

Chapter 6

Financial Technology and Innovative Financial Inclusion

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ABSTRACT

A portmanteau of financial technology (FinTech) centralizes on the innovative use of smart mobile devices to design and deliver financial services and products, elevating an innovative way of delivering financial services. The chapter mainly focuses on the definition and the importance of FinTech to the financial ecosystem especially in the Southeast Asia region. It focuses on how financial technology (FinTech) came to be, how transactions in the past mostly use cash, and then shifted to credit card and then shifted to a cashless transaction, for example using e-wallet or simply using smartphone for any financial transaction. The research found out how the huge percentage of internet users in the Southeast Asia region were the cause of the development of FinTech companies in the region for FinTech startups. It also showed how FinTech helped to provide solutions for financial inclusion, especially unbanked population.

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INTRODUCTION

Financial Technology or better known under the term ‘FinTech’ is widely used in the financial industry. It is in the center of attention as it has many benefits and more convenient to be used. Financial technology develops technological system in the finance industry. The emergence of FinTech companies make an innovation in the industry where the systems become beneficial for general public and even government around the world. FinTech keeps improving and attracting investors from all over the world. In 2014, \$12 billion of private capital was invested into FinTech (Gulamhuseinwala, et al, 2015). It offers more user-friendly and convenient ways of managing finance for people in juxtaposition with traditional methods. FinTech industries provide variation of financial services such as Peer to Peer lending, e-payment, holding assets, investments, crowdfunding, insurance services and many more.

FinTech not only focus on the companies but also common people which are the majority of consumers as they use the services for their daily lives. Some of FinTech examples are “cryptocurrencies such as Bitcoin and Ripple, the use of big data for risk analytics, new peer to-peer and other platforms and distributed ledgers for supporting transaction efficiency” (Milne, 2015). Both start-ups and traditional finance companies are active in FinTech where it changes the way traditional institution works such as the interaction with their customers. “Today, FinTech companies directly compete with banks in most areas of the financial sector to sell financial services and solutions to customers which most of us use now” (FinTech Weekly, para. 2).

For the traditional method, we have to go to the bank itself to make a transaction but with FinTech, we can just do it with our mobile phones through mobile online banking. Although we are more used to human interaction, the risk of using machines during the process is lower. Thus, the probability of making mistakes are rarely made (Dhar, 2016). This is also proved by FinTech Weekly (2017) that “especially millennials (people born between approximately the early 80s and late 90s) and the following generations prefer quick and easy banking services over walking to a branch”.

Since FinTech is the product of innovation, technology, business, and economy. The significance of FinTech lies on the movement of technology driven and it will continue to grow bigger especially when technology giants such as Alibaba, Apple, and Google starts to massively introducing FinTech system. It is highly efficient that helps both the individuals and the large

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