FINTECH VS MONEY

A forecast made by OECD in 2002 predicted that the landscape of money will be digital in the near future. In line with this, money is in a high-transformation phase; for example, electronic currencies are not only in debate but also trending as an asset class. On one hand, trends show greater centralisation of management systems such as wide clearing and growing capacity to support complex, decentralised forms of money and payment mechanisms. On the other hand, it looks like core financial payment systems have high integrity through the proliferation of new financial instruments (mortgage bonds and hedge funds) and payment technologies (smart cards, Paypal, Wise etc.).

By Purva Aggarwal

Extending throughout economies, many instantaneous digital payment systems have carved an important economic space in the national infrastructure, in tandem with the flourishing online world. Social concerns call for proactive and adaptive policies alongside an exchange of technology on a global level, with an aim to accelerate the diffusion of digital money to the point where physical cash is marginalised. Leading countries like Canada, Sweden, UK, USA, France, China, Australia, Germany, Japan and Russia have moved to a new economic level of being mostly cashless. This underlines the recent discussions of exciting technologies that might replace the physical with the digital, and creates concerns for the central banks, as there is a spurt of 'new economies of intangibles'.

As a network of networks, the Internet created a wide-open market where, with competition and technological advancements, fin-tech became ever-flourishing. To expedite the process, fin-tech companies around the world are increasingly addressing the large direct costs involved in handling, clearing, and policing physical cash. Financial innovation and related transformations of money – such as e-wallets, mining and newer exchanges – are actively revolutionizing the way people live. Convenience and efficiency stand out as the distinguishing features of digital payment systems, with fin-tech companies simplifying their offerings – like allowing banking from a laptop or providing a simple tap-to-pay system.

Many central banks and governments around the world have tried to take conservative positions, which have found limited success. The resistance is due to the difficulties related to transition, but it is not unrealistic, or for that matter unprecedented at the global level. As friction with central banks builds, policies around the world are actively looking towards the virtual side of money. Policy initiatives could also not remain optional due to the involvement of the national interbank clearing systems and international currency markets as an economic reality. Matters of governance and the friction of central versus non-centralised authorities are leading to slow adoption of new innovations in the market, but cannot eliminate these changes.

When foreseeing the end of physical cash, the common perception is that the driving force is not phones and credit cards, but central banks spurring their understanding

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of cryptocurrencies and developing their own digital currencies (CBDC's), as seen in the case of England, China, Sweden, USA, and so on.

Ultimately, the new generation is looking forward to a big transformation when it comes to money. Gen Alpha and Beta, i.e. those born after 2010, are growing up in an environment where money has become largely "invisible, instant and inclusive", as Nakai put it in his recent work on the future of money. Spoilt for convenience, the new generation is easily adopting the cashless option as it allows for high theft-protection, complete transactional records, benefits and bonuses. However, worryingly, this behaviour is leading to some very silent changes in their money habits – such as over-spending, high debt and credit levels, data vulnerability, privacy issues, etc. This becomes highly dangerous for the common man, especially in a country like India – where 76% of the population remains financially illiterate.