International Journal of Business Intelligence Research
Volume 12 • Issue 1 • January-June 2021

Artificial Intelligence in FinTech:
Understanding Stakeholders Perception on Innovation, Disruption, and Transformation in Finance

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ABSTRACT

The recent increase of robo-advisory services (RAs) in various financial domains has caused a threatening alarm to the traditional fund and wealth management industry. There has been a remarkable growth in RAs' assets under management (AUM) due to their ability to provide better expected return by being competitive on pricing, transparency, and services. The research paper is designed to explore the various experts in the financial industry (which includes VP and AVPs of investment bank, managers and senior executive at bank, IT professionals and executives, and FinTech entrepreneurs and CEOs) and perceive the digital disruption that is going to affect the traditional financial services industry. Secondly, it is to explore the various strategies that are being adopted by the financial service providers to withstand competition from the disruption caused by FinTech challengers. Moreover, the purpose of this research paper is also to understand the extent and effect of the disruption as well as the strategies adopted by financial industry players to face these disruptions from FinTech.

KEYWORDS

Disruptive Innovation, Emerging Markets, Financial Services Industry, FinTech, Robo Advisory Services

INTRODUCTION

According a report published by Forbes at the end of 2015, it was concluded: *"The banking industry is ripe for change with the rise of fintech start-ups, the growing popularity of blockchain technology, and the dominance of millennial* (Sorrentino, 2015)." Fintech are termed a game changers as they are revolutionizing the way financial services are now provided to its customers with more convenience, transparency and low costs being its primary differentiators (Arner, Barberis, & Buckley, 2015; Chuen, Lee, & Teo, 2015). Fintech challengers includes some of the new age innovation that includes crypto currencies and blockchain, Robo advisory services backed by AI (artificial intelligence), equity crowd funding, peer-to-peer (P2P) lending and mobile payment systems (Philippon, 2016).

Robo-advisory services are gaining attention in financial decision making. In a digitally fast-paced world, almost everything is headed towards automation, be it net-banking platforms, digital transactions, online shopping, online cab services etc (Singh and Kaur, 2017). In essence, automation

DOI: 10.4018/IJBIR.20210101.oa3

has become inevitable to today's modern lifestyle. It is observed that automation has touched almost every business sector, and is now taking teeth on financial decision-making (Abraham et al., 2019). A third era of evolution is experienced by the fintech sector Fintech 3.0 – Recently Fintech start-ups as well as established banking and AUM companies have change the dimension and started providing financial products and services directly to the customers. (Arner et. al, 2015).

Robo-advisory services industry is at a nascent stage, especially in developing economies like India. The total amount of Assets Under Management (AUM) in the Robo-advisory segment equals to USD 980,541million in 2019 globally, while the average AUM per user in the Robo-advisory segment amounts to USD 21,421 in 2019 ''Statistics, Market Report, 2019''. Globally, wealth managers were responsible for USD 74 trillion in Assets Under Management (AUM) in 2014. BI (Business Insider) Intelligence forecasts that Robo-advisors will manage around 10% of total global Assets Under Management (AUM) by 2020. This equates to around $8 trillion (''Business insider Market Report'', 2019). Hence RAs have unable to more effective and efficient financial solution, which can be verified by a lack of new entry and competition (Philippon, 2016).

There has been a lot of predication made about financial services industry being disruptive by Fintech in the media; however we sensed that digital solution offered by fintech will not be able to make a smooth shift and change the industry in profound ways (Mills & McCarthy, 2017). Since Robo-advisors are a class of financial advisors with minimal to no human intervention, there are certain concerns that plague an investor when availing these services and platforms (Best Robo Advisor, 2019; Phoon and Koh, 2017). Moreover, there may be times when investors would prefer to consult with someone, especially during bearish phase in the market. The human consultation enables the investor to converse about their emotional and behavioral concerns with advisors who are looking after their portfolios. Lack of the ability to consult and voice their views, may make investor insecure and biased during time of distress. Behavioral biases are inaccurate and potentially harmful to investors' behaviors by erroneous decision. Robo-advisory service was initially launched in the United States of America (USA), one of the market reports reveal that only 20% investors are aware about these services and the level of adoption is significantly low, as low as 3%. In this day and age, when we discuss the exploration of information technology in various fields, including financial markets, one of the major concerns remains to be low adoption of new services and platforms by investors. The adoption of Robo-advisory services is significantly low in developed countries even-though other demographic factors favor adoption and use of such services and platforms, where-as the scenario is different when it comes to developing nations like India (Cedrell and Issa, 2018).

There is ample literature available which traces the growth, usage, problems, acceptance and development of Robo-advisory services in developed nations while not much literature is available in the Indian context. One of the key issues at the core of every banking and non-banking professional, academician, practitioner, and policy debate about the banking and fintech sector: is to assess whether these new Fintech startups will eventually disrupt and outgrow the traditional banking institutions. They are yet assess if Fintech's disruptive impact would be in the same way as digital media and platform has disrupted traditional publishing and advertising or, alternatively, affect banks' profitability, in the same way as it is currently with online education eroding higher education industry profits. In fact, Industry observers and practitioners believe that fintech's disruptive impact would be particularly large in emerging markets such as Indian (Diemers, Lamaa, Salamat, Steffens, 2015; World Bank, 2015).

One of the primary reasons to conduct a qualitative research on this area was to explore the level of disruption and its effect on the traditional banking institution in Indian markets so that we can sensitize about this disruption and the executives in the financial services industry could make more informed decisions on how to face Fintech challengers. Our research in the area of financial disruptions attempt to make a significant contribution to the existing theories of disruption

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