

Introduction to FinTech

A linguistic blend of two individual terms 'Finance' & 'Technology', FinTech is being used to denote the wide array of technological innovations that have a bearing on financial services.

FinTech is an umbrella term coined in the recent past to denote technological innovation having a bearing on financial services. According to Financial Stability Board (FSB), of the BIS, "*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 and the provision of financial services*".

Benefits of FinTech

1. **Financial inclusion:** Individuals and businesses can access appropriate and affordable financial products and services in a timely manner. Recent example is establishing of Digital Banking Units
2. **Economical:** Lower costs as there are no physical branches, hence lesser people to pay in the chain of management and services.
3. **Cost reduction:** The benefits of cost reduction can be passed on to customers in the form of low prices.
4. **Higher speed:** With speed of internet
5. **Fintech improves the efficiency by having more speed and less cost.**
6. **Flexibility:** People can carry out all kinds of operations from wherever and whenever they want in a very simple way. Personalized customer service
7. **Regtech, or regulatory technology, is primarily concerned with automating financial firms' compliance procedures. Additionally, it provides quick and affordable management of massive data sets, including transaction records and compliance records like corporate tax filings.**
8. **Fintech give the opportunity of more customization. As the use of artificial learning, chatbots give room for better customer service.**

Limitations of FinTech

1. **Cyber security issues:** Internet connects different systems, thus threatening the surety of the systems.
2. **Data Privacy issues:** Concerns about data collecting and data privacy will emerge as a result of the integration of new technologies with conventional systems in addition to cybersecurity.
3. **Frauds and Scams:** The digital financial literacy is in younger stage and there huge variety of scams and frauds which are being done on the gullible people. So it's a dynamic problem.

FinTech History and Evolution

1. Technology-induced financial innovation has a long history.
2. In the 1950s, credit cards appeared for the first time, followed by Automated Teller Machines (ATMs) in the 1960s.
3. Electronic stock trading and banks' new data recording systems in 1970s and 1980s
4. e-commerce and online brokering in 1990s.

5. The online revolution in the last decade of the 20th century connected the world through the Internet, and enabled e-commerce, Internet banking and pioneering online payment platforms like PayPal.
 6. The next decade witnessed the emergence of smart technology. The smartphone materialised as a powerful computer in human palms, and the movement to app-based operating systems spurred innovation, unbundling and sharing of services.
 7. Bitcoin came as another important development in 2009.
 8. The present decade is dedicated to the 'rise of the robots', where the emergence of big and unconventional datasets has enabled AI to provide accurate predictions and personalise banking.
 9. The 'new' FinTech sector gained momentum in its modern incarnation after the Global Financial Crisis(GFC) as FinTech entrepreneurs realised that banking services should be transparent, facilitative and economical. After the GFC, public perception of banks had deteriorated, as savings were diverted to subprime borrowing without adequate consumer protection. Many finance professionals confronted job losses or pay cuts, which inspired enterprising innovation as FinTechs. Also, tighter regulation of traditional banking after GFC supported the growth of the FinTech sector.
- 1950s: Emergence of Credit Cards
1960s: ATM

Recent in news:

Reserve Bank organised its second global hackathon – “**HARBINGER 2023** – Innovation for Transformation” with the theme ‘Inclusive Digital Services’. The Hackathon invites participants to develop solutions that have the potential to make digital financial services accessible to the differently abled, facilitate efficient compliance, extend the reach of Central Bank Digital Currencies and enhance the scalability of blockchains.

HARBINGER 2023 invites innovative ideas for the following *problem statements*:

- i. Innovative, easy-to-use, digital banking services for differently abled (Divyaang).
- ii. RegTech solutions to facilitate more efficient compliance by Regulated Entities (REs).
- iii. Exploring use cases/solutions for CBDC-Retail transactions, including transactions in offline mode.
- iv. Increasing Transactions Per Second (TPS)/ throughput and scalability of blockchains.

The Reserve Bank had announced opening of the Fourth Cohort under Regulatory Sandbox vide for theme ‘Prevention and Mitigation of Financial Frauds’.