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CASE STUDY – "EVOLUTION, REVOLUTION OF FINTECH" – FINTECH AS A SOLUTION

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"Ignoring technological change in a financial system based upon technology is like a mouse starving to death because someone moved their cheese" – Chris Skinner

ABSTRACT

FinTech has emerged as a mechanism that enables banking and nonbanking institutions to cut their costs, to enhance the quality of their services and to create a much more resilient and diverse financial environment. This FinTech development, which is supported by Artificial intelligence (Ai) and automation allows FinTech adopters to enter different segments of the financial services industry. However, despite the broad application of FinTech, little academic research has explored the development of this new wave of technological innovations. Therefore, our study aims to fill this gap in the literature and examines the recent developments in selected Fintech technologies through a case study. Understand and apply the principles of effectuation. Understand the challenges of obtaining Fintech in India determine the importance of matching new hire and company values, particularly in a small business; and Analyse some of the unique problems facing a business at the point of scaling up and provide suggestions for how the protagonist could address those problems. A lot of individuals are clueless today on what to do with their finances. There is also a lack of an entity, which can tie them financially. Although the private and public banks are trying, their technology is not really filling the gap. Thus 5nance.com, a financial management platform, went live in November 2015.

Keywords: Fintech, Evolution, 5nance.com, Challenges, Suggestions.

Learning outcomes/ Teaching Notes

Following successful discussion of this case, students should be able to:

- Understand and apply the principles of effectuation.
- Understand the challenges of obtaining Fintech in India determine the importance of matching new hire and company values, particularly in a small business; and
- Analyse some of the unique problems facing a business at the point of scaling up and provide suggestions for how the protagonist could address those problems.

Introduction of the Founder of 5nance.Com

Mr. Dinesh …..Advancing access in the financial industry

Dinesh has over 20 years of experience in the Software Services Industry. He had been associated with Microsoft, IBM, HP and Micro land in various capacities. He is responsible for overall business vision of 5nance. He is an Alumnus of VJTI Mumbai.

While Dinesh was a part of Microsoft, he delivered a project to Reliance Money that was in the space of personal finance. He realised that there is a great need for financial inclusion as a mainstream requirement for masses of India. This was not only an opportunity but also a business idea that excited him. From childhood days, he has business on his mind as his family comes from a humble business background. He identified this passion with his colleague and friend Ajay Arjit Singh, and they jointly took up a mission to initiate a business that addresses the need of managing personal finance for the masses.

It was a pre-fintech era where they registered the company's name having the term "Fintech". This speaks loud of their vision. When hobby meets passion, a business is created. It is apt in case of rise of 5nance.com. A lot of individuals are clueless today on what to do with their finances. There is also a lack of an entity, which can tie them financially. Although the private and public banks are trying, their technology is not really filling the gap. Thus 5nance.com, a financial management platform, went live in November 2015

Literature Review & Recent Developments of Fintech in India

Fintech and Its Evolution in India

"Fintech," a combination of "Financial technology," describes new technology that aims to improve and automate the delivery and use of financial services. It is a combination of financial services and information technology designed to increase efficiency, ease of use, and security of financial transactions. A new generation of financial advisers, financial planners, and lenders is revolutionizing the way in which they provide services to their clients. Since the demonetisation of currency in India in 2016, fin tech has undergone a revolution. Every time the economy faces a challenge, fintech grows stronger. Over the last ten years FinTech has emerged as a major driving force, which has reshaped the financial industry.. FinTech is considered to be an innovative and emerging field (Puschmann, 2017). As a technology-based innovation FinTech is viewed to be disrupting the way financial services and products are being designed and delivered. Kpmg's (2018)

2. Evolution of Fintech

Before 11 years financial sector lacks easy, transparency and convenience so fin tech provided one stop solution to the people. Slowly from banking, non-banking, cryptocurrencies, loans, fintech started almost with every financial segments. Fintech shares raise by 35 to 40 % giving a tough competition to banks. Technology has always played a key role in the financial sector.

Fintech 1.0 (1886-1967) is About Infrastructure

This is an era when we can first start speaking about financial globalization. It started with technologies such as the telegraph as well as railroads and steamships that allowed for the first time rapid transmission of financial information across borders. The key events on this timeline include first transatlantic cable (1866) and Fedwire in the USA (1918), the first electronic fund transfer system, which relied on now-archaic technologies such as the telegraph and Morse code. The 1950s brought us credit cards to ease the burden of carrying cash. First, Diner's Club introduced theirs in 1950, American Express Company followed with their own credit card in 1958.

Fintech 2.0 (1967-2008) is about Banks

This period marks the shift from analog to digital and is led by traditional financial institutions. It was the launch of the first handheld calculator and the first ATM installed by Barclays bank that marked the beginning of the modern period of fintech in 1967.

There were various significant trends that took shape in the early 1970s, such as the establishment of NASDAQ, the world's 1st digital stock exchange, which marked the beginning of how the financial markets operate today. In 1973, SWIFT (Society For Worldwide Interbank Financial Telecommunications) was established and is to this day the first and the most commonly used communication protocol between financial institutions facilitating the large volume of cross border payments.

The 1980s saw the rise of bank mainframe computers and the world is introduced to online banking, which flourished in 1990s with the Internet and e-commerce business models. Online banking brought about a major shift in how people perceived money & their relationship with financial institutions.

By the beginning of the 21st century, banks' internal processes, interactions with outsiders and retail customers had become fully digitized. This era ends with the Global Financial Crisis in 2008.

Fintech 3.0 (2008-2014) is About Start-Ups

As the origins of the Global Financial Crisis that soon morphed into a general economic crisis become more widely understood, the general public developed a distrust of the traditional banking system. This and the fact that many financial professionals were out of work, led to a shift in mindset and paved a way to a new industry, Fintech 3.0. So, this era is marked by the emergence of new players, particularly fintech startups, alongside the already existing ones (such as banks).

The release of Bitcoin v0.1 in 2009 is another event that has had a major impact on the financial world and was soon followed by the boom of different cryptocurrencies (which, in turn, was followed by the great crypto crash in 2018).

Another important factor that shaped the face of fintech is the mass-market penetration of smartphones that has enabled internet access for millions of people across the globe. Smartphone has also become the primary means by which people access the internet and use different financial services. 2011 saw the introduction of Google Wallet, followed by Apple pay in 2014.

Fintech 3.5 (2014-2017) is about globalisation

Fintech 3.5 signals a move away from the western dominated financial world and contemplates the expansion in digital banking around the globe, with improvements in fintech technology.

It puts the focus on consumer behaviour and how they access the internet in the developing world. For example, in China and India, markets that never had time to develop Western levels of physical banking infrastructure and so were open to new solutions more quickly.

This era is marked by an increasing number of new entrants and their last mover advantages.

3. Revolution of Fintech (2018-today) is about disruptive technologies

Blockchain technologies and open banking are continuing to drive the innovation of the future of financial services. The game changers here are neobanks that challenge the pricing and complexity of traditional banks, while earning customers' trust through simplified, digital-only experiences and low-to-no fees.

Machine Learning, on its part, is transforming the way people interact with banks and insurance companies, receiving bespoke offers and support. Germany's N26, for example, relaunched its premium account in 2019 to cater to the specific needs and tastes of its subscribers, such as discounts in coworking spaces and in online travel booking sites.

ML also has security applications: British Revolut, for example, unveiled a new AI solution in 2018 to combat card fraud and money laundering, developing deep insights and predictions around customer behaviour to dynamically identify new card fraud patterns without human intervention.

Another major event in this period is the new wave of integrated payment providers, with platforms that can offer payments as an additional strand to an already comprehensive business management system.

And lately, mainstream use cases for NFTs, like creators strengthening their earning power with digital representations of their contents, or artists ensuring royalty distributions, or NFTs as tickets or membership cards.

4. Problems with Fintech Companies in India

Despite the promises provided by recent technologies, FinTech firms face some hard realities. Primarily, they struggle to present a clear value proposition for their service-based offerings and to understand their users and their product. They cannot sustain as a finance and a technology both. Eg Policy Bazaar listed and Paisa Bazaar and Zerodha is not listed. Fintech facilitates no human intervention and complete bootstrapped. This saves cost but getting minimum human capital is also difficult task. Fintech is emerging sector so operations are challenged. Product differentiation is not an easy task so there are many fintech companies which gets shut down Eg Free charge.

5nance.Com Journey

Dinnesh Rohira and Ajay Arjit Singh have been best friends for the last 15 years. The pair ended up working together at Hewlett-Packard. However, the duo always wanted to startup their own venture. While working on a project with Reliance money, Dinesh saw a huge gap in the financial sector. Further, he noticed that financial services in the industry were working in silos with no integration or communication with the other. The duo conducted surveys across cities, which threw up interesting information on customer behaviour.

A platform for you and me

Recording a volume of more than 8,000 registered users in just six months, 5nance.com aims to be a one-stop platform for all financial needs of a common man. Being a data-driven model, the platform offers aggregation of financial products, advisory with analytics over an integrated interface for free. According to Ajay, Co-founder of 5nance.com, the biggest challenge for the team was to simplify the platform, ensuring not to overwhelm the user. A customer has to register on the website with their credentials such as name, e-mail ID, and their phone number. A password is then generated for the users to log in. Once the customer logs in, some basic information (about his salary, savings etc.) is taken to assess the consumer's risk appetite. Customers are also asked about their goals, such as child's college fees or retirement planning, they'd like to achieve over a certain course of time. The system shows the customers an array of offerings, structured from short-term to long-term finance planning, across products like mutual funds, corporate fixed deposits, debentures as well as loans. Functioning in a KYC-regulated environment, the system automates the checks and completes the verifications when the user buys any product. In case a customer is not registered, the platform gets the KYC done for users at their doorstep. While making payments, Ajay says" payments are made directly between the two entities". The analytics Once a purchase has been successfully made, the metrics are reassessed and the user's profile gets automatically updated. As the user makes more investments in newer funds, their goals, risk appetite, and overview of their finances also gets automatically updated. Ajay informs "there is an additional feature of integrating with people's personal finances". Through permission, the platform picks up their online statements from their bank accounts, having read only credentials. If the user isn't comfortable with sharing their credentials, they can also upload their statements onto the platform. This further helps to make the platform more insightful for the user.

The founders say," The customers have the right to exit (from an investment) whenever they deem right. We even handhold and guide the customer to tell them the right time to exit a fund. Because we believe that one doesn't make money when investing, but rather when they exit. So we have a complete track of your investment, making us not just an aggregation tool by rather a life cycle management entity." Getting almost 20,000 users on a monthly basis, the average investment on the platform ranges from Rs 40,000 to Rs 2 lakhs per annum. The firm claims the number of visitors to be growing at 50 per cent month-on-month, with 62 per cent of their customers making repeat transactions. 5nance.com has raised more than three million in angel round and pre-Series A funding from angel investors and global venture fund Aspire Emerging Fund in July 2015. The firm also has a call center to assist users with the platform. However, the executives don't consult customers on their investments. The firm generates its revenue through charging a standard commission on every sale made, which is declared to the customer at the time of purchase. The commissions range depending on the product with mutual funds fetching one per cent upfront along with certain amounts payable annually. Targeting higher revenues, the firm plans to break even by 2018.

The future of 5nance.com

In the future, the firm plans to look at higher salary segments of $1,00,000, adding paid personal advisory to the platform. With regulations opening up, and allowing entities to sell insurance with mutual funds (on the same platform), the firm plans to introduce newer product line of insurances and equity (including commodity and derivatives) to their existing offerings. The platform also plans to target the bottom rung for investments, working to create specialised products for the rural sector with high reliability.

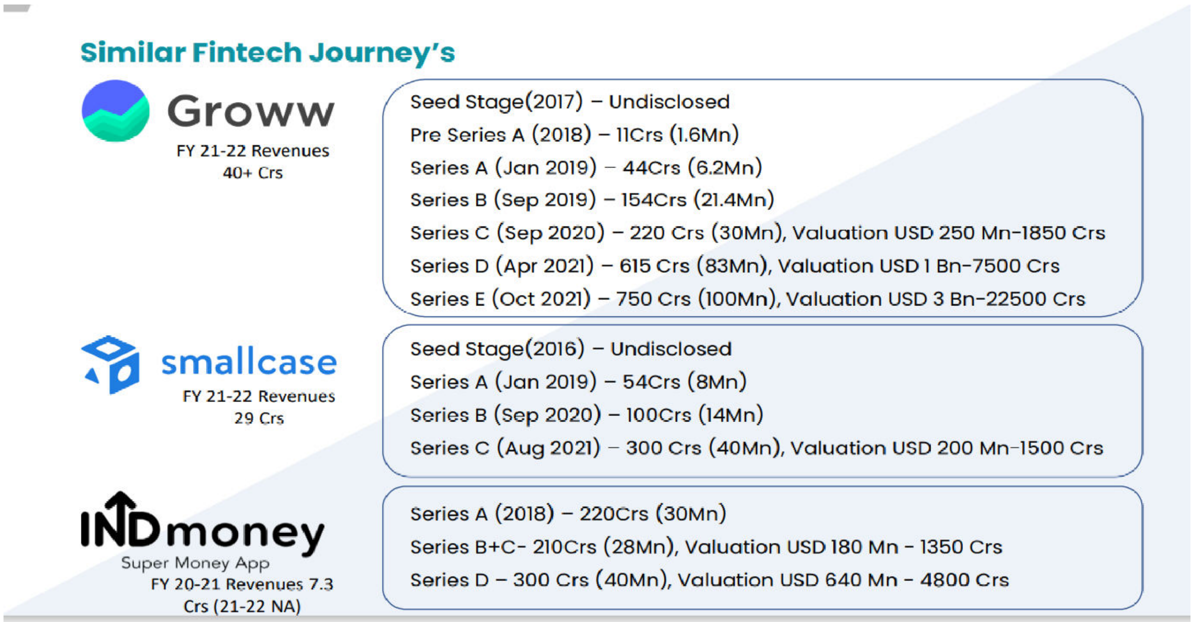
Expected Journey & Investment Returns – 1 Cr

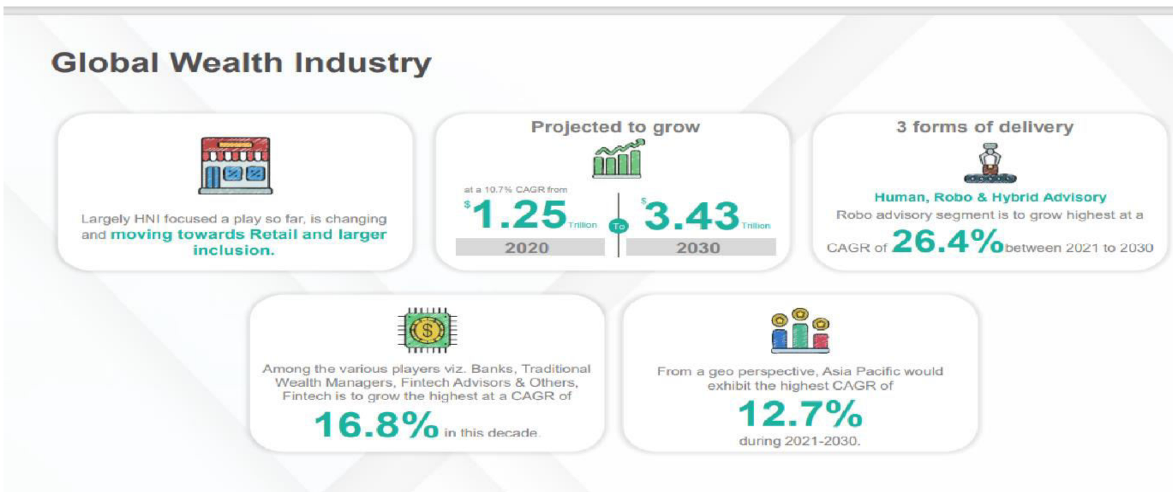
	Current Ask	2024	2025	2026	2027	IPO (2028/29)
Investment (in ICrs)	1 Cr					
Equity Share Price (Rs)	5980	10000	18000	29000	62000	124000
No. of shares	1672					
Revenues (Rs Crs.)		21	83	227	501	890
Valuation (USD mn)	20	50	100	250	600	1200
Valuation (INR Crs)		400	750	1875	4500	9000
Mcap/Revenue		19	9	8.25	9	10
Investment Value (in Crs.)		1.67	3	4.85	10.36	20.73
ROI		67%	200%	4.8x	10x	20x

Considering conservative and sustainable valuation/ Sales multiple

The Market Scenario

Financial inclusion is a major landscape for the financial segment in India, with 60 per cent of the Indians being unbanked and 90 per cent of small businesses having no links to formal financial institutions. These individuals will be the next big target audience for companies who are trying hard to crack this market. Over the past two to three years, the ecosystem has given rise to multiple money trackers like Money View, Walnut, Gullak and MyUniverse, with bigger banks being a part of the competition. The US has more than 49 per cent penetration when it comes to investment subscription (amongst its population), with the number being one per cent less for India. A lot of the market is still offline with the common man investing in things like gold rather than banking products. In such scenarios, the biggest target for wealth management startups is to crack the mindset of the user, giving them the required confidence to make the investments.





5.0 Challenges Faced by 5nance.com

Fintechs, like any other industry, face a variety of issues. Here are some of the main ones:

Regulatory Compliance: Fintech companies are subject to a range of regulations and compliance requirements, which can be complex and time-consuming. Failure to comply can result in fines, legal action, and reputational damage.

Cybersecurity: Fintech companies are a prime target for cybercriminals, who seek to steal sensitive financial and personal data. As such, fintechs must invest heavily in cybersecurity measures to protect themselves and their customers.

Access to Funding: While there is a lot of venture capital and private equity money flowing into the fintech sector, competition for funding is intense, and not all fintech startups will be successful in securing funding.

Customer Acquisition: Fintech companies must attract and retain customers in order to be successful. This can be challenging, as traditional financial institutions often have well-established customer bases and strong brand recognition.

Integration with legacy systems: Many fintech companies are focused on disrupting traditional financial institutions, but to do so they must integrate with existing legacy systems, which can be challenging.

Scalability: Fintech companies often experience rapid growth, which can be difficult to manage. Fintechs must be able to scale their operations quickly and efficiently in order to keep up with demand.

Talent acquisition and retention: The fintech sector is highly competitive, and fintech companies must attract and retain top talent in order to be successful. This can be difficult, as talent is in high demand and many traditional financial institutions offer attractive compensation packages.

6. How it Tackled by 5nance.com

Here are some ways 5nance.com companies can tackle the challenges they face:

Innvoation - Innovating customed based products. Recently to know the exact requirement of the clients. It designed structures questionnaire where clients need to answer as per there needs and requirements of there financial planning.

Regulatory Compliance: Fintech companies should invest in a strong compliance program, including dedicated compliance personnel and regular training for all employees. It's also important to stay up-to-date with changes in regulatory requirements and to work closely with regulators to ensure compliance.

Cybersecurity: Fintech companies should take a proactive approach to cybersecurity, including regular vulnerability assessments, penetration testing, and employee training. Strong encryption and multi-factor authentication should be used to protect sensitive data.

Access to Funding: Fintech companies should have a clear and compelling business plan and a solid track record of meeting milestones. They should also leverage their network and engage with potential investors early and often.

Customer Acquisition: Fintech companies should invest in digital marketing and social media campaigns to increase their visibility and reach. They should also focus on providing exceptional customer service and offering innovative products and services.

Integration with Legacy Systems: Fintech companies should partner with established financial institutions to leverage their existing infrastructure and gain access to a broader customer base. They should also invest in APIs and other integration tools to streamline the integration process.

Scalability: Fintech companies should have a clear plan for scaling their operations, including hiring and training additional staff, expanding infrastructure, and developing new products and services.

Talent Acquisition and Retention: Fintech companies should offer competitive compensation packages, including stock options and other incentives. They should also offer opportunities for professional development and a positive work culture that attracts and retains top talent.

Fintech companies must be agile and innovative to succeed in a rapidly changing industry. By staying on top of trends and leveraging their strengths, fintech companies can overcome the challenges they face and continue to grow and thrive.

Suggestions and Recommendations by 5nance.com

Governments can play a significant role in supporting the growth and success of the fintech industry. Here are some ways they can help:

Regulatory Support: Governments can create a favourable regulatory environment for fintech companies, by reducing red tape and streamlining regulatory processes. This can encourage innovation and attract investment to the sector.

Financial Support: Governments can provide financial support to fintech companies, through grants, loans, and tax incentives. This can help startups overcome the initial funding hurdles and encourage growth and expansion.

Talent Development: Governments can invest in training programs and other initiatives to develop the talent pool for the fintech industry. This can help to address the skills gap and ensure a steady supply of skilled workers to meet the growing demand for talent in the sector.

Infrastructure Development: Governments can invest in the development of infrastructure to support the fintech industry, including high-speed internet, data centers, and other technology infrastructure. This can help to reduce costs and improve efficiency for fintech companies.

International Collaboration: Governments can collaborate with other countries to develop international standards and frameworks for fintech regulation. This can help to reduce regulatory barriers and enable fintech companies to operate more easily across borders.

CONCLUSION

One thing is certain: Fintech is growing, and fast. And innovation in fintech is reaching more and more areas of the digital economy. Governments can play an important role in creating a favorable environment and ecosystem for fintech companies to thrive. By providing regulatory and financial support, investing in talent development and infrastructure, and promoting international collaboration, governments can help to ensure the continued growth and success of the fintech industry. Founder claims"Our platform stands for neutrality and user alignment. Our motto is not to be selling a particular financial product to our users, but to help them in order to foster our engagement with them for the coming years." 5nance.com study proves the growth and challenges of Indian Fintech Industry scenario.

TeachingNotes: Questions with solution

Q 1 Discuss how fintech differs from Banking Sector

Fintech companies and Banking Sector

As technology is becoming ever more central in the finance industry, we tend to consider banks and fintech startups as opposing forces fighting for their share of the market. The reality is that both sides need each other just as much as they need to compete with each other.

On the one hand, fintech startups have taken funding from banks and often rely on banking, insurance, and back-office partners to deliver their core products. Banks, on the other hand, have acquired fintech startups or invested in them to leverage new technology and ways of thinking to upgrade their existing operations and offerings. Approximately, Fintech shares raise by 35 to 40 % giving a tough competition to banks.

As per 2020, guidelines by SEBI either you can be distributor house or advise them and charge them money. So bank now works as a distributor house. In advisory, it can be generic or specific as per the customer. Eg irrespective of age equity broker can guide you which shares to buy.

Q 2 Discuss Problem and Challenges of Fintech in India

Fintechs are mushrooming and it offers propositions without any strong core and opex capabilities. These companies need a stronger regulatory framework to be qualifying as a fintech. There is lot more to be done to segregate an organization offering financial solution through online channels and a true blue fintechs.

Capital Support: The success of a fintech is in creating innovative offering and onboarding clients. Both these are capital intensive activities. There should be adequate provision of a capital arrangement till we see the business scaling from the ideation stage.

Competitive Workforce: MNCs drain the talent pool at mid level and it is difficult to get talent pool with strong mindset at to and mid management. There can be dedicated courses on Fintechs that will enable a mindset shift of being a part of fintechs.

Upskiling: Human technology is the core to fintech. Upskilling them to adapt the everchanging environment is a key success factor. Training centres for fintechs can translate India as a hub for fintechs.

Research Framework: Fintechs has to adopt a research framework to understand the market and customers as well. This combination is a used to find the best market-fit. Provision for these activities becomes a key driver to create a profitable fintech.

Q 3 As a Consultant, Advise to the new age Fintech start-ups.
Starting a fintech can be a complex process, but here are some suggestions to help you get started:

Identify a problem to solve: Fintech companies are successful when they offer a solution to a real-world problem. Identify a gap in the market or a pain point in the financial industry that your fintech can address.

Develop a business plan: Create a detailed business plan that outlines your goals, target market, revenue streams, and key performance indicators. This will help you to stay focused and track your progress over time.

Assemble a team: Fintech startups require a diverse team with a range of skills, including technical expertise, business development, and marketing. Consider partnering with co-founders or hiring employees with complementary skill sets.

Build a minimum viable product (MVP): Develop a minimum viable product that demonstrates the core functionality of your fintech. This will allow you to test your concept in the market and gather feedback from early adopters.

Secure funding: Fintech startups require funding to develop and scale their products. Consider applying for grants, participating in startup accelerators, or seeking investment from venture capitalists or angel investors.

Partner with established financial institutions: Fintech startups can leverage the infrastructure and customer base of established financial institutions by partnering with them to offer their products and services.

Invest in marketing: Fintech startups must create awareness and generate demand for their products and services. Consider investing in digital marketing, content marketing, and social media campaigns to reach your target audience.

Starting a fintech requires a combination of technical expertise, business acumen, and marketing savvy. By following these suggestions and staying focused on your goals, you can create a successful fintech that addresses a real-world problem and meets the needs of your customers.