CHAPTER 19

FinTech in the Post-COVID Period

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Introduction

The COVID-19 pandemic has become a turning point that is changing the world we are used to, creating unique challenges that many business leaders have never faced before. At the same time, the COVID-19 pandemic has become an additional trigger for the emergence of new factors in the development of the digital economy, a catalyst for new technological solutions in the management of economic processes.

COVID turned out to be a positive factor in the development of FinTech, as economic actors were forced to use information technologies to carry out financial transactions due to the lockdown and remote access. This is one of the positive aspects of COVID's onset, as digital technologies had been slow to enter the financial sector in the past. The need for remote access to financial services has become a factor in the development of FinTech. Social nets were also on the rise, as the lack of physical contact between people was made up for by communication through social networks. The representatives of the financial business also took advantage of this (Adamchuk, 2019).

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Every change that will be made to overcome the COVID-19 crisis will also affect operating models by changing strategic decisions in the field of digital financial technologies management in supply and value chains, while changing the regime from the business response to the regime of the inclusion of a new reality. Taking advantage of financial innovation offered by digital financial technologies (FinTech) in the areas of processes, technology, management, human resources, understanding needs, service delivery, and data will ensure the inclusion of the national economy in global value chains.

The relevance of the research topic is determined by the need to study the role of FinTech, which provided a solid foundation for business opportunities during the COVID-19 pandemic, offering digital support for practical plans in the global economy and in the financial market.

The active development of FinTech began in the 90s, when dotcom was widely developed. The e-business that developed in 2008 after the financial crisis and the decline in consumer confidence in traditional forms of providing financial services predetermined the further development of technological innovations at a rapid pace. Although, as noted by Gareth Gardiner (2016), back in 1972, the American banker Abraham Leon Bettinger proposed the acronym "FinTech" as "an abbreviation for financial technology, combining banking practices with management methods and computers" (Bettinger, 1972); but even in 2017, the possibility of a unified approach to the definition of the concept of "new financial technologies" was spoken of rather as an activity that poses a threat. However, the emergence of FinTech in the "gray zone" has led to the need to come to terms with their existence. Also, the adoption of the Bali Fintech Agenda (BFA) at the IMF and World Bank sessions in Indonesia means that this phenomenon cannot be ignored. The BFA did not precisely define the term "FinTech", but noted that it "can be broadly defined as those advances in technology that have the potential to transform the provision of financial services, spurring the development of new business models, applications, processes, and products" (IMF, 2018).

There are various interpretations of the term "FinTech". According to Mantas Katinas, Managing Director of Invest Lithuania, FinTech is the activities of small companies using technology (Thomson Reuters, 2021). On the other hand, according to Svetlana Pertseva, "FinTech is a dynamically developing segment at the intersection of the financial services and technology. In it, tech startups and new market entrants are applying innovative approaches to products and services currently provided by the traditional financial services sector" (Pertseva, 2017); a similar opinion is shared by Manoj Kashyap (Manoj Kashyap et al., 2016). The Merriam-Webster Dictionary (2021) offers 21 formulations for this term. Thus, to this day, in modern practice, one final definition of the term "FinTech" does not exist, which creates serious difficulties for the regulators of the financial market, although the analysis of the dynamics of the development of the financial technology market is being carried out.

In 2018, the global financial technology market was valued at $127.66 trillion and is expected to reach $309.98 billion with an average annual growth rate of 24.8% until 2022 (PRNewswire, 2019). According to the UNESCO Institute of Statistics (UIS), in 2018, China invested 2% of GDP in this industry, and the United States invested 2.7% of GDP (UIS, 2020). Although, according to an analysis of pandemic crisis impact on investing for financial technological companies conducted by the consulting company "CB Insights", in the current period it may be the lowest compared to 2017 (CB Insights, 2020), this is (according to the author of the study) not related with a decrease in interest in technology, but is a consequence of the stagnation of the economy due to the pandemic. According to Kevin Bolen from KPMG (2020), as market volatility increases alongside the pursuit of technically sounding financial decision-making, the value of FinTech will grow. Whatever the case, investment policy has been an important part of a response to the pandemic; in the current crisis situation, as noted by the head of the BBVA venture investment department Gustavo Vinacua, many startups will have to reconsider their strategies, focusing on more profitable projects (BBVA, 2020).

The contradictions arising in this way determined the purpose of this study—to analyze the prospects for the development of FinTech as an industry in the post-COVID world. To achieve this goal, it is important to define what is meant by "FinTech"; to identify the advantages that allow new technologies to dynamically conquer the financial market; to identify the sectors of the financial market in which FinTech can be most developed; and to identify opportunities for the development of FinTech in the post-COVID world.

Methodology

For this study of the functioning and development prospects of FinTech in the post-COVID world, the methodological basis was general scientific methods, including a set of techniques such as synthesis, induction, deduction, analysis, and systematization, the method of interpreting new economic concepts and concepts.

The methodology for analyzing the most relevant judgments about the nature, purpose, and main content of the problem studied was based on the generalization and systematization of scientific information about FinTech.

For analyzing the need to accelerate the spread of new digital financial technologies in the context of the COVID-19 pandemic, an abstract-logical method research was used to identify the causes of this trend.

The methodology for analyzing the consequences of COVID-19 on the development of FinTech in the post-COVID world was an analysis of the works of scientists, publications in scientific periodicals, empirical studies, official materials of financial organizations, statistical data, and analytical reviews, in order to further identify the most perspective areas for developing problematic within the framework of the declared topic.

The methodology for the formation of the article provides system-structural tools that made it possible to formulate the purpose of the article, tasks, and conclusions.

Results

The analysis of opinions regarding the interpretation of the definition of the term "FinTech" showed that different reasonings are associated with the use of different criteria relating the ongoing processes to the FinTech industry. In some cases, financial services provided through financial platforms are used as criteria: payments, monetary transaction, personal finance, loans, insurance, or capital management (Blaney, 2020); other criteria are technology segmentation: API, AI, blockchain, distributed computing, etc. (Research and Markets, 2020).

For a long time, FinTech was associated only with the banking sector. Certain issues of the development of digital technologies, in particular the digitalization of banks, are given attention in the works of such scientists as Abbasov et al. (2019), Babkin et al. (2017), Maslennikov et al. (2017), Miroshnichenko et al. (2017), Skinner (2013), King

(2010), Ponamorenko (2020), Bobkov (2020), Shashkova et al. (2020), Inozemtsev (2021), Osipov (2021), and Yukhno and Osipov (2021), among others. In this context, the concept of Neobanks appeared—a digital bank that offers financial services only via the Internet and does not have physical branches (Urban Dictionary, 2014). It follows that the term "FinTech" touches on many different areas of the financial market, suggesting that all existing judgments are united by the common idea that "FinTech" is a new technology industry that helps to manage financial assets. In this regard, the author of the study agrees with the wording of the Financial Stability Board (FSB), which defines FinTech as a "technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services" (FSB, 2019).

In his research, the author will adhere to this interpretation. The COVID-19 pandemic has led to significant supply chain disruptions as a result of quarantine requirements and other restrictions such as social distance, transportation and logistics, and prioritizing technology. Recovering from the shock of such severe constraints, the digital integration of "traditional" retailers and distributors in the supply chain has shown the ability to ensure continued interactions between them. Even then, though, before the beginning of the pandemic, the Bali Fintech Agenda highlighted the significant socioeconomic potential of FinTech to provide access to financial services where it is low (IMF, 2018). During the pandemic, this was confirmed. Technology has allowed bankers and insurers to do business with previously unavailable clients in some parts of the world; for example, mobile phones have become the main device for banking operations in Africa and other developing countries, which is a kind of wireless money transfer. In 2017, according to Statista, digital payments were $2.5 trillion, in 2020 they were $4.4 trillion, and they are expected to exceed $6 trillion by 2022 (Statista, 2 April 2021). The total volume of payments of the leading mobile payment platform PayPal at the end of 2020 amounted to about $277 billion, which is 39% more than in the previous year (Statista, 11 February 2021). The growth in this sector is driving the development of the global FinTech market, affecting e-commerce, which in return, contributes to the growth of transactions.

Increasing consumer interest in receiving personalized responses in real time allows for more efficient budget management, as evidenced by the COVID-19 pandemic. The use of robo-advising, financial planning programs and applications, social trading, algorithmic exchange trading, and targeted savings services accelerated the development of on-demand products. The use of technology in combination with alternative forms of raising capital—peer-to-peer financing/insurance (P2P) provides access to financial assets that were previously not available. According to Statista, digital financing will account for $1,000 billion by 2025 (Statista, 31 January 2015).

There is no doubt that the asset management industry is making significant progress, driven by the adoption of BigData and AI models to validate and monitor investments and risks. If earlier these tools were concentrated in the hands of certain structures and hedge funds, then as data became more accessible to organizations and investors, it simultaneously became much more effective to apply current FinTech-based models in interaction with clients. The development of digital financial services is becoming even more relevant in the face of the pandemic.

Conclusion

By demonstrating resilience in critical conditions and the ability to stabilize economic processes, the FinTech industry has become a kind of public good. During the economic storm created by COVID-19, technology has provided new opportunities in the form of digital financial services to accelerate and expand financial inclusion amid social distancing and containment measures. The involvement of robo-consultants has expanded the capabilities of the B2B, B2C, B2G, and C2C segments, influencing the implementation of digital tools and digital payment systems in the supply chain. The pandemic not only accelerated the development of FinTech, but also became an adsorbent of innovation, fundamentally changing the landscape of the financial market. Traditional business models have passed the agility test, demonstrating the need to optimize them. Given a range of factors—including digital opportunities, the impact on global supply chains, and new norms of customer engagement to effectively respond to major shocks in the future—this pandemic has demonstrated FinTech's success in challenging current sectorial thinking and considering opportunities for new or modified services across multiple sectors.

Depending on the financial services sector, the emphasis on customer satisfaction, deeper consumer knowledge through data analytics, cybersecurity, or platform building will be different. Regardless of this, though, the consequence of the development of FinTech will be the emergence of new business models. Integration of digital and mobile FinTech with traditional companies allows the latter to become more flexible in providing their products, as well as helping both players to identify bottlenecks in relationships, building effective partnerships.

In recent years, technologies that make money handling easier have been one of the most promising areas for investment. But this, as well as the lack of an official term "FinTech", can provoke the situation of the "dotcom bubble". FinTechs are fragmented and contradictory, and the existing barriers to entry for innovative companies into the financial market—associated with the uncertainty of the requirements of regulators on the principles of their work in the area of regulatory compliance—can lead to a slowdown in the promotion of innovative opportunities for consumers.

Nevertheless, despite the likely difficulties in promoting FinTech, an analysis of emerging trends in the financial market in a pandemic has shown that in the post-COVID world they will not only not disappear, but will become a habitual way of life for consumers. The beginning of the modernization of technologies, as a way in managing the economy by providing personalized solutions to specific problems with individual pricing, as well as in increasing customer participation in renewing contacts with financial institutions, is creating new market rules for doing business. In this regard, we are entering a period of gradual changes in the international environment and new economic regimes, characterized by a widespread economy of resources: human, financial, energy. The digitalization of finance can significantly change the current functioning of the global financial system, which will create a number of opportunities to improve its efficiency. However, heightened competition may also have an impact on the stability of the financial system, due to the desire of traditional operators to maintain their profitability. FinTech is becoming the strategic foundation of a business development culture.

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