



Research Paper

The Future of Fintech and its Challenges

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Abstract

The research paper focuses on the emerging technology used in the financial sector called fintech. Although there are many advantages to this technology, there remain many challenges that hinder the use of fintech on a larger scale. The paper then discusses how one should proceed with this technology.

Keywords

Finance, Technology, Innovation, Crowdfunding

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I. Introduction

Fintech is a combination of the words finance and technology. It refers to any business that uses technology to enhance or automate financial services. This is an emerging industry that uses technology to improve activities in finance.

It can be applied to any type of innovation in the way that people transact business. From the invention of digital money to double entry bookkeeping.

Since the explosion in invention of the internet and the phenomenal rise in cell phone technology. Fintech (a short form of finance and technology) has moved from computer technology that was earlier mainly used for back-office operations of banks and trading companies, to technological interventions in personal and commercial finance.

Fintech describes a variety of financial activities, such as money transfers, depositing a cheque, with the help of a smartphone. This completely bypasses going to a bank branch to apply for a loan, managing investments etc. What is so innovative about this technology, is that all the above is achieved without any interaction with a human face.

ADVANTAGES

The fintech sector is always adjusting and adapting to meet investor, customer and regulator needs. It has significantly influenced business development in the financial services Industry. As well has leveraged new technology to create innovative and better services for both consumers and business.

The advent of this technology has led to:

- A reduction in transaction costs/service cost
- Has reached market segments which hitherto would have been impractical or not economically viable
- Created and taken advantage of economies of scale
- Improved customer experience
- Led to segmentation of marketplaces.

This technology operates on multilingual websites, which are used by different consumers as per their requirement and convenience. Fintech solution providers often refrain from charging additional fees, in fact it has helped in the integration of physical and digital payment methods which has further consolidated multiple bank accounts or cards using a single interface. All the above result, in easier transaction methods and reduced overall costs.

Technological advancement has caused transactions, processes, and systems in a variety of industries and sectors to become much faster and more efficient. Under a fintech enabled system, transactions can be processed anytime and anywhere. This technology has begun to pave the way for better transparency in the Finance Industry. It has helped in making financial products more accessible for individuals who are classified

as ‘unbanked’-i.e., those without a current or basic bank account

This technology covers a spectrum of totally new ideas and new businesses and has included in its fold even traditional businesses. With the emergence of this new technology, the areas in which it is being used has widened. Besides back-end operations and routinely digital transactions, it is widely being used in crowd funding and in various startups as well as in algorithms and in applications for computer-based tools resulting in the necessity of broadening the definition of “FinTech”.

FINTECH EXAMPLES

- Crowdfunding Platforms. Companies like Kickstarter, Patreon, GoFundMe (American based companies) amongst others, illustrate the range of fintech outside of traditional banking.
- Blockchain and Cryptocurrency. These are hallmark examples of fintech in action. Block Chain is essentially a digital ledger of transactions that is duplicated and distributed across the entire network of computer systems. Cryptocurrency is an example of a digital coin which has been created on its own blockchain and acts in the same way as traditional money.
- Mobile payments: are those whereby a series of processes for payment are made through mobile devices.
- Insurance and technology startups have redefined customer experience by adding to their repertoire, innovations such as risk-free underwriting, on the spot purchasing, activation, and claims processing.
- Robo-Advisors are a class of financial advisors that provide financial advice or investment management online, with moderate to minimal human intervention. Their advice is based on mathematical rules or algorithms.

ISSUES WITH FINTECH

The benefits start plummeting after the fintech starts charging the online lender. This is quite likely to lead to deceiving customers. A company called “Lending Club” for example sold loans to users with no hidden fees, but it collected a large amount in hidden “upfront fees” from the loan.

Bitcoin for example fueled illegal activity in the form of drug payments as well as funded terrorist activities.

There are various instances of data being breached. These come under the heading of Cybercrime. In 2017 for example the USA spent over \$1.4 billion in trying to solve such issues. This amount does not include amounts that have not been reported.

In India too, as the Fintech companies start growing, the threat to cybercrime increases. This leads to serious issues of cybersecurity. Data breaches take place by hackers through a simple internet web server. Two well-known security breaching software are Malware and the more recent Pegasus.

Malware is an intrusive software that is designed to damage and destroy computers and computer systems. Malware literally means “malicious software”. Examples of common malware include worms, Trojan virus, spyware etc.

Pegasus software once installed on a phone can intercept and steal more or less any information on it, including SMSs, contacts, call history, calendars, emails and browsing histories. This has been developed by an Israeli software company NSO Group. It is a surveillance software or spyware.

Thus, there are always new challenges to be faced like Data breaches and cybercrime. Unanticipated or weird problems keep cropping up as fintech becomes more and more advanced.

VARIOUS APPROACHES TO REGULATING FINTECH

Various countries have approached the issue of regulation in many different ways. UK for example has Specific Regulation based on existing regulatory components Canada on the other hand regulates Platforms as intermediaries (market operator, broker) Germany and France regulate these platforms as they do so for banks.

In Japan and Israel such platforms are absolutely prohibited.

In India, the fintech services have to be registered by the RBI (Reserve Bank of India). Despite this the regulatory landscape is very fragmented as there are no set laws that govern this sector.

The sector is growing at such a fast rate that along with the numerous advantages, there are several disadvantages too, which are constantly being addressed.

THE WAY FORWARD

- 1) Institute regulatory bodies that are industry specific which include the Government, and specific agencies
- 2) Active and collaborative regulation should be encouraged so that it does not stifle innovation but at the same time controls the threat and disadvantages.

To conclude, the growth of the fintech industry has added an enormous benefit to society. This has been and is being witnessed both by traditional as well as new industries. But one must be extremely careful in the growing number of breaches of cyber security and cybercrime, which has

simultaneously reared its ugly head. It is fintech technology along with the government and its various agencies which will find a solution to these issues, such that all stakeholders continue to enjoy its vast benefits.

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