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BOOK REVIEW

Marin Laboure and Nicolas Deffrennes (2022): Democratizing finance – the Radical promises of Fintech

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Abstract
Financial services are enduring a profound transformation. Disruptive technologies are rewiring the broking, insurance, payment, lending and wealth management services. Fintech innovations are reshaping economies and societies by democratizing financial services. Digital payment services, crowdfunding, crowdlending, digital currencies, online discount broking and Robo-advisory services are extending financial services to the unserved segments of society through low-cost innovative solutions. Although fintech has attracted a lot of media attention, however, there is a dearth of literature on the effect of financial technologies on the overall economic outlook of economies. The present book explores the economic and social impact of fintech services. This book offers a research-based view of fintech?s potential impact on fostering greater financial inclusion and reducing economic inequality.

JEL Codes G11 · G2 · L1

Financial services have experienced a massive mutation over the last decade (Tao et al. 2022). Disruptive technologies are rewiring financial services such as insurance, payment, lending, and wealth management. Fintech innovations are reshaping economies and society by democratizing financial services. Digital payment services, crowdfunding, crowdlending, digital currencies, online discount broking, and robo-advisory services are extending financial services to the unserved segments of society

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through low-cost innovative solutions. Despite the media's intense focus on fintech, there is a dearth of literature on how financial innovations affect a nation's overall economic picture. The present book provides a holistic view on how fintech start-ups are democratizing the financial services through disintermediation. It furnishes research-based evidence on the role of fintech in stimulating economic growth and financial inclusion. The entire book is divided into nine chapters. Beginning with an overview of contemporary economic challenges for millennials in Chap. 1, the book delves into the disruptive effects of ongoing financial innovations in Chaps. 2 to 4. Chapters 5 to 7 highlight critical concerns impeding economic growth in emerging economies. Finally, the last two chapters of the book present an overview of digital currencies and recent developments in payment systems.

The initial chapter presents a glimpse of the concurrent economic woes that millennials in advanced economies are facing, such as an insecure job market, weaker economic growth, hefty pension liabilities, and unsustainable public debt. These challenges are the outcome of changes in the economic climate over the last decade. However, since the Second World War, the middle classes in advanced economies have gone through a protracted period of increasing purchasing power. Despite this, the lingering repercussions of the subprime crisis have resulted in a significant decline in middle-class purchasing power and earnings. Additionally, the new era of the networked economy has brought new obstacles in employment markets and lifestyles, for instance, the supplanting of traditional job roles by freelancers and gig workers, the dearth of social security among individuals, and the elimination of some middle-income occupational groups due to automation. These macro-inclinations have accelerated the creation of a new breed of financial services known as fintech.

The second chapter examines the influence of disruptive innovations on the traditional banking system. The chapter begins with a description of the subprime financial crisis and how it sparked a wave of financial innovations such as crowdlending, decentralized digital currencies, neo banking services, and peer-to-peer (P2P) lending. China's technological leapfrogging and cultural factors have propelled it to become a global leader in financial innovations. Compared to Americans and Europeans, Chinese people are apathetic about their privacy, allowing technological firms unprecedented access to their user data. Additionally, the authors demonstrate how cutting-edge financial technologies are subverting traditional banks through a number of fintech start-up stories. However, there is little chance that these fintech businesses will supplant current banks in the near future since most financial technologies are still in their infancy, and scalability is a significant concern for fintech companies. Indeed, banks and fintech ventures can complement each other through strategic alliances. On the one hand, incumbent banks may operate as "engine factories" that develop and administer financial products; on the other hand, fintech ventures can better handle sales and distribution since they have a technological edge in collecting and analyzing user data.

The third chapter sheds light on the revolution in digital wealth management. Information and communication technologies (ICT) have a profound impact on the behaviour and mental processes of Millennials. In contrast to Generation X, they spent more on services and experiences than they did on tangible objects with inherent worth, like automobiles or houses. Besides, they are more likely to save since

they live in a volatile economic climate with little job stability. Advancements in computer algorithms have resulted in a broader range of financial advice and investment products for millennials, such as robo-advisors and exchange-traded funds (ETFs). Digital literacy among millennials, low cost, and convenience have made Robo-advisory a better alternative than human advice. Proponents of robo-advisory believe that technology can democratize wealth management services and reduce the wealth disparity between low and middle-income groups that have emerged when the rate of return on capital exceeds the pace of economic growth. In a nutshell, the evolution of robo-advisors could be a game-changer.

The fourth chapter focuses on opportunities for governments to embrace information and communication technologies to upgrade public services. In modern times, several economies around the globe are digitalizing their public services. The rationale behind this digitalization is twofold: (a) dematerialization and centralization of citizen data; and (b) simplification of back-end government processes. Small countries like Estonia, Denmark, Dubai, and Singapore are leading in reinventing themselves digitally as these countries have stronger political systems and fewer jobs at stake. This chapter also emphasizes the importance of updating government policies to be aligned with the contemporary epoch of cross-border digital commerce and P2P employment platforms.

The fifth chapter emphasized the interrelationship between economic growth and inequalities. The chapter starts with a discussion of how technology accelerated globalization, resulting in substantial job outsourcing and heightened workforce competition. On the one hand, globalization and economic expansion have significantly reduced infant mortality and poverty rates; on the other hand, they have greatly increased intra-country income disparity. According to Oxfam (2017), 82% of the total wealth generated in the entire world goes to the richest 1%. Meanwhile, 3.7 billion individuals, representing the world's poorest half, see no increase in their wealth. Income equality is prominent in "dual beginning economies," where agricultural and non-agricultural productivity levels differ significantly. Fintech companies can address this income equality gap by facilitating credit availability, reducing income disparities, and channelling small savings into the formal economy.

The sixth chapter provides a comprehensive view of the contemporary development of financial technology in emerging countries and analyzes the influence of financial inclusion on economic and social development. Out of the 1.7 billion unbanked population in the world, nearly half of them live in seven emerging nations: India, Pakistan, Bangladesh, China, Mexico, Indonesia, and Nigeria. The main causes of financial exclusion in these nations are the distance to formal financial institutions, the absence of requisite documents, and religious convictions. This financial isolation has several detrimental effects, including poorer economic development, financial fragility, and savings. Nevertheless, the increased penetration of smartphones in emerging nations enables fintech businesses to harness cellular networks to offer low-cost banking products. Fintech companies that unbundle basic financial processes such as payments, capital allocation, and risk assessment are leading to increased financial inclusion. Although payment innovations have dominated consumer acceptance, other financial innovations such as robo-advising, P2P lending, discount broking, and

insurance are gaining traction. Furthermore, the authors find a substantial positive association between financial inclusion and economic development.

The seventh chapter opens with a confabulation of the relations between government expenditure and economic development. Governments typically move from fulfilling the minimum needs of their population (the minimum stage) to providing goods and services (the development stage) and finally ensuring their general wellbeing (the welfare stage), which results in steadily increasing public spending. According to Wagner's law, this happens when developing nations advance toward industrialized economies, where government spending rises more quickly than GDP throughout economic development. Financial infrastructure is a prerequisite for government-induced growth since several emerging nations lack the required infrastructure for direct digital payments to citizens. Blockchain, AI, and machine learning are examples of Industry 4.0 technologies that can help governments to foster greater financial inclusion through direct social security payments and expanding digital identities. However, to accomplish desired economic outcomes, a viable economic ecosystem, including smart regulations and government planning, is essential.

The eighth chapter provides an overview of the key transformative changes in money forms over the ages, as well as the meteoric ascent of digital payment systems. Over the course of its long history, money has undergone many structural changes, starting with barter in 6000 BCE and moving on to metal coins in 1000 BCE. Thereafter, paper money was introduced in the seventeenth century, followed by credit cards in the middle of the twentieth century, and the assortment of the present generation is digital currencies and electronic money. Since the majority of economies are gradually transitioning to a cashless society, the central banks in a number of nations have ceased printing new large notes. Financial advances have ushered in a new dematerialized and unified payments ecosystem. Emerging economies such as India and China are pioneering the use of digital payment systems. A relatively young population and savvy government policies may be ascribed to the development of digital payment systems in these nations.

The ninth chapter sheds insight into recent developments in the field of digital currency. The voyage of digital currencies began in 1990, when computer scientist David Chaum founded a software company, DigiCash. In 1994, this company proposed the first global virtual currency. However, this currency received little attention among finance specialists, and the firm declared itself bankrupt in 1998. Following that, Satoshi Nakamoto (an anonymous name) invented Bitcoin, the first well-known private digital currency, in 2009. However, Bitcoin gained public prominence in 2011 when Julian Assange, the founder of Wikileaks, declared that he would accept donations in Bitcoin. Following Bitcoin's success, several other altcoins and crypto-tokens were created, including Litecoin (2011), Ethereum (2015), ZCash (2016), and Shiba (2020). Nevertheless, due to severe price volatility, these first-generation cryptocurrencies have functioned as speculative asset classes instead of mainstream means of payment. To address the problem of high price volatility, stablecoins, the second-generation cryptocurrencies, were introduced in 2017, whose value is pegged to a fiat currency, commodity, or cryptocurrency. Tether, a US-based stablecoin, is the biggest stablecoin in the world and a pillar of the cryptocurrency ecosystem. Nonetheless, private digital currencies are unlikely to be used as a mainstream payment option by

most corporate entities in the near future. This reticence might be due to a lack of cryptocurrency regulations. As a consequence of these critical issues and the rise of disruptive technologies, central banks have stepped up attempts to develop their own stable digital currencies, termed "central bank digital currencies" (CBDC). The reasons for introducing CBDCs vary among countries. While industrialized economies prioritize CBDCs for payment safety, emerging economies view them as a vehicle for fostering broader financial inclusion. The Bahamas, Nigeria, China, and Eastern Caribbean countries are leading in this domain.

Finally, the authors exegete the preeminent modern revolutions in the financial sector. These revolutions are the emergence of online brokerage services, automation of back-office functions, upending strategic jobs, the transition from cash and cards to mobile payments, and the increased acceptance of cryptocurrencies. These fast developments, however, bring unique challenges for governments, regulators, and users. Ergo, policymakers should propose timely rules to strengthen fintech enterprises' security, consumer protection, transparency, and accountability.

Regardless, the book provides a detailed account of the economic and social impacts of financial innovations. Yet, the book overlooks a fundamental macroeconomic issue in which fintech startups may play a significant role, i.e., the issue of missing growth prospects. Several studies have reported the significant role of financial liberalization in spurring economic growth (Bekaert et al., 2005). Legacy institutions compel modest entrepreneurs to use high-cost credit card borrowings (approximately 20%), resulting in the demise of numerous promising ideas (Harvey et al. 2021). Fintech start-ups using decentralised p2p lending models can offer these entrepreneurs efficient and cost-effective solutions. Despite such critiques, we recommend this book to readers of the *Journal of Evolutionary Economics* who aspire to comprehend contemporary disruptive innovations in finance and the impact of these innovations on the wider economy.

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