Report On
Disruption in Financial Institution by the advent of Fintech

By

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An internship report submitted to the Department of BRAC Business School, BRAC University in partial fulfillment of the requirements for the degree of

BBA program.

Sheikh MD. Salman
BRAC University
January,2020

Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at BRAC University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

Student's Full Name & Signature:

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Supervisor's Full Name & Signature:

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Riyashad Ahmed

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Letter of Transmittal

Riyashad Ahmed

Assistant Professor,

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BRAC University

66 Mohakhali, Dhaka-1212

Subject: Submission of report on disruption in financial institutions by the advent of Fintech.

Dear Sir,

It is my pleasure to prepare my internship report and submit to you on "Disruption in Financial institution by the advent of Fintech". It was a phenomenal opportunity for me to fulfill my internship from Social Islami Bank Ltd(SIBL). I am gratified and elated for being able to submit this report on your supervision.

As for my internship report, I focused on how the emergence of Fintech would disrupt the financial institution to its core. Since I am a Finance major student I often conjecture how traditional institutions would deal with that and I strived to explore in this field.

Sincerely yours,

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Sheikh MD. Salman

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Date: 01/02/2020

Non-Disclosure Agreement

i)Parties

This agreement is made and entered into by and between “Social Islami Bank Limited” and the undersigned student “Sheikh MD. Salman” at BRAC University. This agreement acknowledges that certain information about clients, trades, profits, internal affairs regarding the company is confidential. The provisions set forth in this agreement delimit on which terms the employee can share these information and when he can not. Furthermore, it also demarcate the limit of the extensiveness of the information shared and also the parties to whom he can share.

ii)Scope of Disclosure

The party can share information on the account of information has been disclosed previously by the other party publicly. The parties can also disclose information if it has been on the public records.

iii)Duration of Protection

The party is required to withhold information for 5 years from the date of joining. Any information leaked during these five years will be considered as a breach of agreement and will be punished legally for violating the law.

iv)Duty to Protect

It is an utmost duty to protect the information with a reasonable degree of care. The responsibility to protect information is relied upon the party itself and is expected to protect it to the extent as he would protect his own personal information.

v)Materials to protect

The party needs to protect the software information and the access to the server which the party had admittance to.

Acknowledgement

Firstly, I want to thank almighty Allah the most merciful. I would like to spread my gratitude towards BRAC University and all the faculties without whom I would be unable to ascend to this position. Chiefly I want to convey my utmost gratefulness to my supervisor Mr. Riyashad Ahmed. Since the beginning of this program he was helpful in every possible way. His moral guidance, perpetual supervision and constant counseling has helped me to contour this thesis.

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I would also like to thank Mr. Siraj Chowdhury(Senior officer) and Zulfiqar Ahmed (Junior officer) for being there and giving me the opportunity to work with them. They have been very kind and composed while they guided me throughout this internship.

Finally, I would like to thank my friends and seniors for their support throughout this journey.

Executive Summary

FinTech is the integration of financial services with technology and thus creating a network that is secured, efficient, viable and transparent. Blockchain is leading the way to establish this kind of platform where it will create ‘peer to peer’ network rather than a centralized network. In this network the clients can exchange money without the help of intermediaries which will diminish the need of institutions like bank. Hence disrupting the traditional financial services. Gradually, with the help of crowd funding and research they will be able decentralize the infrastructure as there will be no central regulatory party. Decentralizing the infrastructure will pave the way for investors to invest freely without bowing down to the giants of financial market and will be released from the clutch of their manipulation. FinTech is inevitable and revolutionary. Therefore, central regulatory boards should comply with the independent organizations and entrepreneurs to form a secured network.

Keywords: FinTech; Financial services; Blockchain; Crowdfunding; Decentralize ; Disruption

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List of Acronyms

NPL	Non performing loan
API	Application programming Interface
GFC	Global Financial Crisis
AI	Artificial Intelligence
WEF	World Economic Forum
CFP	Crowd Funding Platforms

Glossary

Recipient	A party receiving confidential information
Bai Muazzal	A contract between buyer and seller under which the seller sells specific goods which beholds the permissibility by Shariah law. The buyer buys it at a fixed future rate and may pay in either lump sum or installments
Mudhraba	It is a trust financing contract according to Islamic finance where capital is granted through or in compliance with Islamic regulations and practices
Blockchain	It is a technology which underpins digital currencies like Bitcoin, Ethereum
Crowdfunding	typically general people funding for a cause in a digital platform

Chapter 1

Introduction

1.1 Origin of the report

This era is the era of information system. The more accurate the data the more efficient the output. Financial institution is not exception to that. More so collecting and analyzing data is imperative for financial institutions. “Fintech” is a term stem in the 1990’s to accomplish financial solutions in a timely manner with the assistance of technology. Though today’s concept of ‘Fintech” is very different from the 90’s, the idea developed back then was the harbinger of today’s concept.

Recently it not only grasped the interest of the industry participants but also regulators and academics. Due to the volatile situation of the financial markets manual calculation and humane error may lead to crisis as it did back in 2008 recession. The ever emerging technology and its applications are soon to be replacing traditional financial institution to its core. The Fintech as we know it is particularly new. However, the idea of using technology in financial transaction has a long history. As for example, in the paper “150 years of Fintech” Arnel illustrated the emergence and innovation of Fintech in three eras. The authors argued,

“The advent of the first transatlantic cable in 1886 allowed the initial combination finance and technology, culminating in the first period of financial globalization. Driven by smartphone and application programming interfaces and further catalyzed by the 2008 global financial crisis, we are currently at stage 3.0 of FinTech in developed countries and FinTech 3.5 in emerging countries Moreover, the critical difference lies in who is providing financial services and the speed of development “In another paper titled “The Fintech 2.0” the authors have further argued that FinTech 2.0 is able to ‘reboot’ the core of the financial services and its nature altogether. They said, “Fintech phase 1 refers to the emergence of technology aimed primarily at digitizing the customer experience and moving services online. Examples are online trading and lending and mobile payments with little participation by the banks. FinTech phase 2.0 is being driven by Artificial intelligence (AI) and greater computing powerwith more collaboration and participation among financial institutions and FinTech Start ups.”

1.2 Rationale of the study

Inevitable FinTech is about to disrupt the industry. Though it is often portrayed as the apocalyptic substance and a threat to the banking industry and traditional financing, Industry welcome these innovations. Rather than pushing off the inevitable it is prudent to embrace it in its progress and not being left out.

In 2015 after more than 15 months of research the world economic forum (WEF) published a major survey of FinTech disruption. Their title was "The Future of Financial Services'. This study was a collaboration between academicians, economists and big time industry leaders. The result was astonishing and it emerged as "the First consolidated taxonomy for disruptive innovation in the Industry"

Therefore, this topic is very timely and indispensable. I attempted to explore some of the fields among the very vast field of this topic to become updated.

1.3 Scope of the study

The academicians are still head over hills on this particular topic. There is a clear gap between techno geek and traditional financial expertise personnel. Nonetheless it is intriguing for every possible parties. The study is generally now comprised of how it may disrupt and brainstorming the ideas which are most likely to be implemented and accessible real life. However, there is still no benchmark yet created which may allow it to be accessible for public and making it grow. Artificial intelligence might be a viable option to integrate technology into existence. However, there are still doubts about regulation and fear of reprimand since it is still very aboriginal. Therefore, there might be countless unexplored fields that can be utilized for the study but for now the scope is very limited and incredibly restrictive.

Chapter 2

Areas of FinTech Disruption

There is no limited areas where we can determine that is the boundary of FinTech. It is very technical and at the same time spontaneous. The implementation of FinTech will depend on entrepreneurial intuitions and market demands. It will grow how we will shape it to grow. Online banking, payments and transaction, market trading, raw materials management, collective financing, development of financial security systems, digital wallets and so on are just some mere examples of it.

Figure 1: Areas of disruption in Financial services

Chapter 3

FinTech Infrastructure

3.1 Decentralized system

Money is not merely a tangible object. Rather it is a piece of information. Financial markets exercise the idea of money by assembling and disassembling the the particular kind of information in a sophisticated way. Since the ancient times the information and idea was tampered with. Even in the modern age it has been manipulated in various ways though it was digitized to certain level. However, the foreseen horizon is yet to perceive more digitized version of money. Cashless economy is not a far end concept rather it is a reality and so on. The credit card system which was deemed to dictate the cash dependent economy into a cashless economy no longer is the big player. Soon even credit cards have to fight for their place. As the emergence of Google Wallet and Apple pay paved the way to attract customers in a digitized way to execute their transaction, there has been many start up that were going for programming to build a secure and flexible network for money exchange. Gradually there will be abundance of parties to securely deal with money and the platform will be so diversified that the centralized system which comprises of some specific strong economy leaders will no longer be able to manipulate the market. By the advent of this decentralized transparent system investors need not to be afraid of some shady deals and neither have to depend on the hegemony of the ‘Big’ parties.

This will be a decentralized system governed by nobody and everybody. It will be transparent and will be free of market manipulation. Though as promising as it sounds brining this system to existence is equally complex and challenging. Blockchain and Crowdfunding is playing a vital role in giving the idea or gist of the nature we might be able to achieve with the help of this decentralized system.

3.2 Blockchain

The idea of blockchain is there will be no intermediary to help out the cash exchange process. Rather it will be done in ‘peer to peer’ manner. The goal was to create a network with peer to peer version of electronic cash which would allow online payments to be made without intermediary. For example, if there is a large pool of peers in the network it can easily trade money between each other in a secured way. It was designed to replace the traditional infrastructure of the financial services. Bitcoin was not the first digitized currency but it was most widely used.

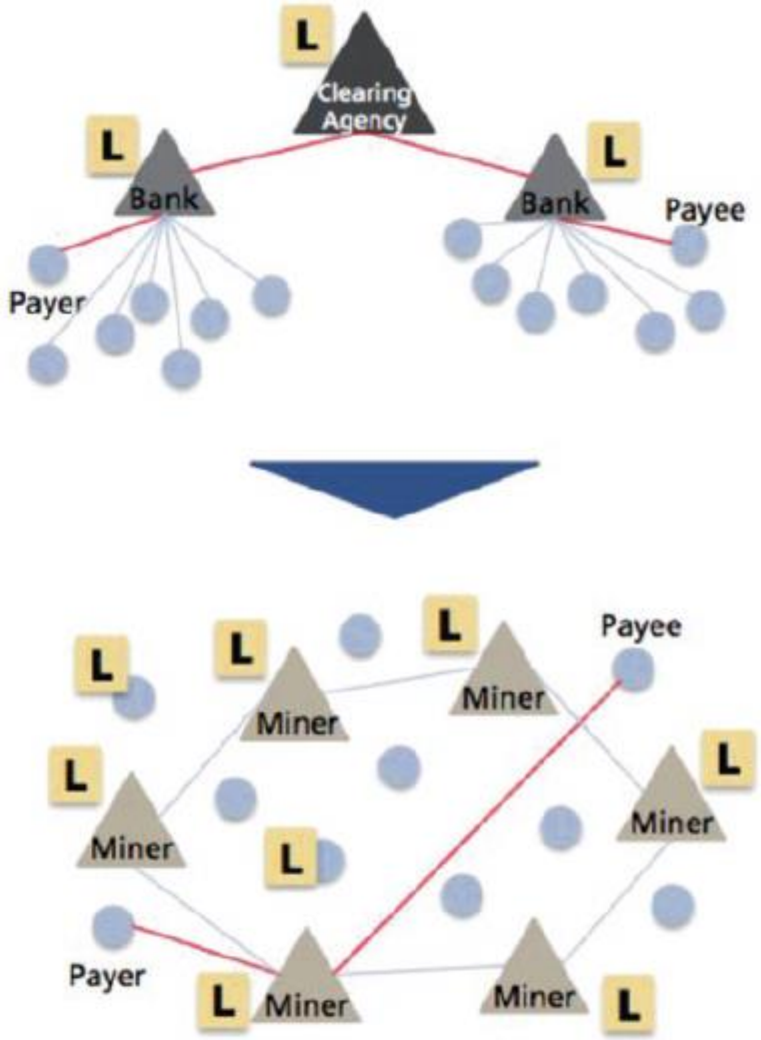

Figure 2: Traditonal infrastructure vs Digital infrastructure

The Figure 4 shows how the digital version of currency and exchange might look like compared to the traditional one we are using right now.

Though the system is very transparent and out of centralized regulation it also might be misused for criminal activities and illegal transactions. As every party is uniquely pseudo coded and digitally unique. It is impossible to trace out any discrepancy regarding this issue. Essentially, this technology arises these questions and it requires a new body of law which is termed as Lex Cryptographia which are rules formed and exercised by self-executing smart contacts and autonomous organization which are decentralized. Even those organization will be bound to be transparent as well.

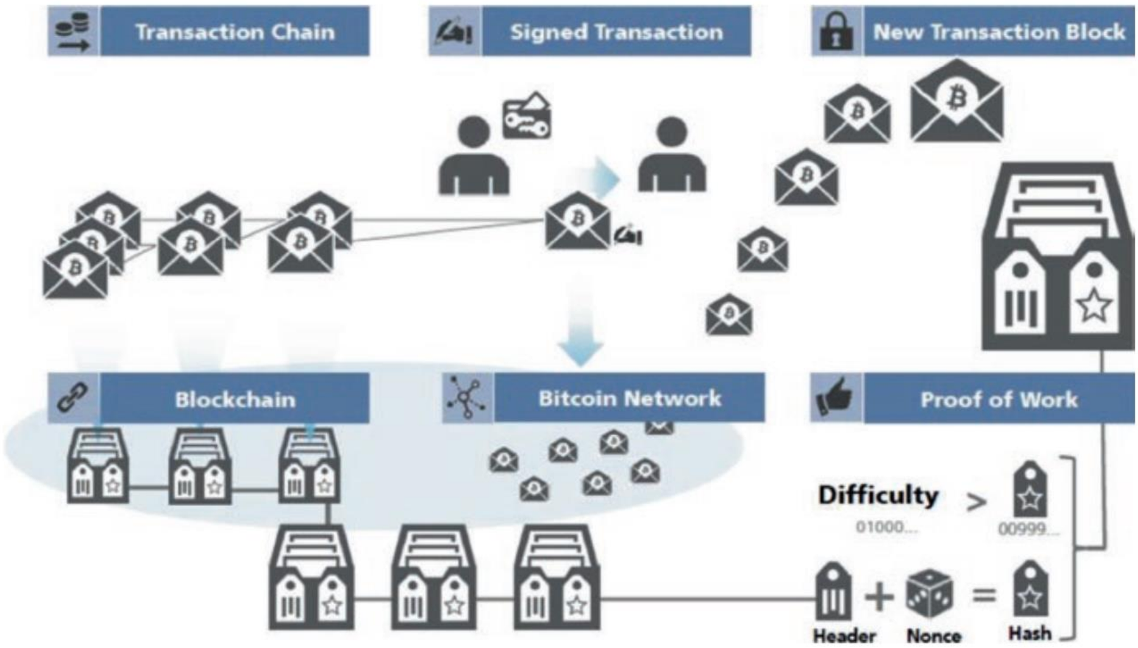

Figure 5:Blockchain flow

3.3 Crowd funding

A dominant part of FinTech research has been relied upon crowd funding since the central system would not want to promote a decentralized system that will eventually get rid of all the intermediaries. Crowd funding has two sectors. i) investment based and ii) donation based. Investment based in basically peer to peer network where royalty ,equity and lending based financing is implemented. Whereas donation based is for a certain goal and kind of charity. FinTech research is primarily depended on Investment based crowd funding. Even now majority of crowd funding research is empirical and are formed around traditional financial theories. Considering the perspective of fundraiser, the single theory is heavily used to examine how the relationship is build and how to present the idea to make it attractive, earn investors trust and make the campaign successful. It is the trend now since the financial crisis as it allows people to have a idea for what their money will be used and they also know the personnel responsible compared to before where they had to trust on their whim and invest though knowing they will not have any access to those who have the strings.

Chapter 4

Conclusion

The technology will take over the fields sooner or later. It would be prudent to collaborate and create a network by the help of autonomous and independent organizations. The intention should be thinking about the general welfare of the community. By collaboration we can deliver advanced distributed ledger thus creating a robust, exciting and efficient financial institution. It will help not only local bank and transaction rather it will have a great impact on financial markets. Developing commercial applications and transparent network even investors will not shy away from investment. Establishing general protocols and standards consistent with the profound laws should be able to diminish the shortcomings that might come with the adoption of this network. We are currently in a position where we were at the flux of the emergence of ‘Internet’. Accepting it has been a blessing though it had its own adversary effects too. Nonetheless, in the progression of civilization it has helped tremendously. FinTech is also the same. Now people are not able to grasp the dimensions of it but once they start to use it in their daily life they will unable to imagine their life without it. Corporate giants, centralized regulators and autonomous organizations all should come together and help build a financial system like none before.

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Appendix A.

Fintech is deemed to dismantle the financial institutions to its core and that is why people are revering and fearing it in the same time. Relying on Artificial intelligence for this sophisticated volatile project will take courage of great extent. However, the reputation of being able o solve problems with it is ever growing and soon to attract more.