

# GCLS Fintech : Final Exam Submission



*Submitted by -  
Priyank Singh  
TLF0120038  
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### **1) AI-Enabled "Self-driving" Finance**

*Choose one area of application in financial services: (a) Payments, (b) Lending, (c) Insurance, and (d) Wealth and Asset Management:*

*Describe the application of AI in the chosen subsector. Specifically elaborate what AI would accomplish for both the service provider (i.e. Fintech) and the customer/client and how it would do so. Suggestions for objectives may include financial benefit, improved customer experience and/or superior performance. Please feel free to consider other relevant objectives as well.*

Insurance - In the modern landscape, the insurance industry faces the following challenges:-

- Financing and premium deposits have a lock-in period, discouraging users who have lesser liquid assets.
- Customer acquisition cost is high, as is the case with credit cards. However, the payback in the long term benefits the company. As a result, many users are not acquired by insurers.
- Claims and other processes like underwriting are very manual, often requiring multiple visits and paperwork filing by both insurers and clients.
- Microfinancing and creditworthiness models are tough to determine.

AI can vastly solve these challenges, as can be seen by the following applications and examples:-

- The very reason why premiums have a lock-in period is the uncertainty of profitability. If more and more users keep backing out, the insurance company will not have money to operate. Using AI, certain levels of premium (high or low cap) can be made partly or fully flexible.

This flexibility can come both in terms of amount of money to be deposited, as well as the monthly dates on which these deposits are expected. Traditionally, these decisions would lie in the discretion of insurance companies, which can be smartly made by AI. This achieves far more user-centric approach than the usual process, removing the responsibility of middle parties.

Example - Trov from California has a mobile app that allows users to activate and deactivate insurance as per their situations.

- AI can process situational facts and multiple variables, learning from the results of past as well as present situations. As a result, claims can be addressed and resolved significantly faster than the usual process, which takes more than 5 business days for a simple turnaround. This will save the company time, effort, and help them achieve greater user trust and loyalty.

Example - Vantis Life released a platform to underwrite life insurance based on public records and third-party data providers. It skipped the need for many customers to undergo medical tests. Lemonade AI processed a claim in three seconds.

- Using new paradigms other than FICO, AI can quickly determine the creditworthiness and micro financing needs of individuals. The insurance company typically employs people specialised in this, but they are also limited by their subjective experiences. AI can help determine the individuals who can successfully repay loans without collateral, and take micro financing to the next level. This accomplishes market penetration and convenience.

Example - Tala, a tech startup, uses geospatial and wallet data to determine creditworthiness.

## ***(2) On the future of crypto currency***

***A. What is crypto (i.e., digital) currency? What are your views on the intersection of crypto and financial services? What would you recommend to a Fintech Company on investing in this technology? (Hint: Do not forget to consider the risk involved and how such technology would enable their existing and planned products in the long-term if successful).***

***B. In your opinion, is cryptocurrency a fad that will go away or will it threaten the existing financial ecosystems? Should the Indian government initiate some national level programmes with dedicated funding to be a world-leader in this space? There are no right and wrong answers. Your answer will be evaluated on your justifications and the quality of evidence to support your opinions.***

- A. Crypto currency is essentially a decentralised currency system, where digital payments are not collected or regulated by a central authority. Crypto currencies often use distributed ledgers and encryption techniques to mask payment identification and counterfeits. Using traditional currency like rupee and dollar, users can buy crypto.

Crypto currency has vast implications for fintech, because it provides massive

opportunities in unregulated sectors like personal payments, crypto trading, internet shopping, etc. Crypto should be included in the future roadmap of the financial ecosystem, as it provides many countermeasures to money laundering, and governmental interference.

Recommendation to fintech companies looking to invest - There is an environment of mistrust and propaganda around cryptocurrency, which scares potential customers from buying or using crypto. As such, companies should invest in programs and advertisements to make crypto accessible and understandable, assisting people in understanding the system. For example, Zerodha's Varsity has catapulted several users into the trading ecosystem, using videos and courses. It helps that trusted companies publicly state their understanding of the system, and simplify jargon like candle plots, scalping, etc.

The campaign of "Mutual Funds Sahi Hai" has also worked wonders in creating positive curiosity around Mutual Funds, EELS, 80C, and has decreased the usual fears caused by the customary "Mutual Funds are subject to market risks".

Risk factors - Unexpected changes in market sentiment can lead to sudden moves in crypto price. Sometimes this ranges from a few dollars to several hundreds. Moreover, crypto is unregulated by both government and central banks. Thus, users often have doubts about its security, and whether it's being used for illegal purposes. Silk Road, a popular deep web marketplace, provided users the platform to buy drugs and even order assassinations in exchange for Bitcoin.

The government can pass legislation to criminalise crypto or some specific uses, which can be detrimental for a fintech dealing in crypto. There's uncertainty around the future of crypto, which makes it both an opportunity and a challenge.

- B. Crypto is here to stay, as people will largely see the benefit in investing on its value to make profits. It's evident from the past decade that more and more people want to have crypto currency, augmented directly by tax savings, anonymity, and use in certain situations. However the following will be a great challenge in its adoption:-

- Every authentic currency in the world is backed by gold, silver or government securities. But crypto is not backed by any of them. It is due to its hollow nature that its status remained volatile and suspicious.
- It is not backed by any government. Hence, making claims on its activity is not allowed.
- Bitcoin wallets can be operated anonymously without any KYC verification or Aadhar linking. This has given rise to arms smuggling, drug peddling and other illegal activities that the government wants to avoid.

