

Fintech and Digital Finance

If you have ever paid for something with your phone, transferred money using an app or checked your bank statement online, then you are already part of a multi-billion-dollar industry, it's called fintech and its changing economies around the world. Fintech (**Financial Technology**) can be described as new technologies that seek to enhance and automate the delivery and use of financial services. The 21st century has been marked by the rise of fintech companies. These firms leverage digital technology to provide a wide range of financial services, from online banking and payment platforms to robo-advisors and cryptocurrencies. Fintech has enhanced convenience and accessibility in financial services.

Online banking, one form of financial services leveraged by fintech firms, allows you to conduct financial transactions via the Internet. It offers customers almost every service you could traditionally find through a local bank (deposits, transfers, online bill payments, etc). There are even online-only banks with reduced costs associated with not having physical branches and typically offer significant savings on banking fees. These banks manage customer support through phone calls, emails, or online chat, rather than face-to-face interactions.

Artificial intelligence has marked the year of 2023 and plays a huge role in the fintech industry, shaping its future. In the ever-evolving landscape of the financial technology sector, artificial intelligence has emerged as a transformative force, revolutionising the way we handle, invest, and engage with our finances. Here are some ways AI is impacting this industry:

- **Fraud Detection:** By using machine learning algorithms to analyse large volumes of financial data and identify unusual patterns or suspicious activities, AI detects fraudulent transactions in real-time.
- **Robo-advisors:** AI powered robo-advisors deliver customised financial guidance to clients. By evaluating individuals' financial situation, objectives, and risk tolerance these systems recommend investment strategies and portfolios tailored to their unique needs. Individuals benefit from this automated process that guarantees that clients receive advice that aligns with their specific financial objectives.
- **Trading and Investing:** Artificial intelligence algorithms are applied in trading and investment activities, encompassing high-frequency trading, portfolio optimization, and the creation of investment strategies. These algorithms possess the capability to process extensive volumes of financial data, identify market trends, and execute trades rapidly. The primary objective is to optimise returns while simultaneously mitigating risks.

But as financial technologies evolve rapidly, so are its threats such as leaked personal data and fraud. So fintech companies take serious measures to prevent these unwanted threats from happening:

- **Anti-Money Laundering** (AML) and **KYC compliances** are crucial for maintaining data security and privacy. AML compliance in the fintech industry is a measure that involves implementing serious courses of action and systems to detect and prevent money laundering activities.
- Fintech companies also use secure **communication protocols** such as HTTPS to encrypt data transmitted between users and their platforms. It is a way of preventing unauthorised access to sensitive information during transactions or communication.

As every new technological advancement that exists, fintech has its benefits and its flaws.

Benefits:

- **Lower costs:** Fintech can disrupt traditional financial institutions and therefore foster healthy competition. This competition often results in cost reductions for consumers as institutions reassess their cost structures and enhance operational efficiency. In addition, Fintech companies invest in innovative cost models that eliminate unnecessary expenses ultimately benefiting consumers with more affordable financial services.
- **More personalised products:** By integrating machine learning algorithms, fintech companies collect and analyse vast amounts of customer data. This wealth of information enables them to understand individual financial behaviours, preferences, and needs and therefore create highly personalised products and services which enhances the overall customer experience.

Negative aspects:

- **Overreliance on Technology:** Fintech's heavy dependence on technology and internet connection exposes customers to potential challenges in the event of technical glitches, system outages, or failures. Such disruptions can block customers from accessing their accounts or carrying out transactions. When technical problems occur, customers experience inconvenience and delays in financial services. It emphasises

the need for fintech companies to invest in flexible systems and implement effective risk management strategies.

- **Exclusivity and Access Issues:** Not everyone has equal access to fintech solutions, particularly individuals who lack access to the necessary technology or reliable internet connectivity. This can create financial disparities, especially for those who may not have access to the necessary technology or internet connectivity. This exclusion can aggravate existing financial inequalities, limiting the financial empowerment potential that fintech could otherwise offer to a broader population.

To conclude, Fintech has come a long way and has contributed massively to the revolution of financial services. It is believed that the evolution of fintech has just only begun and there are far more advancements to be made to facilitate the way people use, trade, invest and over-all handle their financial resources.

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