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ENTREPRENEURIAL FINTECH MODELS

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Abstract - *Fintech is the combination of finance and technology which has made the daily functioning of the companies easier as they are exposed to less risk. Fintech is usually applied to money transfers, loans, mobile payments, etc. The purpose of this study is to find out how various innovations related to the fintech industry will help the customers and the industry grow. It will study the pros and cons of having an innovative fintech model for the company, and will compare if risks associated have decreased or increased significantly. We will go in detail to study the fintech models to determine how successful they will be in the future. This study will also conduct a survey to ask users about how comfortable they are with this adaptation. It will help us to think from a customer point of view and find out whether fintech models will be helpful to them or will prove to be a negative innovation. We will find out how fintech changed the business world and how it managed to change the customer. This study will also perform case studies on existing companies and determine the future of their models. Since they are dealing with fintech models, it will be appropriate to ask them about the success rate of using fintech and predicting how far will it go. This research will read articles of the company and summarize their opinion for the same. This will give us a clear view on the developments in this field and how it can change the business industry.*

Key Words: FINTECH, PEER TO PEER LENDING, ALTERNATIVE CREDIT SCORING, SMALL TICKET LOANS, LOANS, CREDIT

1. INTRODUCTION

The term fintech was first used in the early 1990's with the "Financial Services Technology Consortium", a project undertaken by the Citygroup for increasing technological cooperation. The term attracted attention since 2014 and focused attention on customers, investors and regulators.

Fintech is recently seen as a mixture of financial services and technology. But this term has a long history. Fintech 1.0 was discovered in the years 1866-1967 and focused mainly on computerisation and the first transatlantic cable was invented in 1866. Then came the rise of Fintech 2.0 in 1967 which focused mainly on internet and digital usage. It comprised of BACS, CHIPS and gave rise to program trading, quantitative risk management and online banking. Then came Fintech 3.0 and 3.5 in the year 2008 which contained mobile evolution and major start-ups and new entrants using financial technology. During that period there was a major financial crisis which affected the economy and could be seen as a game changer. The public didn't trust the financial institutions, which gave P2P platforms a good opportunity to enter. Also, the company started downsizing teams and using technology to reduce costs which help fintech industry to grow. Bitcoin was launched in 2009 and P2P transfer service was launched in 2011.

After that in the year 2015, the fintech industry took a new rise in the Indian sector and we could see a lot of fintech start-ups and investors interested in the launching of fintech. It attracted a lot of public as well as private investors.

1.1 Objective

- Getting knowledge of the type of fintech models which are currently growing in the market and understanding each model separately.
- Learning about how our day to day credit, insurance and loan based transactions will be affected by this fintech based models
- Studying about a start-up company developed in a fintech model
- Analysing different start-ups which made a development in these models by looking at their statistics and growth in the past years.
- Finding out the success rate of these models, which can help us predict the sustainability of fintech.
- Researching the websites of the start-ups and finding out their reason behind starting a fintech model
- Understanding the reason behind the evolution of fintech and the reasons responsible for this change
- Finding out how the already established companies are making innovations in the field of fintech
- Creating a questionnaire to know how the users are adapting to the acceptance of fintech models
- Finding the preferences of the users to find out if they prefer the traditional approach or the fintech based approach
- Analysing survey responses and finding out if the users trust the companies before the evolution of fintech or have started relying more on companies after the development.

1.2 Methodology Table 1

Sources of information used	
Primary	A survey was undertaken to identify whether users prefer a fintech based model and can adapt to the change taking place in the world of technology or they are more comfortable with relying on traditional functioning.
Secondary	Websites of companies and start-ups like Funding circle, Paytm, Affirm and their innovation in fintech
Sampling Plan	
Sample Universe	Mumbai
Sampling Frame	Friends, Family, Individuals on LinkedIn
Sampling Size and sample Unit	30 respondents
Method of sampling	Convenience

2. PEER TO PEER LENDING

Peer to peer lending is defined as a form of lending where an individual borrows from other individuals. In P2B lending that is Peer to business lending is a form of lending in which a business borrows from individuals or investors.

Many new start-ups and lending models are seeing a potential growth in this sector of fintech and are coming up with models to help small businesses get easy loans and help the investors to get better returns in the businesses they invest in.

Chart 1: Global peer to peer lending revenue(USD Billion)

2.1 Funding Circle

Funding circle is a fintech platform where small businesses can access finance and it promotes P2P lending. Business owners can fill out a loan application and see if they match the criteria, and can acquire quick funding at affordable rates. This company has lent globally to 100000 businesses and raised 11.5 billion.

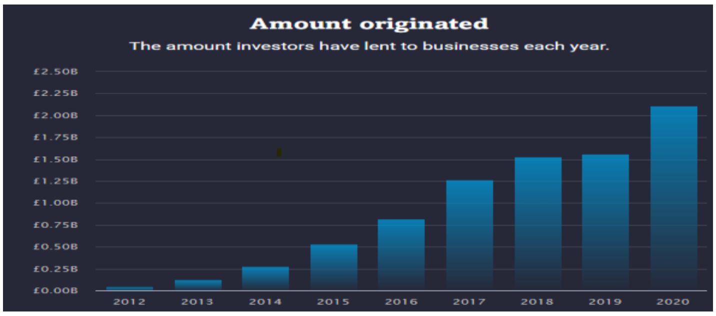


Chart -2: Revenue earned by Funding Circle each year

Funding Circle has a good record of giving attractive returns to the investors which ranges between 2%-7%. They review applications and approve those businesses that are worthy and have good chances of surviving in the market. The investors also receive fixed monthly repayments with interest, so they have less chances of getting bad debts. As you can see, the P2P lending increased in 2020, post covid.

3. ALTERNATIVE CREDIT SCORING

For most individuals, getting access to credit facilities is an essential requirement as they need credit for housing service, insurance, higher education or even starting a new business. However, a favorable credit rating is required for an individual, which can give a guarantee to the company that their money is in safe hands and will be returned. An individual has to be scored on certain factors like an individual's ability, stability and willingness. Credit scoring agencies also use tools that run data through AI and ML powered algorithms and can access utility bill payments, bank account details, telecom payments and rental and lease payments.

Alternative credit scoring focuses more on present data, thus users who have no credit score can also apply for a loan. This data can be generated by getting a digital data of their financial habits, social interactions, and making a detailed analysis of their day to day lifestyle. This also means breaking into the privacy and security of an individual, which could be the reason of its downfall.

3.1 Credit Information Bureau (India) Limited (CIBIL):

CIBIL is a credit information company in India that maintains the credit related activities of individuals and companies. CIBIL is licensed by RBI and started its activities in 2001. CIBIL maintains information on loans and credits. A credit score will let the lending companies be aware of the potential risk associated with lending money and they can take a decision. If an individual has no credit history in the past, the score will be -1, and if the credit history is more than 6 months old, then the score will be 0. Also, an in depth credit report is provided.

CIBIL report is provided on the basis of 4 major categories that is the credit summary, account history, public records and credit enquiries. CIBIL has a diverse ownership structure which consists of banking and non-banking companies. The major stakeholder is Trans Union International Inc. having about 66% of the total share. The remaining 34% is held by 8 other parties with stakes ranging between 1% to 6% each.

3.2 Impact on Indian Economy

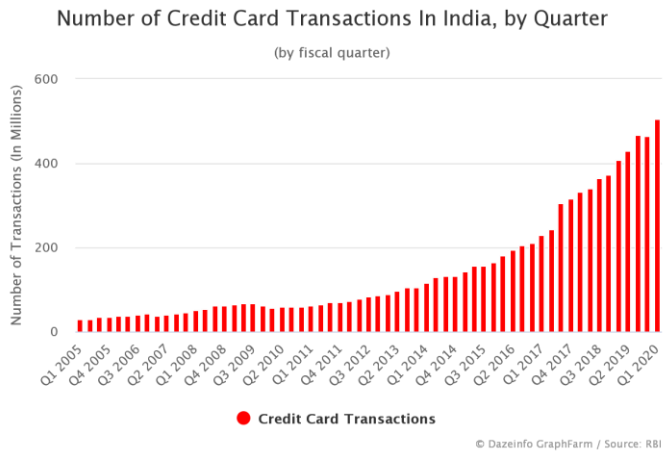


Chart -3: Number of credit card transactions in India, by quarter

The number of credit card transactions have increased considerably and we can predict an immense growth in this field. In order to promote this growth, there has to be an increase in credit information companies, which can make the credit process reliable. Credit and loan facilities should be available to even first time users, to keep this growth steady. By using a fintech model , the lending companies can manage risk in a better way. Borrowers can also work on improving their credit scores before applying for a loan, and this set of rules and procedures can make a healthy credit system in our country. CIBIL also works on educating the masses and spreading the need for financial discipline.

4. SMALL TICKET LOANS

This Fintech Model works on the mechanism of BNPL (buy now pay later), which enables the customers to buy quickly without having to fill up credit details. The companies are mainly offering loans and growing this segment by lending to those individuals who do not get bank credit. They provide loans up to 20000 to students who can use this facility to buy extra books, or pay for their education. A credit amount below Rs 50000 is considered a small ticket loan, and in India half of the small ticket personal loans were below Rs 5000. This segment has been driving volumes with growth that is as high as162% in terms of loans disbursed. We can predict this sector to grow at 77% as there are a lot of fintech firms entering the market and providing small ticket loans to individuals on the basis of analytics.

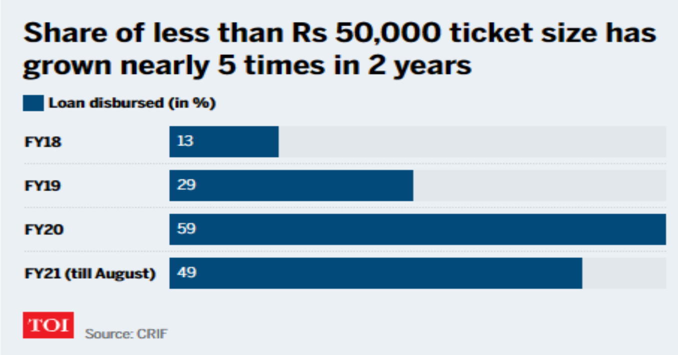


Chart -4: Growth of small ticket loans in the past 2 years

4.1 Post Paid Mini

- Paytm launched a small ticket instant loans facility for users to pay off their monthly expenses and bills and manage their household expenses. They aim to provide an experience of small credit based loans to a wider range of people and help them learn financial discipline.

- Post paid mini offers loans ranging from Rs 250- Rs 1000 so that the users can pay their monthly bills like mobile recharge, gas bills, etc on time.

- The users will have to pay back the loans within 30 days at 0% interest, which can prove to be beneficial for many individuals who are struggling to pay bills, especially post covid. However, a small convenience fee will be charged for every transaction.

4.2 Start-Up Affirm

- Affirm is a fintech based start-up that provides short term personal loans to shoppers who want to finance their purchases for day to day items, and they can repay in 3 months.

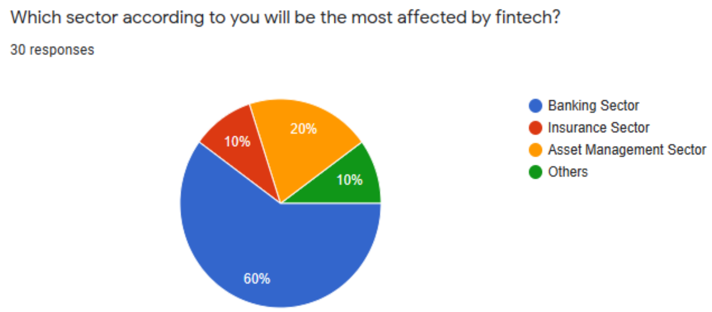
- They came up with this idea, because US citizens found credit cards very costly. Also they saw that an average debt in a US household was approximately $6000.

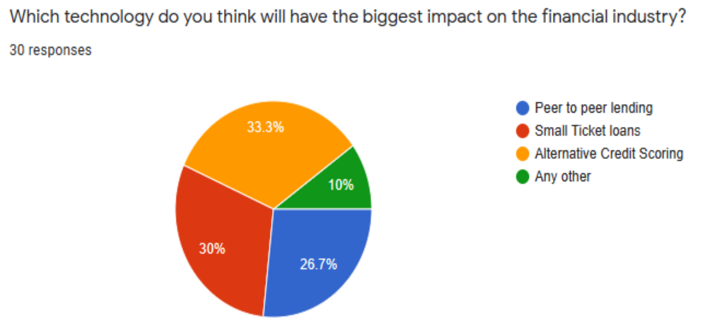
- Affirm has a major advantage, as they don't charge late fees or annual fees, and they don't increase the amount payable if you don't pay on time. Unlike credit cards, the users were always aware of the amount they had to pay and when. Affirm earns money by taking a commission from businesses, and also by acquiring small interests from shoppers.

- Their aim is to get more people to borrow money for small purchases like fashion and apparel, accessories, house furnishings, and develop a habit on the basis of consumer spending habits. They have partnered with major brands like Walmart, Adidas, Pottery Barn, Expedia, Nike.

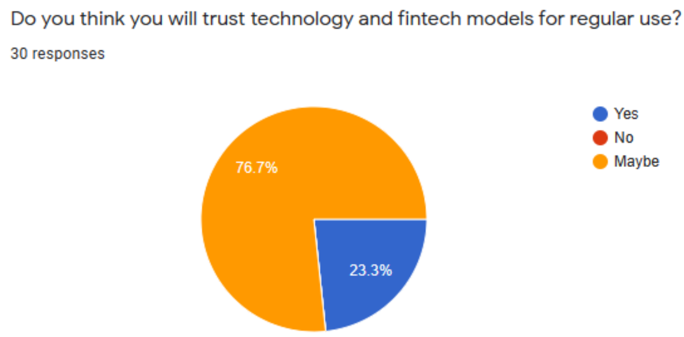
• Affirm is a major player in offering loans for purchases at point of sale, and it is expanding and growing consistently. It provides a conversion rate of 20% or more to the merchants. Also, fashion brands have seen a 51% increase in cart size and a 96% increase in repeat purchases as compared to credit cards.

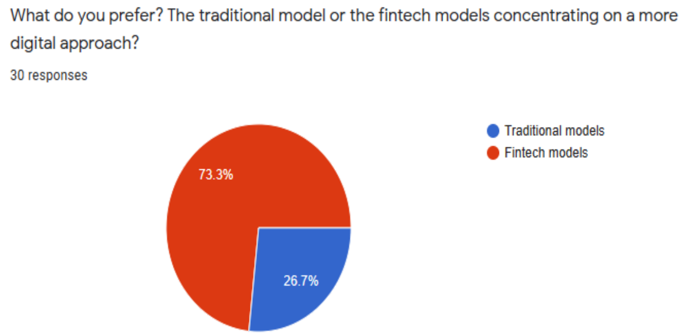
5. DATA ANALYSIS



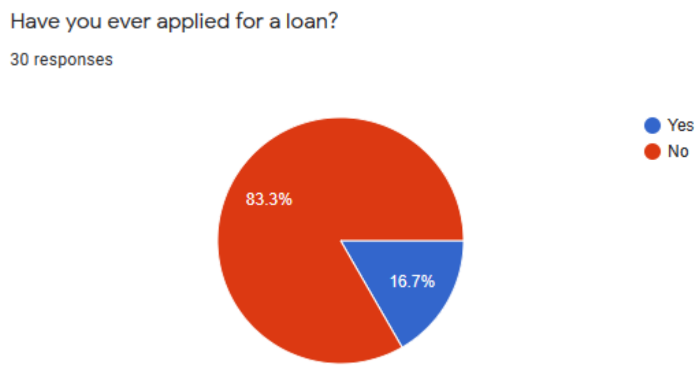


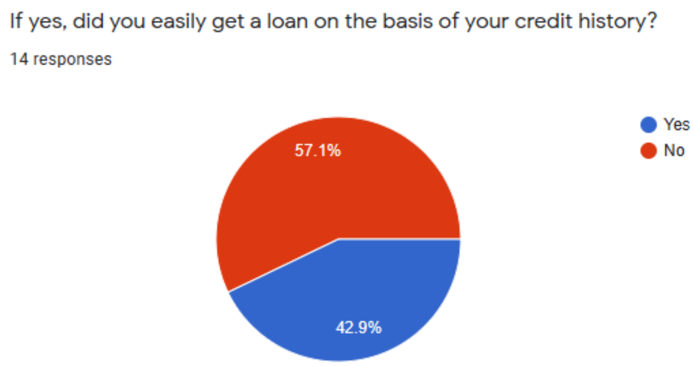
60% of the people think that banking sector will be the most affected by fintech models, and maximum people think alternative credit scoring will affect the industry followed by small ticket loans. We can see that peer to peer lending, small ticket loans, and alternative credit scoring have approximately equal number of votes. We can thus come to a conclusion that fintech models will evolve the banking sector by using all the 3 technologies given above.

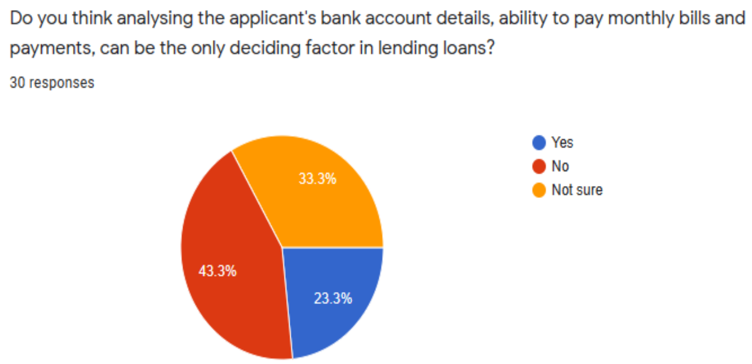




By comparing these questions we can conclude that there is a scope for fintech industry to grow. When it came to choosing between the 2 models, most people selected the fintech model over the traditional model. Also, 76.7% people were not sure about trusting a new technology, but they didn't deny it completely. I believe, if the evolution takes place by educating the masses in the right manner, they will trust and be familiar with the model.



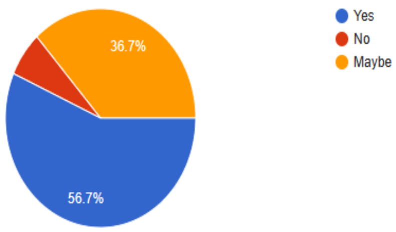




Out of our respondents, 16.7% people have applied for a loan and most of them have not received a loan easily. Also, maximum people agree that just by analysing the applicant's bank account details, ability to pay monthly bills, cannot be the only deciding factor, as the individual can later be declared bankrupt. Here, alternative credit scoring can play an important role by analyzing an individual's profile not only on his credit history but also other digitally equipped factors which can make us understand about his present financial condition, which the traditional model fails to recognize.

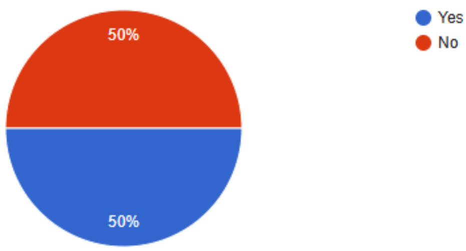
If a company was in need of a loan, would it be better to connect the investor to the company using fintech tools, and eliminate the middlemen?

30 responses



Do you think companies are at a risk when they provide loans?

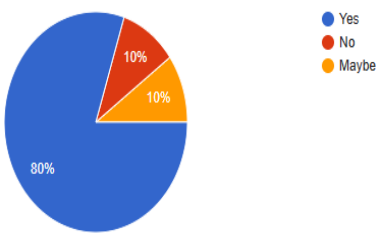
30 responses



In this question, 56.7 people agreed that using fintech models like peer to peer lending, we can connect the company directly to the investor by eliminating the middlemen. 36.7% people were not sure about the response. Also, 50% of the respondents agree that companies are at a risk when they provide loans. So a technology that connects both the company and the investor and minimizes the risk arising from bad debts can be helpful. Here, companies like Funding Circle and similar ones can see a positive effect as they promote peer to peer lending by minimum formalities and maximum convenience.

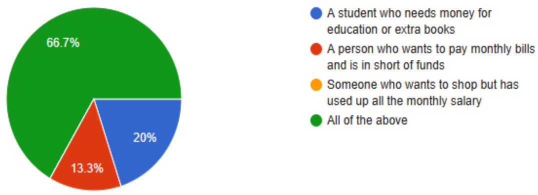
Do you think BUY NOW PAY LATER loans are helpful for individuals who are in urgent need of money?

30 responses



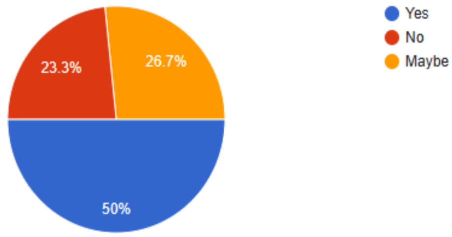
A company providing small ticket loans(up to 15000) can be most helpful to which individual?

30 responses



Would you use a BUY NOW PAY LATER loan which has no formalities, in case of an emergency?

30 responses

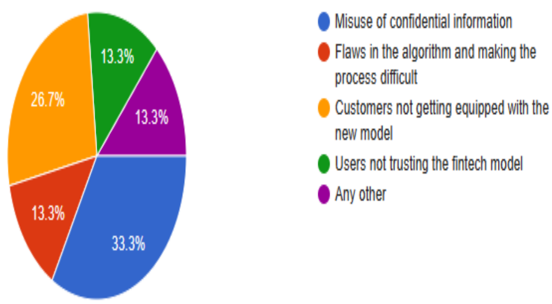


80% of the respondents think that buy now pay later loans are helpful for an individual who is in urgent need of money. And 50% people are willing to use a buy now pay later loan which has no formalities, in case of emergencies. We can predict the growth of small ticket loans and buy now pay later loans, which gives loans instantly without waiting in line for banks.

Also, when asked the question of a company providing small ticket loan will be the most helpful to which individual, 66.7% people selected all of the above. The main motive of inventing small ticket loans to focus on people like students who need urgent education money, a person wanting to pay urgent monthly bills, or someone wanting to urgently shop for something.

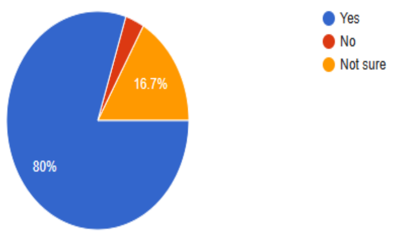
What according to you can be the biggest limitation of the fintech industry?

30 responses



Do you think BUY NOW PAY LATER loans can have a negative impact on the savings habit of a consumer?

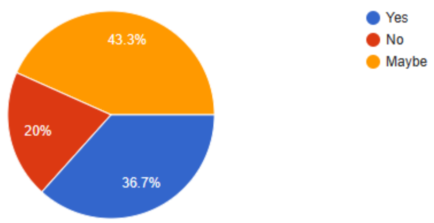
30 responses



These questions analyse the limitations of the fintech industry. According to the questionnaire, 33.3% think misuse of confidential information will be the biggest disadvantage of fintech industry followed by customers not getting equipped with the new model. Some people also feel that flaws in the algorithm or users not being able to trust the model can be a major limitation. These limitations need to be dealt with in order for the alternative credit scoring and peer to peer lending model to grow and reach the masses. Also, if small ticket loans further advance we can predict that it will affect the savings habit of the people and 80% respondents feel it will have a negative impact on our lifestyle. Certain measures should be taken to instil the savings habit, otherwise it will have a bad effect on the economy as a whole.

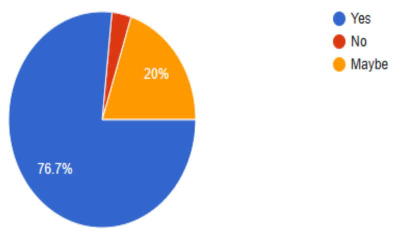
Do you think covid has a positive impact on the growth of the fintech industry?

30 responses



Do you think medical emergencies during covid, has facilitated the growth of lending and borrowing?

30 responses



Most of the respondents think that covid has a positive impact on the growth of fintech industry. 76.7% respondents think that medical emergencies during covid increased lending and borrowing practices. As most of the services shifted online during covid, it was necessary for the users to rely on digital services and during medical emergencies fintech industry acted as a boon to people needing urgent money without formalities.

6. CONCLUSIONS

Fintech models are advancing and are taking place of the traditional models. We have discussed the growth of Alternative Credit scoring, Peer to Peer lending and Small ticket loans in detail. We could understand the features and the mechanism of how the digital process works and what has enhanced the growth of this model. We could find out how Funding Circle, Post Paid Mini, CIBIL and Affirm has used technology to benefit credit and loan transactions. Some start-ups have recently started whereas some established companies like Paytm are introducing new fintech features to sustain in the market. We analyzed the growth of small ticket loans in the last 2 years which had grown nearly 5 times. We also found out that a company called Affirm works on the principle of Buy now Pay later and has gained a lot of popularity by getting popular brands as investors. By analyzing the revenue charts of the companies and the demand for urgent loans and credit facilities, we can predict that fintech will be sustainable in the future.

We also conducted a survey by asking 30 people questions about the fintech industry. It was conducted so that we could find out whether the users are open to a fintech based model and if they trust the recent developments. By conducting the survey, we could also figure out if the respondents prefer the traditional model or they require fintech models in their credit and loan transactions. We found out that banking sector would be the most affected by fintech and alternative credit scoring could have the biggest impact. We could find out that the respondents had a difficulty in obtaining loans and we could see that they agreed that there should be other factors in deciding a person's ability to pay back loans. Credit scoring by means of personal and social evaluation and digital technology can improve this. By asking questions about small ticket loans, we found out what the respondents think about the uses of the loans and it showed that they would be willing to use a small ticket loan in case of urgent need. Thus, small ticket loans can survive in the market. We also researched the impact of covid on the fintech model, and could conclude that covid had a positive impact on the industry majorly due to medical emergency. In order to maintain the evolution of fintech industry even after covid, the industry needs to come up with new ideas to help the customers in credit facilities. We also researched the limitations and factors which could result in the downfall of fintech industry. Factors like misuse of confidential information, lack of adaptability among users, lack of trust, flaws in the algorithm, or people not developing saving habits. These issues should be addressed so as to attract more people to get used to the fintech models.

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