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Covid-19 Outbreak and FinTech sector in Sri Lanka

Importance of digital transformation to thrive

Concept Paper

by

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Covid-19 Outbreak and FinTech sector in Sri Lanka : Importance of digital transformation to thrive

Abstract

History of Sri Lankan economy runs to agriculture based which has shifted to a service economy within last few decades. The main share in that is owned by the banking and financial industry (BFI). Technology companies started offering innovative solutions using financial services known as Fintech which is the combination of both Finance and Technology. At the beginning, finance services were dominated by BFIs and there were lot of red tapes for technology companies to get into the business. With the initiation of regulating fintech companies, doors for tech companies started opening. However, the real business atmosphere a tech company really required didn't come up. This marriage between financial service providers and tech companies was full of domestic issues.

In 2019, covid-19 pandemic hit the entire world economy and the Sri Lankan economy also was shattered just like any other country. This outbreak was a tragedy for many but turned out as a blessing for some. With the travel bans and risk in using cash, the demand for online business started rocketing. Many businesses started focusing at digital transformation, initially as a part of a survival game but later on figured out that it is the future.

In adopting fintech innovations to Sri Lankan businesses, there are several other parameters which requires to consider in deep. This researcher discusses these concerns and asses how companies should adopt digital transformation in order to thrive.

KEYWORDS: *Fintech, Digital Transformation, Covid-19*

Introduction

FinTech is the short form of Financial Technology. It became a buzzword during the last decade but it has a history even beyond that. It started transforming the role of banking and offers new innovative solutions to business or to financial services organizations to better serve their customers using technologies such as blockchain, artificial intelligence, biometrics, big data, digital payment, robot advisors etc. It refers range of products, technologies and business models. Global investments in the fintech sector has added up to nearly hundred billion dollars since 2010 and it was estimated that the total worth of fintech firms is 4.7 trillion dollars. (Newsroom, 2018). Startups focusing on lending and payments industry were the main focus of those investments. The reason for this boom in the fintech sector is, consumers adopts fintech technologies fast. It filled the void for people around the word who doesn't have the access to traditional banking services. City bank estimates that 30% to 50% of banking jobs will be disappeared within the next ten years. As a consequences all the jobs and services around will also collapsed.

These fintech innovative solutions are scattered across many industries which are usually doesn't reached by traditional bankers. It revolutionized the entire traditional finance transaction methodologies. It also changed ways of assessing a person on their credit worthiness. It moved away from usual parameters like net worth or credit liabilities and started looking at completely new perspectives including social and lifestyle data.

The coronavirus pandemic, which first appeared in China, has affected people in more than 188 countries worldwide. The spread of this virus has impacted many industries around the world and the global economy in general, in addition to the millions of deaths it has caused. The covid-19 pandemic has spread to the entire world at a very alarming pace, infecting millions and impacting the economy most, resulting in a financial crisis. Global value chain has been disrupted and many businesses failed by losing the demand or by failing to produce.

Covid-19 pandemic began as a shock to the health and public health systems. Nevertheless, the existence of the pandemic combined with the pace of transmission required communities to follow the government's enforced 'social distancing' or more strict lockdown steps. This has been the case both in areas impacted and unaffected by covid-19's actual spread. Unverifiable evidence is growing that the technology sector and, in particular, businesses that enable communication and exchange of products and services over a distance have seen substantial increases in acceptance and use. In order to help many households and other companies to offset some of the health risks and adverse socio-economic effects of the pandemic and allowances, such programs have proved necessary. The organic growth of mobile applications as a result of covid complemented given restrictions on movement and social distancing measures imposed by the government and the risk of contamination through physical handling of cash. (Arner et al. (2020)). In addition, the existence of the fintech industry typically provides providers with greater versatility to rapidly deploy or adjust or scale existing products and services in response to shocks (Fuster et al. (2019)).

Context of the study

It was a fact that the covid-19 pandemic had a huge impact on businesses all over the world. With travelling restrictions everything became standstill. Manufacturing plants started bleeding without raw materials and labor. The entire supplier chain got hammered. For certain consumable products, supply went down with the manufacturing decrease, and the demand went up. Similarly for certain products the demand went down with lack of the customers. This is where many businesses failed.

However certain businesses saw this as an opportunity. Connecting the supplier and the customer with the help of fintech solutions became a big business overnight. In Sri Lanka, the backing for was not that encouraging and the framework was a highly regulated. Innovative fintech solution providers were red taped and there were many hurdles they may have to gone through.

With constant communications with regulatory bodies, things became workable and doable. Authorities started relaxing strings gradually and to came up with feasible and practical ways of regulating such fintech solution providers.

Literature review

FinTech has become a common term that defines new technology adopted by financial services companies. This concept includes a wide variety of strategies, from data security to the delivery of financial services and there is a pressing need for both academics and practitioners for an accurate and up-to-date understanding of fintech (Gai, Qin and Sun, 2018). In addition, by collecting and evaluating contemporary achievements from which a theoretical fintech structure driven by data is proposed, the study aims to establish a fintech survey eventually this research suggested that there are five technical aspects to be fulfilled and involved, which include security and privacy, data techniques, hardware and infrastructure, applications and management, and service models. Therefore it is suggested that this study is important where the main findings of this work are fundamentals of forming active fintech solutions. The research of understanding behaviors toward the fintech industries by Heather s.Knewtson and Zaachary A.Rosebaum(2020) stated crucial information such as financial technology, described as the technology used to supply a financial product or financial service to the financial markets, is characterized by advanced technology compared to established technology in that industry. This researcher therefore suggested that fintech is relevant where the cycle time for the work performed needs to be reduced relative to traditional methods. The article of FinTech: Enabling Innovation While Preserving Financial Stability stated that in order to align innovation with goals for economic development, financial stability and consumer protection, regulatory frameworks adapt to the growth of financial technology. The so-called 'smart regulation' regime calls for a thorough analysis of existing regulatory processes and structures. Smart regulation also includes regulatory technology, involves system digitization, and leverages advanced analytics and data (Arner, Zetzsche, Buckley and Barberis, 2017). It assumes that those researchers take the topic into the different paradigm shift where it suggested to regulate and digitalized the conventional methods to have better results. Another interesting research paper emphasized that there are some aspect to be met to have suitable technological grounds such as assesses the future effect of fintech, focusing on financial stability and access to services, in the finance industry. First of all, it is noted that financial services remain shockingly costly, which explains the emergence of new entrants. Therefore it is suggested that the new regulatory strategy is subject to substantial costs in terms of political economy and coordination, and is thus unlikely to bring about any systemic reform. On the other hand, fintech can bring dramatic changes but is likely to present major regulatory challenges (Mention, 2020). However this researcher assumed that changing from conventional to digital is challenging where attitudes seems to be changed from the employee side as well as consumer side. The study of attitude towards consumers and employees with regards to the fintech indicate that, with one potential temporary exception, fintech companies in all categories are actually delivering goods that have a higher utility than traditional for low-income workers and thus represent a major improvement over the existing conventional system. This researcher evaluated one group, Digital

Revenue, Cost and Variability Management Solutions, as both the most flexible and the highest determined utility category in the sample (Baker, 2017).

In this section, fintech's behavior in the epidemic situation is revived, where the most significant aspects involved in fintech being discussed. The research article from Peterson K.Ozil(2020) mentioned that range of solutions during the covid-19 crisis to enhance financial inclusion. Covid-19 is a public health issue that can be helped by some of the conventional global solutions, such as greater financial inclusion. In order to increase access to finance and to help disadvantaged individuals and households during covid-19 crisis, financial inclusion remains a powerful development tool. Reported financial inclusion strategies will help improve the effects of the covid-19 crisis through the combined use of short-term and fintech policies. Consequently, this researcher proposed that effective strategies could remove barriers to such effects, especially when this type of epidemic. However another research article from Baker, T., & Judge, K. (2020) have examined important factors how it be faced to such scenarios like covid-19 for small businesses, among the hardest hit by the covid-19 crisis are small businesses. Some are shut down, and far more face cash flow restrictions, raising concerns about how many of these recessions will endure. The government has responded with a vital forgivable loan program, but when Sri Lankan are no longer sheltering in place, this program alone cannot have the resources they need to keep employees, pay rent, and help their company come back to life for many of these companies. This article emphasis on regulators to find innovative and creative ways of interacting with existing intermediaries, including banks and online lenders, who have the requisite infrastructure and tools to help small businesses access the extra loans they need to thrive and prosper. Leveraging existing organizations might increase the pace, size, and reach of the government's response, all vital virtues of local business support efforts. However, in the sense of Sri Lanka, there is not much research paper found for this researcher to study fintech's behavior, while the epidemic situation thus provides opportunities for future researchers to fill the void.

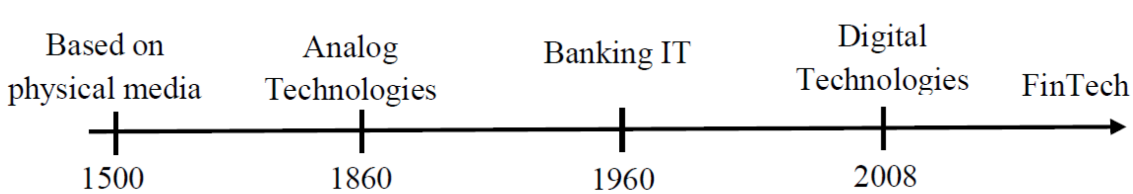
Case discussion

Studies shows that more than 70% of fintech solution users are millennials. Sri Lanka is a country with more than 75% business comes under in small and medium. (Rassool & Dissanayake, 2019). By January 2020, 10.1 million of internet user population which equals to 47% penetration was there.

Differentiation & innovation are the driving factors of technology changes in any industry resulted in brand awareness, increase process efficiencies and improve customer experience" (Wickramasinghe & Fairooz, 2019).

Banking industry is an industry which was changed by fintech over there traditional businesses. Once Bill Gates said, 'We need banking but we don't need banks'. With fintechs started mushrooming everywhere, what Bill Gates said became a reality. As show in **Figure 1**, adoption of technology runs back for many years.

Figure 1: Technology adoption in financial industry



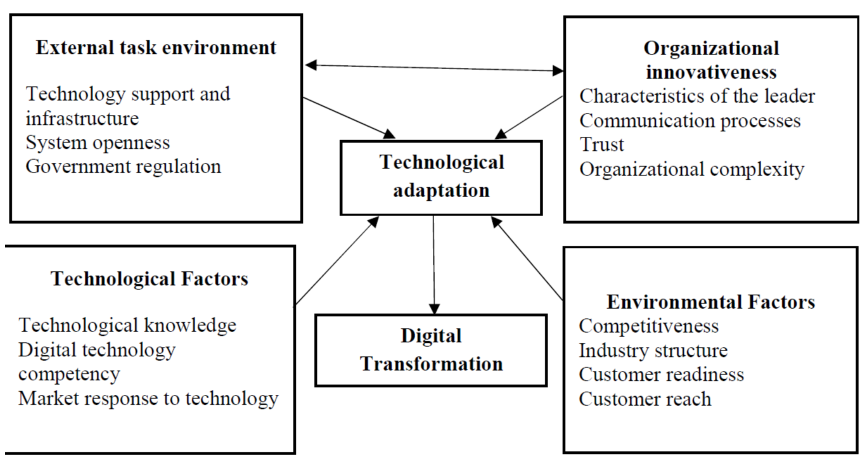
(Wickramasinghe & Fairooz, 2019)

There were few fintech entrants in the market at the beginning. Have they able to leverage on technology and achieved their business objectives is the question here. These fintechs were tied up by central bank policies at the beginning. Main obstacles were Central bank policies and regulations. Submitting audit reports annually to the central bank through an authorized certified auditor by each company was a compliance requirement. At that time the minimum audit fee was around Rs.1 million. A startup couldn't not afford this fee and it was observed the reluctance they showed to enter the market. Low transaction limits imposed by connected banks made fintech products unpopular. Each business has to apply through central bank in order get permission to do business and has to go through a rigorous demotivating lengthy process. Startups were not able to reach their go to market strategy with their times lines due to these delays. Subsequently this registration responsibility was given to the respective bank which the App is connected to. Unacceptable transaction charges is another killer for startups. LankaClear and the bank eats the majority of the transaction commission and the portion for the startup is not encouraging. If this transaction fee is transferred to the customer, then customer will think twice because of the additional amount requires to pay. Non availability of a central identification verification solution and not allowing to do electronic Know Your Customer (eKYC) made these businesses handicap. eKYC made accepted by central bank after the first wave of Covid-19 perhaps due to the pressure came with the declaration of year 2020 as the year of digital transactions. The requirement to work with the government and regulatory bodies to compile new policies and procedures is a necessity.

Sampath bank was the first bank to implement internet banking back in 1998 and enabled credit card payment to the customers. (Wijesiriwardana, 2011). Internet Banking in Sri Lanka.). It is also discovered that the success of the implementation of internet banking project depends on how best you can make customers aware about the system highlighting benefits of the system (Perera, 2018).

With all these obstacles, banking and finance industry never able to show a steep profit growth. **Figure 2** illustrate the conceptual framework of technology adaptation for digital transformation of banking and finance sector.

Figure 2: Digital technology adaptation model



(Wickramasinghe & Fairooz, 2019)

Technology adoption is changing how we do something. In an organization it has to happened considering many parameters. Just by adopting technologies, there is no guarantee that the company is going to end up with exponential growth. Not every organization adopt technology with the ultimate goal of make the process efficient and generate profit. Sometimes it’s done for a trend, compliance requirement or it may be a strategically thought and aligned as well. Adoption always fails if it was done for a wrong reason.

Whatever the technology adaptation has to ultimately end up with customer satisfaction, cost savings or value generation which needs to be considered before adapting technologies. Often organizations carried away with adapting technologies in the backend without a proper business justification. For example, many Sri Lankan upper SME and enterprise level organizations still use technologies like AS400 in the backend. Some companies convert the total backend to a latest technologies spending millions which doesn’t bring the direct benefit to the organization. The best way would have been identify and invest on a frontend technology where customers and employees can leverage and connect with the backend using another wrapper technology. Lack of business strategy and IT strategy alignment make technology adoption efforts worthless. As shown in Figure 2, it is described that the degree of the strategies linked to infrastructure, interrelationship between domains carves out the organization roadmap.

“In today’s digital world, most organizations are already finding ways to deliver the digital services by offering interactive websites, customer service and improve the customer experience in various channels. However, successful digital transformation could occur depending on strategic objectives of the organization, industry context, peer pressure and expectations of the customers.” (Wickramasinghe & Fairooz, 2019)

Banks have realized the landscape is changing and in order to survive they need to evolve. Some banks have succeed in this evolution and being able to inculcate this innovation and culture across the organization but many have not. It is needed a fundamental change in mindset and thinking patterns. Most important change is probably the way new talent trained. Because the bankers of the future and those who will shape the future of this industry are not going to be traditional bankers. They would be rather designers, programmers and creative thinkers.

Conclusion

The combination of technology and finance has made a superb blend which made a revolution in the banking and finance industry. This FinTech innovations are vitally used across many industries. With the covid-19 pandemic, the global economy shattered, and many businesses collapsed. As a survival strategy many companies started adopting digital transformation and the result has forced them to stick to the same strategy. As a result of restrictions in travelling and health risks in using cash, online fintech solutions started widely accepted. However, every company adapt to digital transformation didn't successful which are due to several reasons.

After the pandemic, there was a social drive towards online systems. As a third world developing country, still people are comfortable with traditional banking services and newly joined consumers are lacked in cyber disciplines and confidence in using online solutions. This is where the governing bodies and regulatory bodies should make awareness to the general public so that fintech businesses will be accepted by the society.

It also essential to have central platforms to get connected to global transaction networks such as master, visa, PayPal so that it can be regulated, monitored and provisioned easily as a service. Further, fintech companies often struggle with customer authentication and verification issues which leads to frauds also. Cyber law and data privacy policies also needs to be updated and up to date. In that way customer will be protected and merchants business will be demanded. Fraudulent merchants entering to the business also will be protected.

Sri Lankan business should have a behavioral change in order to have a successful journey in the fintech sector. Not only this organizational change but also change from the customer perspectives also required to thrive in the market under any circumstances.

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