Service (IMPS) or for issuance of m-wallets. The Unified Payment Interface (UPI) developed by NPCI provides complete interoperability for merchant payments as well as P2P payments. The UPI enables users to link their bank accounts with their mobile phone numbers through an application provided by the payment service providers (PSPs) and obtain a virtual address which can be used for making and receiving payments. Introduction of UPI has the potential to revolutionize digital payments and take India closer towards being a "Less Cash" society.

Process Innovation

With the nation-wide implementation of Aadhaar, providing a unique identification number to all residents of India, NPCI has launched an Aadhar Enabled Payment System (AEPS) that is a safe and convenient channel enabling micropayments with every transaction validated by biometric authentication. In a further impetus to digital innovations, Unique Identification Authority of India (UIDAI) in collaboration with TCS plans to roll out an Android-based Aadhaar-Enabled Payment System (AEPS). The application can be downloaded by merchants on a smartphone and would require a fingerprint scanner to use it. The application is intended to facilitate undertaking transactions without any Card or PIN.

1. Digital Banking Inspiration From Fintech Disruptors

Here are four FinTech disruptors that are changing the way consumer's bank — and that could provide inspiration for your bank or credit union.

1. Peer-to-Peer Payment Systems

Peer-to-peer payment systems like Venmo gained traction amongst the millennial generation and are beginning to make their way to the broader consumer population as banks consider the appeal in this convenient, paper-free payment approach. In fact, according to an article in the LA Times, "peer-to-peer payments could someday overtake cash and checks as the primary way individuals pay each other, and they even could make inroads at the cash register and with businesses that send refunds and other payments to their customers." With peer-to-peer payments, consumers can send or request money from each other with only an app. It's all digital and almost immediate (transferring the money to a bank account can take a couple days), giving the consumer autonomy without the reliance on a larger institution to initiate the transfer.

2. Artificial Intelligence (AI) and Machine Learning

Startups like Branch.co, Zest Finance and MyBucks are using AI and machine learning to offer low-rate payday lending loans. American Banker explained, "AI can make a difference on several fronts, the startups say. It can process enormous amounts of data that traditional analytics programs can't handle, including data scraped constantly off the borrower's phone. It can find patterns of creditworthiness or lack thereof on its own, without having to be told of every clue and correlation." By relying on data and algorithms, these startups believe they offer a faster, more accurate and unbiased way to determine a consumer's credit worthiness and their corresponding interest rate. Similarly, by removing the loan officer from the equation, these Fintech's can save on costs and ensure a profit from their low rate loans.

3. Mobile Tech with a Twist

The importance of embracing mobile technology is not new in the banking sector. But what is new is how certain FinTech startups like Moven are using the mobile platform to offer services that help consumers better manage their money. Moven, which is an online bank of sorts that works alongside traditional banks, is giving consumers insight into their spending habits — offering them tools to see where their money is going and how they can better prepare for the future. It's all about transparency and putting the consumer in control of their financial health.

4. Robo Advisors

Betterment, SigFig and Wealthfront are three of the most well-known robo-advisor startups offering computer-generated financial advice in place of a human financial advisor. While the technology to create automated investment advice is not new, access to it (by those who are not wealth managers) is. Following the FinTech trend, Betterment and other modern robo-advisors deliver the investment advice directly to the consumer, without having to go through a middle man (wealth manager). It's simpler, more accessible and cheaper for the consumer. All wins in the digital age.

2. Fintech and banks: what has been the response?

Despite a mostly cheery public persona in the face of fintech, banks have largely dismissed the movement and have not put large projects in place to either attack or embrace it.

Only 7% of banks have set up their own fintech labs; the majority (63%) have preferred a passive approach of investing in startups or setting up their own fintech accelerators.

The combination of their wealth and resources, with the strategic limitations of fintech startups, means that banks still have time to prevent their industry from facing widespread disruption.

There are four areas on which the financial industry can focus to improve their response to fintech.

a) Fight or flight

Banks should take a clear stance against fintech and stop sitting on the fence. This can be achieved by either directly competing with startups to pursue disruptive innovations (in a sense, disrupting themselves), or by retreating to traditional, simpler, but still lucrative banking.

b) Stop investing in startups

Their passive response to fintech deprives internal resources of funds and sends a defeatist message. Instead, banks should set up independent innovation lab offshoots—free of any internal politics and with incentivized staff—that seek to rectify weaknesses within their current business models.

c) Remove inefficient cross-subsidization

The bureaucratic process of budgeting and hurdle rates to meet yearly targets incentivizes bank teams to chase short-term objectives and compete against each other at the expense of long-term perspective. Banks should employ zero-based budgeting, aggressive opt-in/out choices for certain costs, and complexity-based cost allocation procedures to correctly charge teams.

d) Realign compensation

Banking has lost its allure to younger talent and it needs to revise its structures in light of the stock option benefits and rising base salaries that startups can offer. Technologists are lauded in fintech startups and take key roles in all facets of business design, adding critical contrarian insight. Inside banks, they are still treated as generalist support functions, sometimes in different offices entirely.

3. CONCLUSION

Banks need to learn from the fintech revolution by structuring their organizations around how to provide flexible solutions to problems instead of siloed teams working within linear product mandates.

The unbundling movement that fintech has started could lead to the breakup of banking conglomerates. This may give rise to holding company structures that control investments in separate companies that each specialize within their unbundled vertical of financial services.