Assignment 2

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1. **What is Artificial Intelligence? Explain how it is helping banks.**
   Answer:
   Artificial intelligence (AI) is a wide-ranging branch of computer science concerned with building smart machines capable of performing tasks that typically require human intelligence.
   AI in Banking:
   Artificial Intelligence (AI) is the way of the future in banking, as it combines the power of advanced data analytics with the ability to prevent fraud and improve compliance. Anti-money laundering activities that would ordinarily take hours or days are completed in a matter of seconds thanks to an AI algorithm. AI also enables banks to manage massive amounts of data at breakneck speed in order to extract key insights. AI bots, digital payment counselors, and biometric fraud detection techniques all contribute to greater service quality for a larger consumer base. All of this equates to more income, lower costs, and higher profits.

   AI is strengthening the competitiveness of banks through:
   - Enhanced customer experience: Based on past interactions, AI develops a better understanding of customers and their behavior. This enables banks to customize financial products and services by adding personalized features and intuitive interactions to deliver meaningful customer engagement and build strong relationships with their customers.

- <u>Cognitive process automation:</u> This feature enables automation of a variety of information-intensive, costly, and error-prone banking services like claims management. This secures ROI, reduces costs, and ensures accurate and quick processing of services at each step.
- <u>Realistic interactive interfaces:</u> Chatbots identify the context and emotions in the text chat and respond to it in the most appropriate way. These cognitive machines enable banks to save not only time and improve efficiency but also help banks to save millions of dollars as a result of cumulative cost savings.
- <u>Effective decision-making:</u> Cognitive systems that think and respond like human experts, provide optimal solutions based on available data in real-time. These systems keep a repository of expert information in their database called a knowledge database. Bankers use these cognitive systems to make strategic decisions.

2. **What are the different ways for startups to raise capital? Explain in brief.**
   Answer:
   There are a number of ways we can seek funding for startups:
   - **Bootstrapping your startup business**
     Self-funding, often known as bootstrapping, is a good approach to get money for a startup, especially if you're just getting started. Without any traction and a plan for possible success, first-time entrepreneurs have a hard time securing capital. You can invest from your personal money or enlist the help of relatives and friends. This will be simple to raise due to fewer formalities and compliances, as well as lower raising costs. In most cases, relatives and friends are willing to work with you on the interest rate.

- **Get Angel Investment In Your Startup**
  Angel investors are individuals with extra income and a strong desire to invest in new businesses. They also collaborate in groups of networks to screen proposals jointly before investing. In addition to funding, they can provide mentoring or advice. Many well-known companies, such as Google, Yahoo, and Alibaba, were founded with the support of angel investors. This type of investment is most common in a company's early phases of development, with investors expecting up to 30% equity. They would rather accept more risks in their investments in exchange for higher profits. Angel investment as a source of capital has its own set of drawbacks. Compared to venture capitalists, angel investors make smaller investments.
- **Crowdfunding As A Funding Option**
  Crowdfunding is a relatively new method of funding a startup that has recently gained a lot of traction. It's the equivalent of getting a loan, pre-order, contribution, or investment from multiple people at the same time. This is how it works with crowdfunding – On a crowdfunding platform, an entrepreneur will post a detailed description of his firm. Consumers can read about the business and donate money if they like the idea. He will state the aims of his firm, strategies for turning a profit, how much funding he needs and for what reasons, and so on. Those who donate money will make online commitments in exchange for a chance to pre-order the goods or make a donation.
- **Raise Money Through Bank Loans**
  When it comes to funding, banks are usually the first place that comes to mind for entrepreneurs. For enterprises, the bank offers two types of funding. A working capital loan and funding are two different types of loans. The loan required to run one complete cycle of revenue-generating operations is known as a working capital loan, and its limit is normally determined by hypothecating stocks and debtors. The regular process of

providing the business plan and valuation details, as well as the project report, on which the loan is sanctioned, would be followed for funding from the bank.

- **Raise Funds By Winning Contests**
  An increase in the number of contests has tremendously helped to maximize the opportunities for fundraising. It encourages entrepreneurs with business ideas to set up their own businesses. In such competitions, you either have to build a product or prepare a business plan.

3. **What is the difference between Angel and Seed investment?**
   Answer:
   Check Sizes
   It is the size of the investment you can expect from each investor in your seed round.
   Angel Investors: $10k—$250k. Angel investors usually can't follow on in later rounds. Plus, if you're raising $1M+, don't try to raise it all from angels, as investor management can become a problem with large groups.
   Seed Funds: $50k—$1.5M. Larger seed funds can follow on but smaller funds will behave like angel investors. Larger seed funds may want to lead around and some have minimum ownership requirements for investment. Good seed funds can often bring co-investors to finish a round.

   Investment Process
   It corresponds to the steps an investor will want to complete before making an investment.
   Angel Investors: The process from introduction to money-in-the-bank should take 2 weeks or less. Most will want to meet twice, at least once in person, with any other questions being answered over email. Approach angel investors early in your fundraising as it's often helpful

to get momentum in the round with smaller checks on a convertible or SAFE note.

Seed Funds: A seed fund process is usually 1–4 weeks, although demand in the round can speed things up. You can expect to meet one partner first and then the rest if they're interested. Most seed funds have a lightweight diligence process across products, projections, and references. Seed funds are usually comfortable with notes but are prepared for a potential lead to wanting a priced round.

Post-Investment

It corresponds to the time commitment and accountability expectations each investor will have, once the money is in the bank.

Angel Investors: The time they spend depends entirely on the investor and isn't necessarily correlated to check the size. Be sure to ask an angel, during the process, how they help their companies post-investment. Angel investors almost never take board seats and rarely have any control over the company. You can ask your angels for introductions when the next round comes but don't expect much more than that.

Seed Funds: If the check size is above $500k, you can expect a formal time commitment, usually a board will be formed but some may only want regular meetings. The partners of these firms are supposed to help their companies, so put them to work. Seed funds are often measured by their success rate in getting companies to the next round; they should be very helpful when the time comes.

4. **How do investors assess the credibility of startups before funding?**

   Answer:

   Following are some of the important points that are considered by investors in order to assess credibility of startups before funding:

- **Product Differentiation/Competitive Advantage**
  For investors, this will be a key issue. What distinguishes your product or service from others? There has to be something distinctive about your product. That could be it if you have a never-before-seen product and are the first to market. The majority of startups, on the other hand, are joining pre-existing markets. So, what distinguishes you?
  Consider MVMT timepieces.This company noticed that there are a plethora of high-quality timepieces available. Their strategy was to offer high-quality timepieces at reasonable costs. Their competitive edge is a low price for a similar level of quality.
  Rolex, on the other hand, presents itself as the industry leader in terms of quality and design, justifying their high price.Their differentiator: They believe they have the best product in the Market.

- **Passionate Founders with Skin in the Game**
  For business entrepreneurs, having a passion for their startup is relatively easy to come by. They have faith in the product or service they desire to offer. They believe it is a step forward from previous items or a novel approach to an old problem—in other words, the better mousetrap.
- **Significant Market Size**
  The majority of investors are seeking a business opportunity that has the potential to grow. Depending on the nature of your goods, you'll need a market with extensive reach, at least regionally. If you sell surfboards, you obviously only have a localized market around the coasts, but given the size of the overall surfboard market, that may be enough. Not every product, like the iPhone, will have a global market. To attract investors, you'll need a large enough market where economies

of scale can be incorporated into your operations to boost margins and profits.

- **Team Members and Delegation**
  In order to conserve money, most companies employ a small number of people, usually only one or two founders. It's not so much if a company has one or ten people that matters; it's whether it has enough critical personnel to cover the most important areas.
  You'll need someone who is knowledgeable about the technology or business you're entering.
- **Exit Strategy**
  Investors have two main financial concerns regarding projects: how much money do they need to invest and when do they need to invest it. How much will I be reimbursed, and when will I be reimbursed? A thorough financial estimate can answer both of these questions.

5. **Briefly explain the India stack initiative by Government.**
   Answer:
   The idea of India Stack is codified in its vision which states that India Stack is a set of APIs that allows governments, businesses, startups, and developers to utilize a unique digital Infrastructure to solve India's hard problems towards presence-less, paperless, and cashless service delivery.
   India Stack is the richest place for innovation over the next 5-10 years, enabling a billion people to drive consumption and GDP growth.
   India Stack is the largest API in the world. Since its deployment, a number of hackathons have been organized to develop applications for the API. The API flourished in stages starting with the development of Aadhaar, which has provided a Universal ID number to citizens.

Then e-KYC, which enabled paperless and rapid verification of address, identity, etc. e-Sign, whereby users could attach a digital signature to a document and UPI enabling cash payment.
Digital Locker is the recent one which provides a platform for document issuance and verification.
Four layers of India Stack

- **Presence-less Layer:** The biometric identity, Aadhaar is the bottom layer of the stack. This layer is owned by the Unique Identification Authority of India.
- **Paper-less Layer:** The paperless layer uses Aadhaar identity data to provide e-KYC (Know Your Customer), e-Sign, and e-Documentation services. This layer is owned by the Ministry of Electronics and Information Technology.
- **Cash-less layer:** With the development of payment possibilities using UPI, IMPS. AEPS etc. instant payments systems have been enabled such as peer-to-peer transfer of money from bank accounts. This layer is owned by National Payments Corporation of India (NPCI)
- **Consent Layer:** This is a data privacy layer with an open personal data store and is owned by the Reserve Bank of India (RBI)

Effects on India:

- **Citizens**
  Brings millions of Indians into the formal economy by reducing friction.
- **Software Ecosystem**
  Fosters innovation to build products for financial Inclusion, healthcare & educational services at scale.
- **Government**
  Brings a paradigm shift in the way government services are delivered in a transparent, accountable, and leakage-free model.