

'FinTech' real threat to Indian financial services industry: Y.M. Deosthalee

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MUMBAI: Technology startups in the financial services space, or 'FinTech' as they are called, are a real threat to the financial services industry. They are taking away customers and eroding margins, Y. M. Deosthalee, CMD of L&T Finance said.

The entire industry needs to look at the impact of the disruptions that have been caused by these startups and re-orient their business models, he said speaking at an event on "Investment Innovation: Challenges, Opportunities, Rewards, Empowerment" organised by Indian Chamber of Commerce on Friday.

"Existing players still hold an advantage in terms of financial strength, knowledge, trust that startups will never be able to match in the foreseeable future. However, we still need to change the way we use these strengths to our advantage. We can either choose to embrace digitisation and roll with it or we choose to ignore it and perish," Mr. Deosthalee said.

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are more profitable and contribute disproportionately to the financial sector's return on equity, are most vulnerable to this disruption, he added.

"These businesses include consumer financing, SME lending, retail payments, asset management and insurance asset management," he said.

Noting that the corporates are moving away from bank borrowing to bond markets, Mr. Deosthalee foresaw a similar churn in the retail sector through innovations such as peer to peer lending. "Large parts of India just bypass landline telephony and straight away adopt their mo-

biles. We do not want a similar tsunami to hit the Indian financial services sector."

"Most often only the cost of switching and inertia prevents customer from changing service providers. In a situation where inertia is not the primary reason for sticking with their financial service providers the market becomes bright for disruption by startups. Disintermediation is a real threat," Mr. Deosthalee added.

He also cited examples of financial product aggregators such as BankBazaar, PolicyBazaar and FundsIndia.com which are seeing increasing traffic and are taking away customer relationships from

banks, insurance companies and asset management companies.

"The technology driven challenges exert pressure on existing players in two ways: by taking away customers and by forcing existing players to cut margins," Mr. Deosthalee said.

He also said existing players are subject to various regulatory compliances, while the startups need not go through them. "The experience in other industries shows that by the time the startups are brought under the regulatory umbrella they have caused major disruption. The examples are Uber in taxi space and Flipkart in retail space."

He said while the dot com bubble indeed burst it also changed the way every industry conducted its business and business models like e-commerce, online banking and online share trading emerged from that bubble.

"The current technology revolution promises to be much wider than expected and will fundamentally alter the structure of financial services industry," he added.