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We will see a lot more disruption in fintech in the next 5-10 years

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In a chat with *Mint*'s R. Sukumar at EmTech India 2016, V. Vaidyanathan, chairman of the Capital First Group, spoke about how digital is disrupting the financial sector. Edited excerpts:

What kind of changes can we expect in fintech?

We will see a lot more changes and disruption in the next 5-10 years from this one word—technology. Most Indians do not have exposure to the stock market or even a demat account. We have close to about 200 million accounts on credit bureaus for an eligible population of nearly 600-700 million people. Whether you look at the number of bank, credit, demat or home loan accounts, India is just completely under-penetrated. With the private sector actively getting into this space and the multiplier effect of technology, I see huge growth in the future.

The opportunity is palpable, but there is also a lot of unease—especially on the part of big banks.

It's not unease of big banks but unease of the financial sector as a whole. If you are one of the large smart banks like ICICI Bank, HDFC Bank, Kotak Bank or State Bank of India, I still feel that you will look forward to the market and the future with a great amount of confidence. Of course, you will have to figure out what's happening around you, but you still have a great degree of confidence because you can do what the new guys can do. But if you are one of the remaining (ones) who are not yet talking about technology and someone else is coming from the fintech sector and disbursing loans in just 10 minutes or even 10 seconds... I think it (the unease) is coming from the fear of irrelevance. One of the biggest issues human beings face or corporations face is the fear of irrelevance and the feeling of unease coming from the fact that I shouldn't become the Air India or Nokia of tomorrow.

That unease is also there because electronic payments are catching up and so are newer alternative lending models—for example, peer-to-peer (P2P) lending. The traditional models of finance—in terms of how you issue a loan, how you make a payment, and sometimes even how you facilitate a transaction using a credit card, all those things have changed.

That is dramatically changing. Actually, I think to the discomfort of a number of people. Let's take Paytm as an example. It has 125 million accounts. Imagine if companies like it or telcos (that have payment bank or small bank licences now), will also get a full banking licence, say two years, five years from now—I don't know what the RBI roadmap is—they can also issue (account holders) loans wirelessly. So the fundamental cost architecture of the alternate lending models is going to be so dramatically different that existing companies need to be a little worried.

To facilitate transactions like these, you also need very intelligent back-end technologies. Here I would like to draw on what your own company does. You were in some ways doing analytics before it became fashionable—understanding borrower profiles, understanding who is likely to default or not pay back, and things like that. Do you think we have the ingredients in place to set this kind of smart back-end?

The platform in India is definitely developing very fast. Our own company, Capital First, in 2010 was borrowing at 14.5% per annum and we had a retail loan book of about ₹90 crore. Clearly, you can't do any business or build a significant retail business at this rate. So we started developing a model whereby we lend to customers on the basis of profiles, on the scores we built on them—whether they are married or unmarried, whether they are self-employed or salaried—and we then broke this up and figured out a scoring methodology that we could then extrapolate to the larger system. It's working so well. We are lending over 100,000 loans a month. We added close to 2 million customers in the last five years. So, definitely I think that if you are doing it, we have proof enough to say that this platform exists in India.

Do we have the right kind of regulatory framework to facilitate this transformation? Because regulations, especially in banking and finance are a very key constituent of how the industry works.

I really feel that the Reserve Bank of India, in a regulatory sense, is seized of the situation, which is actually encouraging. But the regulator will have to really have to apply its mind in areas like bitcoins, which are really a multi-country, multi-currency sort of platform.

I am just going to broaden that a little bit to talk to you about crypto-currencies. If you look at the underlying technology, which is really blockchain, how do you see that transforming the financial sector? Are some Indian companies already experimenting in this area?

Well, there is some phenomenal work happening there. In Venezuela, inflation last year was 65%, this year it is 276% and maybe next year people are talking about it going to around 600%. So, countries are naturally imposing capital controls and you can't easily go and spend forex money. Therefore people are looking up on how to use alternative currencies and crypto-currencies like bitcoins. Last year, use of crypto-currencies in Latin America grew by 1,746%. That is the kind of explosive growth that industry is seeing. I think wherever there is inflation, wherever there is capital controls and wherever there is uncertainty, people will move on to the new platform. In fact, I won't be surprised, if even gold were getting traded; I won't be surprised if Google will start some sort of a currency. These things are around the corner.