Analysis of How the Rise of Fintech Herald Traditional Banking

In the era of Millennials in which we are glued to our Smartphones, our daily lives and routines have changed radically, and we have less time for us. Consumers want immediacy, quick transactions by putting in no effort. In this context, the role of traditional banks has completely been herald by fintech. Fintech refers to the integration of technology into offerings by financial services companies in order to improve their use and delivery to consumers.

Earlier, the functions of banks were limited to maintaining deposits, making loans, and controlling the checkable deposits. People had to walk into the bank and stand in long queues, just to deposit money. Automatic teller machines were then introduced to give ease to customers. Similarly, moving money between accounts or paying someone usually required a trip to the bank or access to a card reader to make a transfer via online banking, but with payment processors like PayPal, it has become a one click job. To make it even more quick Tap and pay service was introduced. Customers simply wave or tap their contactless device over a POS device to make a payment. Australians made 325 million contactless payments in 2017, which is a 26% increase from 2016.

In addition to, mortgages were looked to be one of the most difficult banking functions due to its lengthy application processes and stringent regulation. FinTech mortgages have increased in popularity by digitizing the process, transforming it from a slow, paper-based process to faster, transparent, and simplified application process. E.g. Athena home loans, loans.com.au, funding pro.

However, the fintech industry boomed after 2008 global financial crisis. When financial giant Lehman Brothers abruptly filed for bankruptcy on 15th September 2008, the financial world was shaken. People were losing their jobs, families were losing their homes and most importantly to our story, everyone was losing trust in the institutions that were meant to offer financial support. The shift in consumer mentality created a demand that offered new players an opportunity to join the market and offer better, more competitive services. The new fintech services include third-party payments by non-bank digital providers, peer-to-peer lending, internet credit, including microlending, internet-based banking and insurance, digital wealth management, and credit-ratings.

Artificial intelligence (AI) is creating the single biggest technology revolution the world has ever seen. It refers to the development of machines or systems that can perform complex tasks normally considered to require ‘intelligence’ and thus thought to be the preserve of humans. It provides a faster, more accurate assessment of a potential borrower, at less cost, and accounts for a wider variety of factors, which leads to a better-informed, data-backed decision. It is also effective at preventing credit card fraud. This system analyse clients’ behaviour, location, and buying habits and trigger a security mechanism when something seems out of order and contradicts the established spending pattern. It also helps in risk management, trading, personalized banking, process automation, etc. Recently, Commonwealth Bank unveiled a chatbot that it says uses artificial intelligence to assist customers with more than 200 banking tasks. Called ‘Ceba’, the chatbot helps customers with tasks such as activating their card, checking the account balance, making payments, or getting cardless cash.

Blockchain can enable financial and other transactions to happen in seconds, not days, and drastically reduce infrastructure costs. It is an encrypted, secure protocol for creating trust between contracting or transacting parties without going through a central authority such as a central bank, government or another agency. Blockchain underpins cryptocurrencies such as bitcoin, Ethereum, ripple and many initial coin offerings.

Cryptocurrencies use blockchain decentralised ledger technology (DLT) to let users make secure payments and store value without the need to use their name or go through a bank or a payments company like MasterCard or Visa.

THEY allow for peer-to-peer transactions without central clearinghouses, without central banks and without reference to a national money The dollar value of the top 10 biggest cryptocurrencies is around US$150 billion, while UBS (FINANCIAL SERVOICE PROVIDER) estimates that blockchain could add as much as $300bn to $400bn of annual economic value globally by 2027.

The rapid adoption of third-party payments was enabled by technology, the proliferation of e-commerce and social media. It acts as a digital wallet and is basically a substitute for a physical wallet. The Debit/Credit cards are linked to the digital wallet and we can transfer money into it. A well-known, early entrant to this arena is Alipay in China, which in 2004 launched e-payment options on the e-commerce platform owned by its parent company Alibaba. Since then, applications geared towards mobile payments have multiplied while their usage has increased dramatically. By one estimate, payments made through third-party processors reached over RMB 119 trillion (or roughly US$18 trillion) in 2016. Similarly, In Australia, 29% of people use services like PayPal.

Mobile banking apps are different from payment apps because it means basically doing transactions through one’s existing bank account. People can check their balance and, make and receive payments with just one click. Banks in Australia like Commonwealth, ANZ offer such services to their customers.

Banks are also planning to come out with apps people can use to withdraw from ATM’s instead of using cards. In Fusion’s view, some are also providing Biometric Security and the ‘Pays’ from Apple, Google and Samsung to truly meet their customers’ expectations. According to Roy Morgan research released in January, mobile banking is not only the most rapidly growing way to bank, it also has the highest levels of customer satisfaction (89.3%).

Crowdfunding is the use of small amounts of capital from many individuals to finance a new business venture. It makes use of the easy accessibility of vast networks of people through social media and crowdfunding websites to bring investors and entrepreneurs together, without any financial intermediary. Websites such as Kickstarter and Indiegogo attract hundreds of thousands of people hoping to invest in the next big thing. This site has funded more than 160,000 projects, with more than $4.2 billion pledged across all Kickstarter projects.

Peer-to-peer lending (“P2P”) had also increased rapidly until recently. After global financial crisis, banks were hesitant to lend to small firms. Therefore, in order to eliminate middlemen, P2P platform was created which gather information, evaluate credit, facilitate information exchange and match borrowers and lenders. These platforms get their funding primarily from retail investors. Credit Karma and Kabbage are good examples of such Fintech companies. It is expected that the value of loans made through P2P lending platforms in Australia will surge to $22 billion and the total addressable market to grow to $87 billion over the next five years.

Cardless cash is a feature offered by some Australian banks which allows customers to withdraw cash from an ATM using their smartphone, instead of their debit card. This feature is a safe and convenient way to access cash for when we leave our wallet at home. The user get 24/7 access to cash and can withdraw up to $500 each day. Commonwealth bank and Westpac are one of these.

Benefits of Fintech to Banks

Paving the way for win- win partnership. Competition between banks and new entrants may give way to direct collaboration across the Fintech ecosystem. In such case, both parties should profit.From the bank’s perspective, fintech lacks proper IT security and regulatory certainty while fintech believe banks can be hard to work with due to differences In management and culture as well as differences in operational processes.

Traditional lending will become faster, accessible and cost effective.

Intelligent character recognition makes it possible to automate a variety of mundane, timeconsuming tasks that used to take thousands of work hours and inflate payrolls. Employing robotic process automation for high-frequency repetitive tasks eliminates the room for human error and allows a financial institution to refocus workforce efforts on processes that require human involvement. Ernst & Young has reported a 50%-70% cost reduction for these kinds of tasks. A leading financial firm, JP Morgan Chase, has been successfully leveraging Robotic Process Automation (RPA) for a while now to perform tasks such as extracting data, comply with Know Your Customer regulations, and capture documents.

Small banks are willing to jump on the bandwagon of FinTech.

In the aftermath of the financial crisis, lots of local banks were left behind the rest of the competition. And it’s high time they took action to revive and found their place in the sun. Several US banks, Evolve Bank & Trust, Cross River, Sutton Bank, have established strong relationships with startups. While young companies reach out to their client base and gain regulatory protection, incumbents conquer the mobile banking app market.

Personalized Banking

In the banking sector, AI powers the smart chatbots that provide clients with comprehensive self-help solutions while reducing the call-centers’ workload. Voice-controlled virtual (htt) assistants powered by smart tech like Amazon’s Alexa are also gaining traction fast, which is no surprise: boasting a self-education feature, they get smarter every day, so you should expect tremendous improvements here. Both tools can check balances, schedule payments, look up account activity and more.

Fraud Prevention

AI is especially effective at preventing credit card fraud, which has been growing exponentially in recent years due to the increase of e-commerce and online transactions. Fraud detection systems analyze clients’ behavior, location, and buying habits and trigger a security mechanism when something seems out of order and contradicts the established spending pattern.

Costs with all the new technology that has fueled the growth of today's diverse FinTech sector, one common problem has also arisen – developers and companies are facing severe cybersecurity issues, including threats that could lead to massive breaches that affect millions of customers worldwide.

Back in July 2018, Equifax reported that over 143 million accounts were compromised in a massive data breach, in which hackers stole names, social security numbers, telephone numbers, and other vital information from account holders.

Recently, Metro Bank has become a victim of a new type of cyber attack targeting the codes sent via text messages to customers to verify transactions.

The major threat that traditional banks are facing is stealing their customers and eating profits. Half of US consumers, 46 percent, already have an account with a FinTech provider. “The message from banking customers is clear: they want a better experience powered by the latest technologies and they don’t really care who is delivering it,” said Peter Olynick, senior practice lead of retail banking for NTT DATA Consulting, Inc. “Banks will lose customers and revenues because they can’t adapt to today’s changing market. And they can’t adapt if they don’t modernize their core deposit systems.”

Conclusion

The evolution of the digital technology has significantly changed the world in past decades. By utilising the technology advancement, Fintech has facilitated various financial services like crowdfunding, blockchain, artificial intelligence, with better user experience and lower cost. Due to lack of trust after global financial crisis, it has evidently resulted in significant challenges for traditional banking system. In order to coexist with Fintech, they need to be flexible and rapidly adapting the new technology. However, despite all the benefits, cyber attack is still a threat and therefore, these intermediaries are spending heaps on data integration.

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