




SHORT NOTES FINTECH





The term FinTech stands for Financial Technology.

FinTech is technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions.




It denotes technological innovation having a bearing on financial services.

These are the companies that provides financial services through softwares or other technology mediums and includes anything from mobile payment apps or cryptocurrency.

In simple words, Fintech describes any company using the internet, mobile devices, software technology to perform or connect with financial services.

For instance, BharatPe, Paytm, Policybazarr.com, Razorpay, etc.





Payments

Lending

Insurance

InvesTech

Blockchain

Other

WHAT IS THE STATUS OF FINTECH SECTOR IN INDIA?

India is one of the fastest growing FinTech markets in the world. In FY20, it was valued at USD 50-60 billion and is expected to touch USD 150 billion by 2025. The sector has seen a cumulative funding of USD 27.6 billion.

India recorded the highest growth in the digital payments segment with the monthly volume going beyond 5.7 billion transactions in September 2021.

Benefits of FinTech

Financial inclusion

It enables all individuals and businesses to get access to appropriate and affordable financial products and services in a timely manner.

Economical

The services are provided through apps and other such digital modes. With each innovation comes a potential reduction in cost as there are no physical branches, which means no overheads to pay.



Speed

The automated process not only saves cost but also helps get access to services in a timely and quick manner.



Efficiency Enhancement

The FinTech, because of their speed and economical ways of rendering services played a key role in making the financial sector more efficient.



Flexibility

FinTech companies allow you to carry out all kinds of operations from whenever and wherever you want in a very simple way.



Personalized Customer Service

If there is one thing that Fintech products have been able to enhance, it is their ability to meet the particular needs of the user and the company in a personalized way.

Associated Challenges of FinTech



Cyber-Attacks

Automation of processes and digitization of data makes fintech system vulnerable to attacks from hackers.

Recent instances of hacks at debit card companies and banks are illustrations of the ease with which hackers can gain access to systems and cause irreparable damage.

Associated Challenges of FinTech



Data Privacy Issue

The most important questions for consumers pertain to the responsibility of cyber attacks as well as misuse of personal information and important financial data.



Difficulty in Regulation

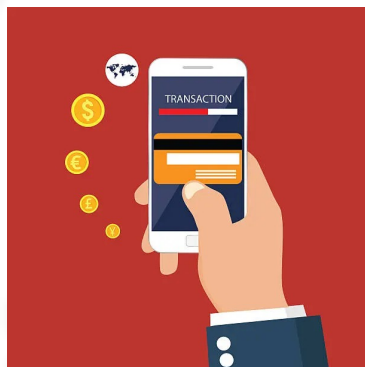
Regulation is also a problem in the emerging world of FinTech, especially cryptocurrencies.

In most countries, they are unregulated and have become fertile ground for scams and frauds.

Due to diversity of offerings in FinTech, it is difficult to formulate a single and comprehensive approach to these problems.

Major Enablers of Indian FinTech

Penetration of internet and smart phones has given a boost to FinTech

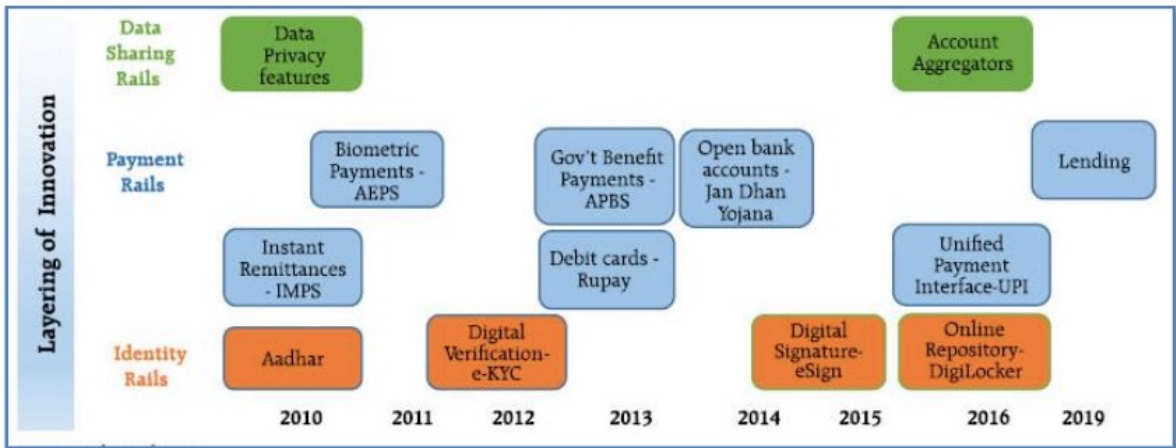


Favorable Indian Demography is another enabler as the Indian market is blessed with a higher proportion of young population, who are more likely to trust and adopt FinTechs.



The indigenous set of technologies and policies also act as enablers to innovation.

- Let us have a look at such set of technologies



Fintech and Bank Collaboration

FinTech firms are no longer viewed by banks as disruptive forces but as enablers of banking and finance. Banks are relying on a number of strategies to embrace technological innovation ranging from investing in FinTech companies to collaborating with FinTechs for various operational functions.



FinTech Innovations

Now, let us have a look at some of the most prominent FinTech innovations.



Mobile and web-based payment applications



Digital Currency

Digital currency is a form of currency that is available only in digital or electronic form, and not in physical form. It is also called Digital Money or Electronic Money



- Digital currencies are digital representative of value, currently issued by private developers and denominated in their own unit of account.
- They are obtained, stored, accessed and transacted electronically and neither denominated in any sovereign currency nor issued or backed by any government or central bank.

A cryptocurrency is another form of digital currency which uses cryptography to secure and verify transactions and to manage and control the creation of new currency units.



Distributed Ledger

A distributed ledger can be described as a ledger of any transaction or contract maintained in decentralized form across different locations and people.

Unlike traditional databases, distributed ledgers have no central data store or administrative functionality.



Blockchain

A blockchain is a type of database. A database is a collection of information that is stored electronically on a computer system. Information or data, in databases is typically structured in table format to allow for easier searching and filtering of specific information.



- A blockchain collects information together in groups, also known as blocks, that hold sets of information.
- Blocks have certain storage capacities, and when filled, are chained onto the previously filled block, forming a chain of data known as the "Blockchain"
- All new information that follows will be freshly added in any block which is also added to the chain once filled.

It is the record-keeping technology behind the Bitcoin network. In Bitcoin's case, blockchain is used in a decentralized way that no single person or group has control – rather, all users collectively retain control.



Crowd Funding

Crowd funding is a way of raising debt or equity from multiple investors via an internet-based platform.

It refers to the solicitation of funds (small amount) from multiple investors through a web-based platform or social networking site for a specific project, business venture or social issue.



Peer to Peer Lending

Peer-to Peer lenders connect lenders and borrowers using advanced technologies to speed up loan acceptance. These technologies are designed to increase the efficiency and reduce the time involved in accessing the credit.

P2P platforms are different from banks because they do not take position in loans. These platforms more directly match the risk appetite of lenders with the profile of borrowers.



Smart Contracts

Smart contracts are computer protocols that can self-execute, self-enforce, self-verify and self-constrain the performance of a contract.

Development of smart contracts in relation to financial services could have a large impact on the structure of trade finance or derivatives trading and could also be integrated into robo-advice wealth management service.



E-Aggregators

E-Aggregators provide internet-based venues for retail customers to compare the prices and features of a range of financial and non-financial products such as standardized insurance, mortgages, and deposit account products.

E-Aggregators also provide an easy way to switch between providers and may become a major distributor for a variety of financial products.

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Cloud computing

Cloud computing is the delivery of different services through the internet. These resources include tools and applications like data storage, servers, databases, networking, and software.



Robo Advice

Robo-advisors are digital platform that provide automated, algorithm driven financial planning services with little to no human supervision.

A typical robo-advisor collects information from clients about their financial situation and future goals through an online survey and then uses the data to offer advice and automatically invest client assets.



E-Trading

E-trading refers to a method of trading securities, financial derivatives or foreign exchange electronically.

Both buyers and sellers use the internet to connect to a trading platform such as an exchange-based system or e-communication network.



Big Data

Big data refers to the large, diverse sets of information that grow at ever increasing rates.

As more business activity is digitized, new sources of information are becoming available, By combining these data sources with the availability of increased computing power is delivering faster, cheaper, and more comprehensive analysis for better informed decision-making.

WHAT ARE THE GOVERNMENT INITIATIVES FOR THIS SECTOR?



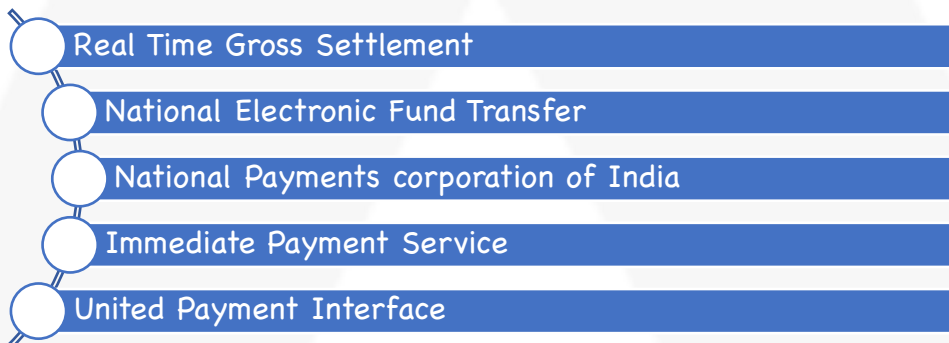
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Jan Dhan Yojana

*already covered in previous notes

2

Payment Mechanism and Interface



*already covered in previous notes

- Aadhar Enabled Payment System (AePS) was launched in 2010 to deliver the 4As for financial inclusion in rural areas:
 1. **Authentication** of customer
 2. **Availability** of services
 3. **Accessibility**
 4. **Affordability**

Cheque Truncation System was launched in 2011 to enable faster clearance of cheques.

National Automated Clearing House was launched in 2012. It is a web-based platform for inter-bank electronic transactions that are repetitive and of high volumes.

Rupay is a global card payment network launched by the NPCI in 2012

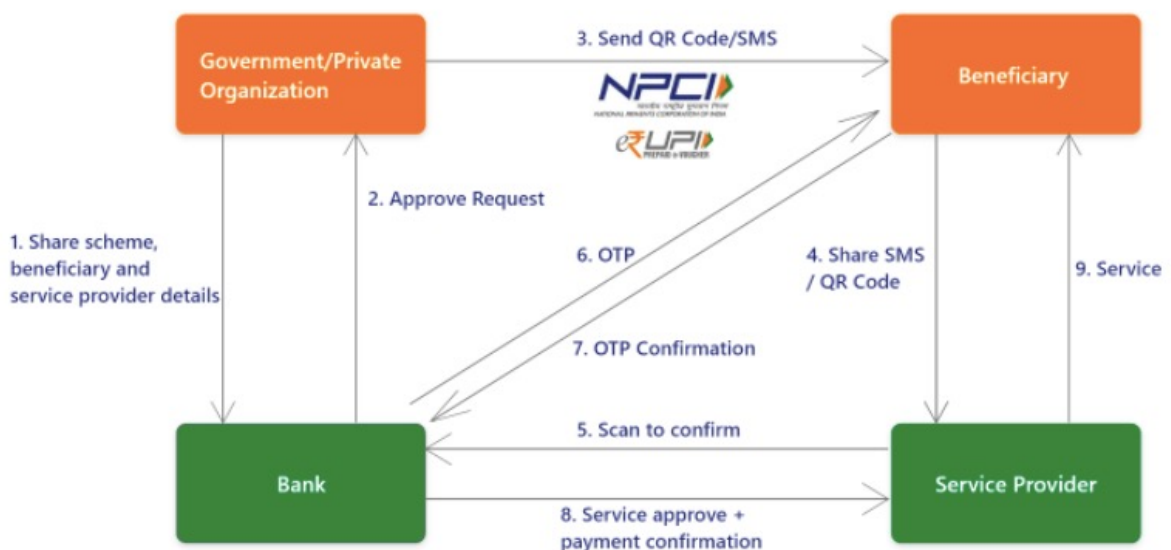
National Unified USSD Platform (NUUP) or *99# is a mobile based banking service that work on USSD channel. It was launched in 2014.

Bharat Bill Payment System (BBPS) started in 2014



BHIM or Bharat Interface for Money is a mobile wallet app developed by NPCI based on the UPI. It was launched in 2016.

E-RUPI is a digital payments instruments that provides cashless and contactless payment solutions. It is a person and purpose-specific solution. It was launched in 2021.



Regulatory Environment for FinTech

- The primary regulator for FinTech is RBI.
- There is no universal regulatory body for FinTech entities in India. Depending on the product or service different regulatory bodies govern such entities. However, RBI currently regulates the majority of FinTech companies dealing with account aggregation, Peer-to-Peer lending etc.



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