Poornaprajna Institute of Management, Udupi

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arthaprajna

Fin-Glory

Arthaprajna

"With a good perspective on history, we can have a better understanding of the past and present, and thus a clear vision of the future." – Carlos Slim Helu

Fin-Glory

From the Editor's Desk…

Greetings from PIM Family!

Attitude is a choice. Happiness is a choice. Optimism is a choice. Kindness is a choice. Giving is a choice. Respect is a choice. Whatever choice you make makes you. Choose nicely.

With this quote I cordially invite all of you for the last issue of Arthaprajna for the academic year 2021-22. This particular issue is an exclusive one since the first-year student friends have also contributed their views on preferred topics through articles.

Thank you is the best prayer that anyone could say.

I take this opportunity to thank our coordinator, Dr. Bharathi Karanth and director Dr. Bharath V. for supporting our actions in every respect.

We express sincere gratitude to all the readers for having read our articles, for your participation in the weekly Fin-Quiz contest and providing valuable suggestions on our issues.

We expect the same support and enthusiasm for succeeding years.

Thank you is the least we can say to you to show our appreciation for everything we have received so far.

Warm regards,

Naveen R. Bhat

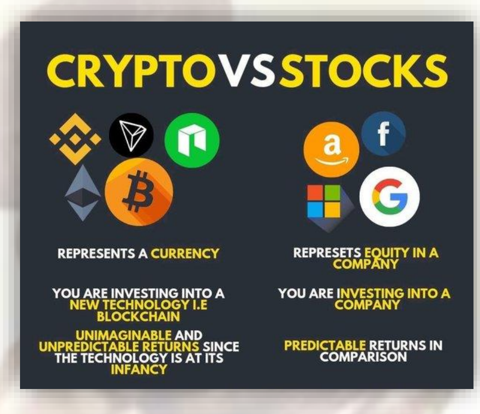
Chief Editor

Team Arthaprajna 2021.

FIN- VIEWS

STOCKS VS. CRYPTOCURRENCIES

Many now compare crypto currencies to stocks as a growing number of investors and speculators flock to them as an asset class. While there are some similarities between cryptocurrencies and equities, there are also significant differences.


CRYPTO VS STOCKS
REPRESENTS A CURRENCY
YOU ARE INVESTING INTO A NEW TECHNOLOGY I.E BLOCKCHAIN
UNIMAGINABLE AND UNPREDICTABLE RETURNS SINCE THE TECHNOLOGY IS AT ITS INFANCY
REPRESETS EQUITY IN A COMPANY
YOU ARE INVESTING INTO A COMPANY
PREDICTABLE RETURNS IN COMPARISON

Major Highlights:

The likelihood of being scammed, risk and volatility, a comparable transaction experience, and a steadily expanding investor base are all similarities. Supply, technology, purpose, and regulation are few of the distinctions. However, it’s feasible that as the cryptocurrency market develops, these two asset classes will start to resemble one another more and more.

Differences between stocks and crypto currencies:

There are still a lot of basic distinctions between equities and cryptocurrencies, as we stated at the outset:

1) Supply

The most well-known cryptocurrency, Bitcoin, is one whose supply is constrained. Other cryptocurrencies, however, do not have a cap on the total amount that may be mined or created. As the number of shares outstanding is managed and ultimately supported by the operations of the issuing company, stocks, on the other hand, tend to be less volatile.

The absolute size disparity between the global stock markets and cryptocurrencies is another factor to take into account. In contrast, the overall size of the cryptocurrency markets was only $2.6 trillion, or just 2.5% of the $106 trillion anticipated worldwide market capitalization of stocks as of 2021.

2) Regulation

Equities, or stocks, are generally scrutinized by securities and other regulators in their country of origin. Additionally, for stocks that trade in an organized exchange, the exchange also provides oversight of the company and may delist the company.

While by no means does this provide a guarantee, it is certainly more than any safeguards when investing in cryptocurrencies.

Furthermore, cryptocurrencies are based on the concept of decentralization, which allows the trust less peer-to-peer exchange of value over the internet without any intermediaries. As a matter of fact, the appeal of cryptocurrencies for many is the fact that the identities of the sender and receiver of crypto are hidden, unlike traditional stocks.

3) Purpose

Speaking of exchanging value, many cryptocurrencies were designed as transactional cryptocurrencies, which means that they are meant to be a sort of digital currency or coin.

On the other hand, when someone buys a stock, they are actually purchasing a portion of the issuing firm. But when someone buys a cryptocurrency, they aren’t necessarily obtaining a piece of the block chain; they are merely receiving a means of trade.

Yes, there are projects where a token might stand in for a portion of ownership or voting rights. However, having a cryptocurrency is typically more equivalent to possessing a cash or commodity, such as gold.

4) Technology

The fourth and final distinction between stocks and cryptocurrencies is the technology that underlies all crypto currencies, or block chain. Numerous cryptocurrencies enable the addition of programming, transforming the crypto currency into “programmable money.” Certain crypto currencies can be used to build alternative use cases, such smart contracts and other DeFi uses, like Dapps (decentralized applications). Stocks can only be used for capital growth, dividend income, and voting rights.

By:

Namitha
II MBA

FIN- TECH

DIGITAL MONEY

Digital money is any currency, money or money like asset that is primarily managed stored or exchanged on digital computer systems like internet. The types of digital money include virtual currency and central bank digital currency. Digital money may be recorded on a distributed data base on the internet like a centralised electronic computer data base owned by a company or bank within digital files or even on a stored value card.

Digital money is money in purely digital form. It is not a physically tangible assets like cash or other commodities like gold and oil. Digital money is susceptible to hacks and can compromise user privacy. Digital money's properties are similar to traditional currencies but generally not have physical form unlike currencies with printed banknotes. It removes the cost associated with distributing notes and coins. Virtual currencies are not considered a legal tender and they enable ownership transfer across governmental borders.

This types of currency may be used to buy physical goods and services but may also be restricted to certain communities such as for use in online game. Digital money can either be centralised. There is a central point of control over the money supply.

Digital money is the current financial infrastructure, making it cheaper and faster to conduct monetary transactions. It can also guide the monetary policy implementation by central banks.

Digital money is quickly emerging as a practical alternative to traditional fiat currency. It is the transaction irreversible once authorised. This offer is an exceptional protection compared to fiat currencies which are less secure due to the personal information required to make transaction and potential for chargebacks.

Digital money are empowered by block chain technology making them virtually impossible to duplicate. The currencies are decentralised which means they do not resource of a third party like bank. This also means that the transaction are directly to the parties who are necessary to guarantee the transaction.

The financial history is documented and handled by third parties such as credit reporting agencies, banks, collectors and marketer. With digital money the transaction history of the coin is recorded and stored but not the spending.

By:

Geeta Moger

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FIN- TERM

FIVE BASIC FINANCIAL TOPICS THAT EVERYONE SHOULD KNOW

1. Budgeting

Budget
70%
45

Budgeting is the basic foundation of finance. It's very important that everyone should know it. In simple words budgeting means how you use all of your money. It tells us how much we earn and how we are using it exactly. It's not about being perfectionist but all about limiting your expenses and how to manage your earnings.

Budgeting methods:

- **50/30/20 budget:** This is one of the budgeting methods where we allocate our 50% of money to housing, transportation and insurance. Next 30% goes to our needs and wants such as eating, shopping, travel etc. Finally 20% of our income should go to savings and debt. It’s a great method to follow but for the people who owe high debt do not hold good to this.

- **Zero based budget:** This means we use our entire income until it comes to zero rupees. Main reason is that we should have enough money for everything.
- **Pay yourself first:** It’s also known as reverse budgeting. It means first you take the portion of your income out for your savings and debts. Anything remaining is used for other purpose. Here importance is given to yourself first.

Budgeting apps: there are many budgeting apps that helps every individual how to manage your money and helps you with tracking your spending throughout month. Some of the apps are:

- Mint
- You need a budget
- Personal capital
- Every dollar

2. Debt

Debt is one more crucial aspect we should concentrate on. It’s very important to learn how to manage debt.

Revolving vs. non-revolving debt:

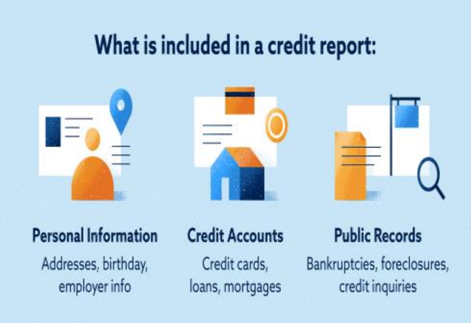
Revolving debt is one were we continuously pay debt. Most common revolving debt is credit card. Non-revolving debt means you borrow a loan then you repay it over a time specified. Some of the non-revolving debts are student loan, personal loan and car loans.

Secured and unsecured debt: Secured debt means when you borrow loan. If you don’t repay the debt lender can seize the asset belonging to you as compensation. For example, if you don’t repay the loan lender can seize your home or car etc. Unsecured debt means there is no collateral security behind it. Lender cannot seize any asset but he can take legal action. Some of the examples, are students’ loan and credit cards.

3. Net worth

It’s an important aspect everyone should know. Net worth means difference between what you own and what you owe. To calculate add all the assets like home investments, physical assets, money in your bank account then calculate the amount of all your debts. Subtract your debt from your assets, now you get your net worth.

4. Credit report



What is included in a credit report:

Personal Information
Addresses, birthday, employer info

Credit Accounts
Credit cards, loans, mortgages

Public Records
Bankruptcies, foreclosures, credit inquiries

Credit report involves all your current account, including how much we have to pay, to whom we pay and monthly payment made. If banks or lenders want to give you loan, they first check your credit report as it shows how well you handled your previous debt repayment. Based on that criteria they will lend you loan.

5. Savings

In personal finance savings play an important role. Out of savings you should keep some money outside as emergency fund so that whenever there is emergency situation you can use that.

By:

Subrahmanya
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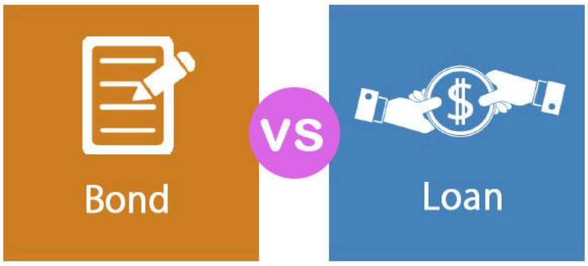
FIN- TOOL

BANK DEBT VS. BONDS

When a company borrows money from its bank, it incurs a long-term liability known as bank debt. Bank debt represents a group of loans that a corporation must repay to a bank. A bank debt is usually a secured loan--that is, a borrower must provide collateral, or financial guarantees, before receiving loan proceeds. In case of bankruptcy, bank debt is repaid before other lender claims.

An investment representing a loan from a lender to a borrower is called a bond. A bond can be compared to an agreement outlining the terms of the loan and the associated payments between the lender and borrower. Companies, municipalities, states, and sovereign governments use bonds to finance operations and projects. It is true that, when compared to bank loans, bonds cost more in terms of the nominal interest the company pays. But this is because banks require more collateral than bondholders. Here we have the traditional risk-reward relationship once more.



Standard clauses that give issuing companies a lot of flexibility are usually included in bonds. Conversely, banks impose covenants on borrowing companies. These covenants restrict the borrowers' options. They must first obtain the bank’s consent for specific transactions, such as sales, purchases, payment of exceptional dividends, and the issuance of new debt. In bilateral agreements between banks and group subsidiaries, covenants are becoming more and more common, and managing them can be a real hassle.

However, unlike bonds, which must be issued for sizable amounts without the company necessarily needing the money right away, some forms of bank credit, like credit lines, give the company flexibility over when it actually withdraws the money. Companies that have the ability to issue bonds do so to access new sources of funding. It takes some time to enter the bond market for the first time. Investors must be familiar with the company, and it is necessary for the company to have received a de facto rating from an agency. However, a second problem can be resolved quite quickly.

The exposure that a bank can have in its own name restricts credit lines for some major groups because of concentration of risk. Given the banking industry's consolidation, this is a growing issue. An issuer can access additional investors on the bond market, which in this case increases the amount of debt raised. A company increases its chances of being able to raise debt financing at any time by using both credit lines and bond issues. A public bond issue aims in raising the company's profile.

Overall, there are no clear-cut options rather the objective is to diversify risks and, in the end, build relationships.

By:

Divya

II MBA

FIN- FACT

ADANI TAKESOVER HOLCIM CEMENT

Adani Group has acquired a controlling stake in Swiss major Holcim's Indian busines s, the Ambuja Cement-ACC combination, for $10.5 billion.

Through its subsidiaries, Holcim owns 54.53 percent of ACC and 63.19 percent of A mbuja Cements (of which 50.05 per cent is held through Ambuja Cements).

A necessary open bid must be made by Adani Cement in order to purchase an additio nal 20% of Ambuja Cement.

हिंदी
HOLCIM - ADANI DEAL
DEAL RATE?
ACC cement
+
Ambuja Cement
WHY HOLCIM EXITS INDIA??
adani
2ND LARGEST

This is the largest acquisition by Adani and the largest M&A deal in India's history in the infrastructure and materials sector, valued at $10.5 billion including the value of the Holcim holding and open offer consideration for Ambuja Cements and ACC.
The purchase is a part of Adani Group's strategy to expand outside of its traditional core businesses of operating ports, power plants, and coal mines and into sectors such as data centres, airports, new energy, digital services, and retail.

Adani Cement, a recent entry into the cement industry, would instantly become the second-largest cement manufacturer. Thanks to the transaction with Holcim.

Ambuja intends to increase its current 31 mtpa grinding capacity to 40 mtpa during the next two years. The north accounts for around 42% of its grinding capacity, with the west, east, and central regions accounting for the remaining 28%, 26%, and 5%, respectively.
Similar to ACC, which will increase its current 35 mtpa grinding capacity to 40 mtpa by the first half of 2023.

Following the conclusion of the ongoing expansion, ACC's grinding capabilities in the east, south, and centre regions will range from 23 to 27 percent, while those in the north and western regions will be 15 and 10 percent, respectively.

Holcim, that encompasses a presence in 90 countries, entered the Indian market 17 years ago by shopping for stake in these 2 corporations. Despite facing challenges, Ambuja Cement and Air Combat Command are wanted by investors for being the second and third largest players in cement sector and paying liberal dividend on a daily basis.

By:

Srinidhi K S

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FIN- PERSONALITY

AZIM HASHIM PREMJI

Azim Hashim Premji, an Indian businessman, investor, engineer, and philanthropist, was the chairman of Wipro Limited and was born on July 24, 1945. Premji is still the founding chairman and a non-executive member of the board. He is referred to as the Czar of the Indian IT Industry informally. It was his responsibility to guide Wipro through four decades of expansion and diversification so that it could eventually become one of the world leaders in the software sector. Asia week ranked him among the top 20 most influential people in the world in 2010. Time magazine twice included him on its list of the 100 most important people, initially in 2004 and more recently in 2011. He has consistently been ranked as one of "The 500 Most Influential Muslims" for years .He is also the Chancellor of Bangalore's Azim Premji University.

Premji was born into a Gujarati Muslim household in Bombay, India. His father, the Rice King of Burma, was a well-known merchant. The founder of Pakistan, Muhammad Ali Jinnah, sent an invitation to his father, Muhammad Hashim Premji, to visit Pakistan; however, he declined and opted to stay in India. Premji graduated from Stanford University with a Bachelor of Science in Electrical Engineering. Yasmeen Premji is his wife. Rishad and Tariq, the couple's two children, were born. Rishad Premji presently serves as the IT industry's top strategy officer, Wipro.

Muhammad Hashim Premji established Western Indian Vegetable Products Ltd in 1945. The company is based in Amalner, a small town in Maharashtra's Jalgaon district. It used to produce laundry soap with the brand name 787 as well as frying oil under the Sunflower Vanaspati label as a byproduct. After learning of his father's passing in 1966, Azim Premji, who was 21 at the time and studying engineering at Stanford University, came home to take over Wipro. Western Indian Vegetable Products, as the business was then known, manufactured hydrogenated oils. However, Azim Premji later expanded the company's product line to include bakery fats, ethnic ingredient-based toiletries, hair care soaps, baby toiletries, lighting products, and hydraulic cylinders. Recognizing the significance of the developing IT industry in the 1980s, the young businessman capitalised on the void left by IBM's departure from India, changed the company's name to Wipro, and entered the high technology sector by producing minicomputers in technical cooperation with an American company, Sentinel Computer Corporation. Premji then concentrated on moving away from soaps and into software.

- Premji helped Wipro become one of the industries with the fastest growing businesses. Business Week named him one of the "Greatest Entrepreneurs."
- In 2000, the Manipal Academy of Higher Education awarded him an honorary doctorate. Azim Premji received the Lakshya Business Visionary award from the National Institute of Industrial Engineering in 2006.
- He received an honorary doctorate in 2009 from Wesleyan University in Middletown, Connecticut, in recognition of his exceptional humanitarian activities. In 2015, he received an honorary doctorate from Mysore University.
- He received the Padma Bhushan award from the Indian government in 2005 for his remarkable contributions to trade and business.
- In 2011, the government of India presented him with the Padma Vibhushan, the second-highest civilian honour.

By:

Sandhya

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FIN- TREND

RESERVE BANK OF INDIA TO PREPARE "WHITELIST" AS GOVERNMENT CRACKS DOWN ON ILLEGAL LOAN APPS

In a bid to rein in the illegal mortgage applications outdoor the normal banking channels, Reserve Bank of India (RBI) will put together a "whitelist" of all of the prison apps and Ministry of Electronics & Information technology (MeitY) will make certain that is handiest. These "Whitelist" Apps are hosted on App Stores.

This comes after the Finance Minister Nirmala Sitharaman held in-depth deliberations on the legal, procedural & technical aspects of problems related to illegal loan applications with officials of the Ministry of Finance, Corporate Affairs, Electronics & Information Technology and RBI. In a statement, the Treasury noted that it had been decided that the RBI would monitor ”mule/lease" accounts that can be used for money laundering and screen or delete dormant non-bank financial firms or NBFCs to prevent their abuse.

"RBI will ensure that the registration of payment aggregators is completed within a given timeframe and that no unregistered payment aggregator can function thereafter," the statement said, adding that the Department of State or the MCA could do so will identify letterbox companies and delete their registration to prevent abuse. Sitharaman expressed concern about the increase in cases of illegal loan applications offering loans/microcredit, particularly to low-income people and vulnerable groups, exorbitant interest rates and hidden/processing fees, and predatory collection practices including extortion, crimes of intimidation.

The finance minister also highlighted the possibility of money laundering, tax evasion, data breaches/privacy and abuse of unregulated payment aggregators, shell companies and defunct NBFCs to carry out such actions.

The Ministry of Finance noted in its statement that it was agreed to the measures to be taken to increase cyber awareness among customers, bank employees, law enforcement and other stakeholders. "All ministries/agencies are taking all possible measures to prevent the operation of such illegal loan applications," he said, adding that the Treasury will regularly check actionable points for compliance.

In the past week, the Execution Directorate had carried out raids. At six locations of online payment gateways such as Razor pay, Paytm and Cash free in Bangalore over alleged irregularities in app-based instant loans "controlled" by Chinese.

The ED said this money laundering case was based on at least 18 FIRs filed by the Bengaluru Police Cybercrime Unit against "numerous companies/individuals related to their involvement in extortion and public harassment that had gained a small advantage, number of loans submitted through the mobile apps operated by these companies/individuals.

Last year, an RBI-established digital lending task force identified 600 illegal lending apps operating in India as unregistered businesses: they received nearly 2,562 complaints against digital loan applications between early January 2020 and late March 2021.

By:

Srinidhi K.S.

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FIN- FACT

WAYS IN WHICH GOVERNMENT CAN INCREASE ITS REVENUE BY NOT INCREASING THE TAX RATES

The government always spends more than what it receives. It has been a regular trend for a long time. It lands in a deficit in most of the case, which is filled up by borrowings, which is in turn filled up by raising the taxes and increasing revenues and the whole system follows the same. The market/economy that is performing well is an easy target to this. This is mostly done with the object of fulfilling the short-term needs and not the long-term orientation, which leads to sudden changes in the policy making.

In a strongly growing country like India, the inflow of the tax will also be high. The inflow of tax should be more than the growth of the economy as more businesses enter the organized space. The government had introduced and raised the tax rates with a vision to increase the economic footprint, or else, it should have resulted in reduction of fiscal deficit. Along with the increase in its revenue, the government's spending is also increasing, not allowing the deficit level to decrease. At times of stress on the economy, where the financial institutions are unstable, the role of the government will increase, where it takes money from individuals and invests it in activities that give some return. For e.g. It can create infrastructure and generate jobs, which can also be done by a private entrepreneur. When there is an increase in tax at such times, it is stopping a private individual from doing so, which will not contribute much to the well-being of the nation.

It is proved that the success rate of the projects that are executed by the government are less than the projects that are executed by the private sector. So, it is better for the government to move away from such investments once the financial institutions are stable. The main problem with the tax is that, it never reduces. A surcharge that is applied for one reason can be applied for other reason next year. It would be better to postpone certain expenditures and when importance is to be given to some other which needs attention than to increase taxes.

When a financial institution is not in a good position and is unable to take up projects and share the risks a guarantee from the government can make the project more attractive. This form was initiated by the power sector. This would not raise taxes, but will bring revenue to the government. The other form was through providing tax incentives where the private capital can be focused towards a part of the economy. Rather than increasing the rate of taxation, the tax base is to be increased. An increase in the tax base on the current tax paid would lead to collection of extra tax to the government. Such lower tax will be easy to pay and collect. By reducing the tax, there will be more money in the n=hands of the individuals and corporates which can be used for consumption and expansion. Lower tax rates also attract foreign capital in a more meaningful manner. Also, stability of taxes over a long-term will provide some predictability to the tax regime. Modification of the tax rates every year should be avoided.

So, instead of increasing the tax rates, it would be better to lower the tax rates, incentives and focus on the areas that require attention, strengthen the financial institutions and have a wider tax net than few people paying the taxes.

By:

Yashaswini

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VENTURE CAPTAL

Venture capital (VC) is a form of private equity and a type of financing that investors provide to start-up companies and small businesses that are believed to have long term growth potential. Venture capital generally comes from well-off investors, investment banks, and any other financial institutions. However, it does not always take a monetary form; it can also be provided in the form of technical or managerial expertise. Venture capital is typically allocated to small companies with exceptional growth potential, or to companies that have grown quickly and appear poised to continue to expand.

Though it can be risky for investors who put up funds, the potential for above-average returns is an attractive payoff. For new companies or ventures that have a limited operating history (under two years), venture capital is increasingly becoming a popular even essential source for raising money, especially if they lack access to capital markets, bank loans, or other debt instruments. The main downside is that the investors usually get equity in the company, and, thus, a say in company decisions.

In a venture capital deal, large ownership chunks of a company are created and sold to a few investors through independent limited partnerships that are established by venture capital firms. Sometimes these partnerships consist of a pool of several similar enterprises.

One important difference between venture capital and other private equity deals, however, is that venture capital tends to focus on emerging companies seeking substantial funds for the first time, while private equity tends to fund larger, more established companies that are seeking an equity infusion or a chance for company founders to transfer some of their ownership stakes.

History of Venture Capital

Venture capital is a subset of private equity (PE). While the roots of PE can be traced back to the 19th century, venture capital only developed as an industry after the Second World War.

Harvard Business School professor Georges Doriot is generally considered the "Father of Venture Capital." He started the American Research and Development Corporation

(ARD) in 1946 and raised a $3.5 million fund to invest in companies that commercialized technologies developed during WWII. ARDC's first investment was in a company that had ambitions to use x-ray technology for cancer treatment. The $200,000 that Doriot invested turned into $1.8 million when the company went public in 1955.

Hit from the 2008 Financial Crisis

Although it was mainly funded by banks located in the Northeast, venture capital became concentrated in the West Coast after the growth of the tech ecosystem. Fairchild Semiconductor, which was started by eight engineers (the "traitorous eight") from William Shockley's Semiconductor Laboratory, is generally considered the first technology company to receive VC funding. It was funded by east coast industrialist Sherman Fairchild of Fairchild Camera & Instrument Corp.

Arthur Rock, an investment banker at Hayden, Stone & Co. in New York City, helped facilitate that deal and subsequently started one of the first VC firms in Silicon Valley. Davis & Rock funded some of the most influential technology companies, including Intel and Apple. By 1992, 48% of all investment dollars went into West Coast companies; Northeast Coast industries accounted for just 20%.

According to Pitch book and National Venture Capital Association (NVCA), the situation has not changed much. During the fourth quarter of 2021, West Coast companies accounted for more than one-third of all deals (but more than 60% of deal value) while the Mid-Atlantic region saw just around one-fifth of all deals (and approximately 20% of all deal value).

In the fourth quarter of 2021, though, much of the action shifted to the Midwest: The value of deals rose 265% in Denver and 331% in Chicago. While the number of West Coast deals is waning, the San Francisco Bay Area still dominates the VC world with 630 deals worth $25 billion.

Venture Capital VS Angel Investors

For small businesses, or for up-and-coming businesses in emerging industries, venture capital is generally provided by high-net-worth individuals (HNWIs) also often known as "angel investors"—and venture capital firms. The National Venture Capital Association (NVCA) is an organization composed of hundreds of venture capital firms that offer to fund innovative enterprises.

Angel investors are typically a diverse group of individuals who have amassed their wealth through a variety of sources. However, they tend to be entrepreneurs themselves, or executives recently retired from the business empires they've built.

Self-made investors providing venture capital typically share several key characteristics. The majority look to invest in well-managed companies that have a fully-developed business plan and are poised for substantial growth. These investors are also likely to offer to fund ventures that are involved in the same or similar industries or business sectors with which they are familiar. If they haven't worked in that field, they might have had academic training in it. Another common occurrence among angel investors is co-investing, in which one angel investor funds a venture alongside a trusted friend or associate, often another angel investor.

By:

Savin S Kumar

I MBA

FOREIGN DIRECT INVESTMENT AND FOREIGN INSTTUTIONAL INVESTMENT

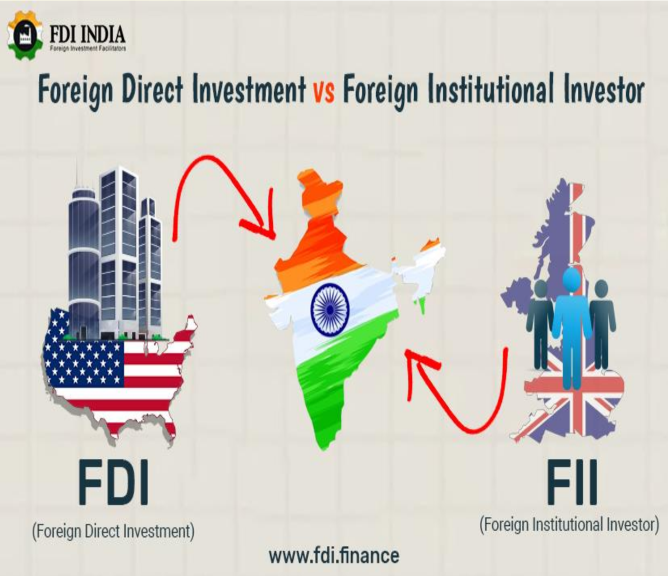
Capital is a vital ingredient for economic growth, but since most nations cannot meet their total capital requirements from internal resources alone, they turn to foreign investors. Foreign direct investment (FDI) and Foreign Portfolio Investment (FPI) are two of the most common routes for investors to invest in an overseas economy. FDI implies investment by foreign investors directly in the productive assets of another nation.

FPI means investing in financial assets, such as stocks and bonds of entities located in another country. FDI and FPI are similar in some respects but very different in others. As retail investors increasingly invest overseas, they should be clearly aware of the differences between FDI and FPI, since nations with a high level of FPI can encounter heightened market volatility and currency turmoil during times of uncertainty.

Examples of FDI and FII

Imagine that you are a multi-millionaire based in the U.S. and are looking for your next investment opportunity. You are trying to decide between (a) acquiring a company that makes industrial machinery, and (b) buying a large stake in a company that makes such machinery. The former is an example of direct investment, while the latter is an example of portfolio investment.

Now, if the machinery maker were located in a foreign jurisdiction, say Mexico, and if you did invest in it, your investment would be considered as an FDI. If the companies whose shares you were considering buying were also located in Mexico, your purchase of such stock or their American Depository Receipts (ADRs) would be regarded as FPI.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Although FDI is generally restricted to large players who can afford to invest directly overseas, the average investor is quite likely to be involved in FPI, knowingly or unknowingly. Every time you buy foreign stocks or bonds, either directly or through ADRs, mutual funds, or exchange-traded funds, you are engaged in FPI.

Differences between FDI and FII

Although FDI and FPI are similar in that, they both involve foreign investment, there are some very fundamental differences between the two.

The first difference arises in the degree of control exercised by the foreign investor. FDI investors typically take controlling positions in domestic firms or joint ventures and are actively involved in their management. FPI investors, on the other hand, are generally passive investors who are not actively involved in the day-to-day operations and strategic plans of domestic companies, even if they have a controlling interest in them.

The second difference is that FDI investors profess have to take a long-term approach to their investments since it can take years from the planning stage to project implementation. On the other hand, FPI investors may profess to be in for the long haul but often have a much shorter investment horizon, especially when the local economy encounters some turbulence. FDI investors cannot easily liquidate their assets and depart from a nation, since such assets may be very large and quite illiquid. FPI investors can exit a nation literally with a few mouse clicks, as financial assets are highly liquid and widely traded.

Pros and Cons of FDI and FPI

FDI and FPI are both important sources of funding for most economies. Foreign capital can be used to develop infrastructure, set up manufacturing facilities and service hubs, and invest in other productive assets such as machinery and equipment, which contributes to the economic growth and stimulates employment opportunities.

However, FDI is obviously the route preferred by most nations for attracting foreign investment, since it is much more stable than FPI and signals long-lasting commitment. But for an economy that is just opening up, meaningful amounts of FDI may only result once overseas investors have confidence in its long-term prospects and the ability of the local government.

Though FPI is desirable as a source of investment capital, it tends to have a much higher degree of volatility than FPI. In fact, FPI is often referred to as “hot money” because of its tendency to flee at the first signs of trouble in an economy. These massive portfolio flows can exacerbate economic problems during periods of uncertainty.

Recent Trends

As of 2020, China is the leading FDI recipient worldwide having brought in $163 billion in inflows, compared to the $134 billion attracted by the United States. This number is a significant change from 2019 when the United States had $251 billion in inflows while China received $140 billion.

FDI as a percentage of Gross Domestic Product (GDP) is a good indicator of a nation’s appeal as a long-term investment destination. The Chinese Economy is currently smaller than the U.S. economy, but FDI as a percentage of GDP is 1.31% for China as of 2019, compared with a slightly higher 1.64% for the U.S. For smaller, dynamic economies like Singapore or Cyprus, FDI as a percentage of GDP is significantly higher: 32.17% for Singapore and a whopping 103.93% for Cyprus (the highest value as of 2019).

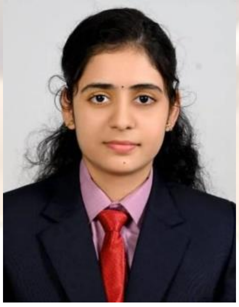
Cautionary signs for Investors

Investors should be cautious about investing heavily in nations with high levels of FPI, and deteriorating economic fundamentals. Financial uncertainty can cause foreign investors to head for the exits, with this capital flight putting downward pressure on the domestic currency and leading to economic instability.

The Asian Crisis of 1997 remains the textbook example of such a situation. The plunge in currencies like the Indian rupee and Indonesian rupiah in the summer of 2013 is another example of the havoc caused by “hot money” outflows. In May 2013, after Federal Reserve Chair Ben Bernanke hinted at the possibility of winding down the Fed’s massive bond-buying program, foreign investors began closing out their positions in emerging markets, since the era of near-zero interest rates (the source of cheap money) appeared to be coming to an end.

Foreign portfolio managers first focused on nations like India and Indonesia, which were perceived to be more vulnerable because of their widening current account deficits and high inflation. As this hot money flowed out, the rupee sank to record lows against the U.S. dollar, forcing the Reserve Bank of India to step in and defend the currency. Although the rupee had recovered to some extent by year-end, its steep depreciation in 2013 substantially eroded returns for foreign investors who had invested in Indian financial assets.

By:



Anjali C.S

I MBA

INITIAL PUBLIC OFFERING

An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance for the first time. An IPO allows a company to raise equity capital from public investors.

The transition from a private to a public company can be an important time for private investors to fully realize gains from their investment as it typically includes a share premium for current private investors. Meanwhile, it also allows public investors to participate in the offering.

HOW AN IPO WORKS?

Before an IPO, a company is considered private. As a pre-IPO private company, the business has grown with a relatively small number of shareholders including early investors like the founders, family, and friends along with professional investors such as venture capitalists or angel investors.

An IPO is a big step for a company as it provides the company with access to raising a lot of money. This gives the company a greater ability to grow and expand. The increased transparency and share listing credibility can also be a factor in helping it obtain better terms when seeking borrowed funds as well.

When a company reaches a stage in its growth process where it believes it is mature enough for the rigors of SEC regulations along with the benefits and responsibilities to public shareholders, it will begin to advertise its interest in going public. Typically, this stage of growth will occur when a company has reached a private valuation of approximately $1 billion, also known as unicorn status. However, private companies at various valuations with strong fundamentals and proven profitability potential can also qualify for an IPO, depending on the market competition and their ability to meet listing requirements.

IPO shares of a company are priced through underwriting due diligence. When a company goes public, the previously owned private share ownership converts to public ownership, and the existing private shareholders’ shares become worth the public trading price. Share underwriting can also include special provisions for private to public share ownership.

Meanwhile, the public market opens up a huge opportunity for millions of investors to buy shares in the company and contribute capital to a company’s shareholders equity. The public consists of any individual or institutional investor who is interested in investing in the company.

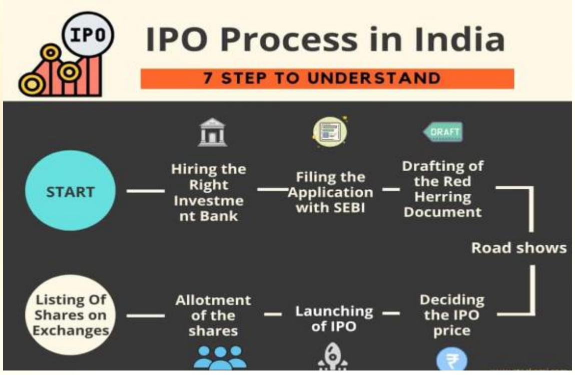
Overall, the number of shares the company sells and the price for which shares are sold are the generating factors for the company’s new shareholders' equity value. Shareholders' equity still represents shares owned by investors when it is both private and public, but with an IPO, the shareholders' equity increases significantly with cash from the primary issuance.

WHAT IS THE IPO PROCESS?

The IPO process essentially consists of two parts. The first is the pre-marketing phase of the offering, while the second is the initial public offering itself. When a company is interested in an IPO, it will advertise to underwriters by soliciting private bids or it can also make a public statement to generate interest.

The underwriters lead the IPO process and are chosen by the company. A company may choose one or several underwriters to manage different parts of the IPO process collaboratively. The underwriters are involved in every aspect of the IPO due diligence, document preparation, filing, marketing, and issuance

STEPS TO AN IPO


IPO
IPO Process in India
7 STEP TO UNDERSTAND
START
Hiring the Right Investme nt Bank
Filing the Application with SEBI
DRAFT
Drafting of the Red Herring Document
Road shows
Deciding the IPO price
Launching of IPO
Allotment of the shares
Listing Of Shares on Exchanges

Proposals - Underwriters present proposals and valuations discussing their services, the best type of security to issue, offering price, amount of shares, and estimated time frame for the market offering.

Underwriter- the Company chooses its underwriters and formally agrees to underwrite terms through an underwriting agreement.

Team - IPO teams are formed comprising underwriters, lawyers, certified public accountants (CPAs), and Securities and Exchange Commission (SEC) experts.

Documentation - Information regarding the company is compiled for required IPO documentation. The S-1 Registration Statement is the primary IPO filing document. It has two parts - the prospectus and the privately held filing information.

The S-1 includes preliminary information about the expected date of the filing. It will be revised often throughout the pre-IPO process. The included prospectus is also revised continuously.

Marketing & Updates - Marketing materials are created for pre-marketing of the new stock issuance. Underwriters and executives market the share issuance to estimate demand and establish a final offering price. Underwriters can make revisions to their financial analysis throughout the marketing process. This can include changing the IPO price or issuance date as they see fit. Companies take the necessary steps to meet specific public share offering requirements. Companies must adhere to both exchange listing requirements and SEC requirements for public companies.

Board & Processes - Form a board of directors and ensure processes for reporting auditable financial and accounting information every quarter.

Shares Issued - The Company issues its shares on an IPO date. Capital from the primary issuance to shareholders is received as cash and recorded as stockholders' equity on the balance sheet. Subsequently, the balance sheet share value becomes dependent on the company's stockholders' equity per share valuation comprehensively.

Post IPO - Some post-IPO provisions may be instituted. Underwriters may have a specified time frame to buy an additional number of shares after the initial public offering (IPO) date.

By:

Savin S Kumar

I MBA

ANGEL INVESTOR

An angel investor (also known as a private investor, seed investor or angel funder) is a high-net-worth individual who provides financial backing for small start-ups or entrepreneurs, typically in exchange for ownership equity in the company. Often, angel investors are found among an entrepreneur's family and friends. The funds that angel investors provide may be a one-time investment to help the business get off the ground or an ongoing injection to support and carry the company through its difficult early stages.

Understanding Angel investors:

Angel investors are individuals who seek to invest at the early stages of start-ups. These types of investments are risky and usually do not represent more than 10% of the angel investor's portfolio. Most angel investors have excess funds available and are looking for a higher rate of return than those provided by traditional investment opportunities.

Angel investors provide more favourable terms compared to other lenders, since they usually invest in the entrepreneur starting the business rather than the viability of the business. Angel investors are focused on helping start-ups take their first steps, rather than the possible profit they may get from the business. Essentially, angel investors are the opposite of venture capitals.

Angel investors are also called informal investors, angel funders, private investors, seed investors or business angels. These are individuals, normally affluent, who inject capital for start-ups in exchange for ownership equity or convertible debt. Some angel investors invest through crowdfunding platforms online or build angel investor networks to pool capital together.

Origins of angel investors:

The term "angel" came from the Broadway theatre, when wealthy individuals gave money to propel theatrical productions. The term "angel investor" was first used by the University of New Hampshire's William Wetzel, founder of the Centre for Venture Research. Wetzel completed a study on how entrepreneurs gathered capital.

Who Can Be an Angel Investor?

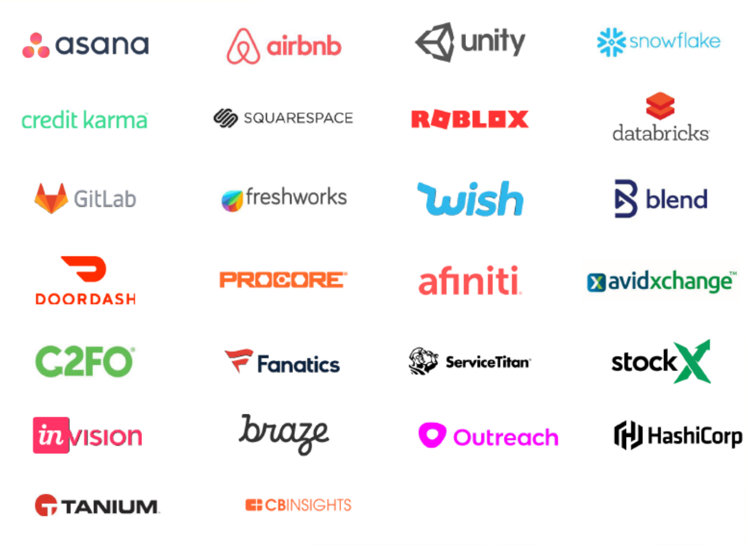
Angel investors are normally individuals who have gained "accredited investor" status but this isn’t a prerequisite. The Securities and Exchange Commission (SEC) defines an "accredited investor" as one with a net worth of $1M in assets or more (excluding personal residences), or having earned $200k in income for the previous two years, or having a combined income of $300k for married couples. Conversely, being an accredited investor is not synonymous with being an angel investor.

Essentially these individuals both have the finances and desire to provide funding for start-ups. This is welcomed by cash-hungry start-ups who find angel investors to be far more appealing than other, more predatory, forms of funding.

SOURCES OF FUNDING

Angel investors typically use their own money, unlike venture capitalists who take care of pooled money from many other investors and place them in a strategically managed fund.

Though angel investors usually represent individuals, the entity that actually provides the funds may be a limited liability company (LLC), a business, a trust or an investment fund, among many other kinds of vehicles.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Fanatics
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invision
braze
Outreach
HashiCorp
TANIUM
CBINSIGHTS

INVESTMENT PROFILE

Angel investors who seed start-ups that fail during their early stages lose their investments completely. This is why professional angel investors look for opportunities for a defined exit strategy, acquisitions or initial public offering (IPOs).

The effective internal rate of return for a successful portfolio for angel investors is approximately 22%. Though this may look good for investors and seem too expensive for entrepreneurs with early-stage businesses, cheaper sources of financing such as banks are not usually available for such business ventures. This makes angel investments perfect for entrepreneurs who are still financially struggling during the start-up phase of their business.

Angel investing has grown over the past few decades as the lure of profitability has allowed it to become a primary source of funding for many start-ups. This, in turn, has fostered innovation which translates into economic growth.

By:

Subrahmanya Naik

I MBA

Invoice Financing and Invoice

Invoice financing is a way for businesses to borrow money against the amounts due from customers. Invoice financing helps businesses improve cash flow, pay employees and suppliers, and reinvest in operations and growth earlier than they could if they had to wait until their customers paid their balances in full. Businesses pay a percentage of the invoice amount to the lender as a fee for borrowing the money. Invoice financing can solve problems associated with customers taking a long time to pay as well as difficulties obtaining other types of business credit.

Understanding Invoice Financing

When businesses sell goods or services to large customers, such as wholesalers or retailers, they usually do so on credit. This means that the customer does not have to pay immediately for the goods that it purchases. The purchasing company is given an invoice that has the total amount due and the bill's due date. However, offering credit to client's ties up funds that a business might otherwise use to invest or grow its operations. To finance slow-paying accounts receivable or to meet short-term liquidity, businesses may opt to finance their invoices.

Invoice financing is a form of short-term borrowing that is extended by a lender to its business customers based on unpaid invoices. Through invoice factoring, a company sells its accounts receivable to improve its working capital, which would provide the business with immediate funds that can be used to pay for company expenses.

Invoice Financing from the Lender's Perspective

Invoice financing benefits lenders because, unlike extending a line of credit, which may be unsecured and leave little recourse if the business does not repay what it borrows, invoices act as collateral for invoice financing. The lender also limits its risk by not advancing 100% of the invoice amount to the borrowing business. Invoice financing does not eliminate all risk, though, since the customer might never pay the invoice. This would result in a difficult and expensive collections process involving both the bank and the business doing invoice financing with the bank.

How Invoice Financing is structured

Invoice financing can be structured in a number of ways, most commonly via factoring or discounting. With invoice factoring, the company sells its outstanding invoices to a lender, who might pay the company 70% to 85% up front of what the invoices are ultimately worth. Assuming the lender receives full payment for the invoices, it will then remit the remaining 15% to 30% of the invoice amounts to the business, and the business will pay interest and/or fees for the service. Since the lender collects payments from the customers, the customers will be aware of this arrangement, which might reflect poorly on the business.

As an alternative, a business could use invoice discounting, which is similar to invoice factoring except that the business, not the lender, collects payments from customers, so customers are not aware of the arrangement.

Invoice

An invoice, bill or tab is a commercial document issued by a seller to a buyer relating to a sale transaction and indicating the products, quantities, and agreed-upon prices for products or services the seller had provided the buyer.

Payment terms are usually stated on the invoice. These may specify that the buyer has a maximum number of days to pay and is sometimes offered a discount if paid before the due date. The buyer could have already paid for the products or services listed on the invoice. To avoid confusion and consequent unnecessary communications from buyer to seller, some sellers clearly state in large and capital letters on an invoice whether it has already been paid.

From a seller's point of view, an invoice is a sales invoice. From a buyer's point of view, an invoice is a purchase invoice. The document indicates the buyer and seller, but the term invoice indicates money is owed or owing.

A typical invoice may contain:

- The word invoice (or tax invoice);
- A unique reference number (in case of correspondence about the invoice);
- Date of the invoice;
- Credit terms;

- Tax amounts, if relevant (e.g., GST or VAT);
- Name and contact details of the seller;
- Name and contact details of the buyer;
- Date of sending or delivery of the goods or service;
- Purchase order number (or similar tracking numbers requested by the buyer to be mentioned on the invoice);
- Description of the product(s);
- Unit price(s) of the product(s), if relevant;
- Total amount charged with currency (symbol or abbreviation);
- Payment terms (including one or more acceptable methods of payment, date the payment is expected, and details about charges for late payments, i.e. payments made after this date);
- Advanced details (including vehicle no, LR no., LR date, mode of transport, net weight, gross weight, tare weight, out time, freight type, driver name, drive contact no. etc.)

By:

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CROWDFUNDING

Crowdfunding is the practice of funding a project or venture by raising money from a large number of people, typically via the internet. Crowdfunding is a form of crowdsourcing and alternative finance. In 2015, over US$34 billion were raised worldwide by crowd funding.

Although similar concepts can also be executed through mail-order subscriptions, benefit events, and other methods, the term crowd funding refers to internet-mediated registries. This modern crowd funding model is generally based on three types of actors – the project initiator who proposes the idea or project to be funded, individuals or groups who support the idea, and a moderating organization (the "platform") that brings the parties together to launch the idea.

PLEDGED
$545

Crowdfunding has been used to fund a wide range of for-profit, entrepreneurial ventures such as artistic and creative projects, medical expenses, travel, and community-oriented social entrepreneurship projects. Though crowd funding has been suggested to be highly linked to sustainability, empirical validation has shown that sustainability plays only a fractional role in crowd funding. Its use has also been criticized for funding quackery, especially costly and fraudulent cancer treatments.

Types

The Crowd funding Centre's May 2014 report identified two primary types of crowd funding:

1. Rewards crowd funding, in which entrepreneurs pre-sell a product or service to launch a business concept without incurring debt or sacrificing equity/shares.
2. Equity crowd funding, in which the backer receives shares of a company, usually in its early stages, in exchange for the money pledged.

- **Reward based**

Reward-based crowd funding has been used for a wide range of purposes, including album recording and motion-picture promotion, free software development, inventions development, scientific research, and civic projects.

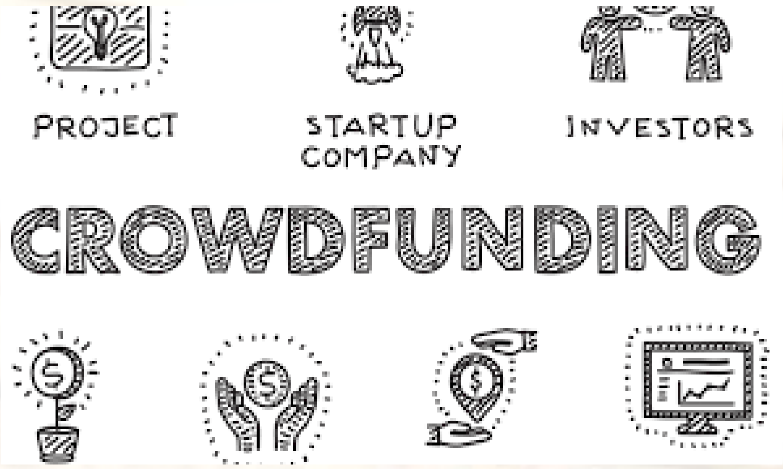
Many characteristics of rewards-based crowd funding, also called non-equity crowd funding, have been identified by research studies. In rewards-based crowd funding, funding does not rely on location. The distance between creators and investors on sell band was about 3,000 miles when the platform introduced royalty sharing? The funding for these projects is distributed unevenly, with a few projects accounting for the majority of overall funding. Additionally, funding increases as a project nears its goal, encouraging what is called "herding behaviour". Research also shows that friends and family account for a large, or even majority, portion of early fundraising. This capital may encourage subsequent funders to invest in the project. While funding does not depend on location, observation shows that funding is largely tied to the locations of traditional financing options. In reward-based crowd funding, funders are often too hopeful about project returns and must revise expectations when returns are not met.

- **Equity**

Equity crowdfunding is the collective effort of individuals to support efforts initiated by other people or organizations through the provision of finance in the form of equity. In the United States, legislation that is mentioned in the 2012 JOBS Act will allow for a wider pool of small investors with fewer restrictions following the implementation of the act. Unlike non-equity crowdfunding, equity crowdfunding contains heightened "information asymmetries." The creator must not only produce the product for which they are raising capital, but also create equity through the construction of a company. Equity crowdfunding, unlike donation and rewards-based crowdfunding, involves the offer of securities which include the potential for a return on investment. Syndicates, which involve many investors following the strategy of a single lead investor, can be effective in reducing information asymmetry and in avoiding the outcome of market failure associated with equity crowdfunding.

- **Digital security**

Another kind of crowd funding is to raise funds for a project where a digital security is offered as a reward to funders which is known as initial coin offering to ICO). Value tokens are endogenously created by particular open decentralized networks that are used to incentivize client computers of the network to expend scarce computer resources on maintaining the protocol network. These value tokens may or may not exist at the time of the crowd sale, and may require substantial development effort and eventual software release before the token is live and establishes a market value. Although funds may be raised simply for the value token itself, funds raised on block chain-based crowdfunding can also represent equity, bonds, or even "market-maker seats of governance" for the entity being funded. Examples of such crowd sales are Augur decentralized, distributed prediction market software which raised US$4 million from more than 3500 participants; Ethereum block chain; and "the Decentralized Autonomous Organization".



Debt-based crowdfunding, (also known as "peer-to-peer", "P2P", "marketplace lending", or "crowd lending") arose with the founding of Zopa in the UK in 2005 and in the US in 2006, with the launches of Lending Club and Prosper.com. Borrowers apply online, generally for free, and their application is reviewed and verified by an automated system, which also determines the borrower's credit risk and interest rate. Investors buy securities in a fund that makes the loans to individual borrowers or bundles of borrowers. Investors make money from interest on the unsecured loans; the system operators make money by taking a percentage of the loan and a loan servicing fee. In 2009, institutional investors entered the P2P lending arena; for example in 2013, Google invested $125 million in Lending Club. In 2014 in the US, P2P lending totalled about $5 billion. In 2014 in the UK, P2P platforms lent businesses £749 million, a growth of 250% from 2012 to 2014, and lent retail customers £547 million, a growth of 108% from 2012 to 2014. In both countries in 2014, about 75% of all the money transferred through crowdfunding went through P2P platforms. Lending Club went public in December 2014 at a valuation around $9 billion.

Litigation

Litigation crowdfunding allows plaintiffs or defendants to reach out to hundreds of their peers simultaneously in a semi-private and confidential manner to obtain funding, either seeking donations or providing a reward in return for funding. It also allows investors to purchase a stake in a claim they have funded, which may allow them to get back more than their investment if the case succeeds (the reward is based on the compensation received by the litigant at the end of his or her case, known as a contingent fee in the United States, a success fee in the United Kingdom, or a pactum de quota litis in many civil law systems).Lex shares is a platform that allows accredited investors to invest in lawsuits.

Donation based

Running alongside reward-based crowdfunding, donation-based is second another popular form of crowdfunding. Donation-based crowdfunding is the collective effort of individuals to help charitable causes. In donation-based crowdfunding, funds are raised for religious, social environmental, or other purposes. Donors come together to create an online community around a common cause to help fund services and programs to combat a variety of issues including healthcare and community development. The major aspect of donor-based crowdfunding is that there is no reward for donating; rather, it is based on the donor's altruistic reasoning. Ethical concerns have been raised to the increasing popularity of donation-based crowdfunding, which can be affected by fraudulent campaigns and privacy issues.

By:

Suviksha

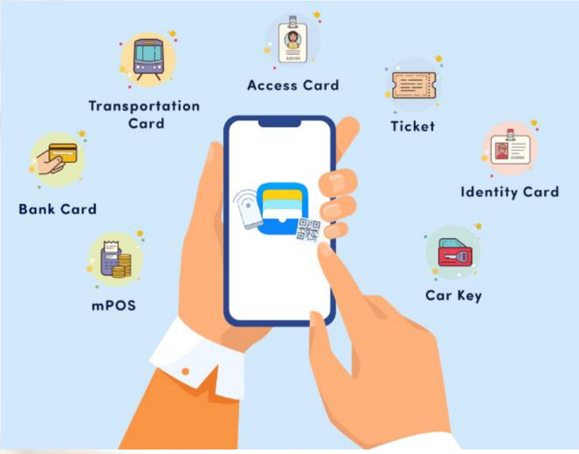
I MBA

DIGITAL WALLET

A digital wallet (or electronic wallet) is a financial transaction application that runs on mobile devices. It securely stores your payment information and passwords. These applications allow you to pay when you're shopping using your device so that you don't need to carry your cards around. You enter and store your credit card, debit card, or bank account information and can then use your device to pay for purchases.

Digital wallets can also store:

- Gift cards
- Membership cards
- Loyalty cards
- Coupons
- Event Tickets
- Plane and transit ticket
- Hotel reservations
- Driver's license
- Identification cards
- How a Digital Wallet works?



Digital wallets are applications designed to take advantages of the abilities of mobile devices to improve access to financial products and services Digital wallets essentially eliminate the need to carry a physical wallet by storing all of a consumer's payment information securely and compactly.

Currently, the technologies used by mobile devices and digital wallets are:

- QR codes

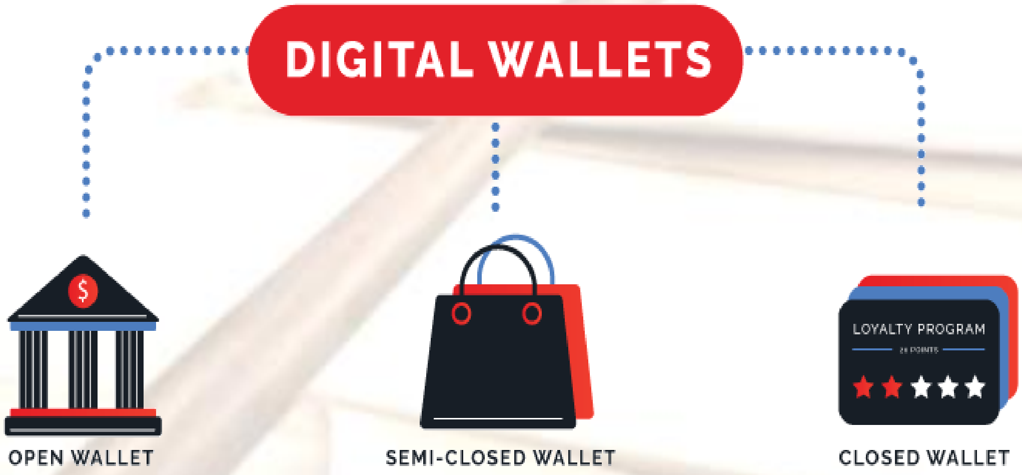
- Near field communication (NFC)
- Magnetic secure transmission (MST)

Significance of a Digital Wallet

- A digital wallet securely stores all the payment information of users in a compact form. Thus, it greatly reduces the need to carry physical wallets
- Companies that need to collect consumer data for their marketing needs can benefits greatly from digital wallets, they get to know the marketing methods of their products. However, it leads to a loss of privacy for consumers
- Many developing countries using digital wallets may be able to increase their participation in the global financial market.
- Moreover, digital wallets eliminate the need for physical banks and companies in order to open and maintain a bank account. Hence, they also connect individuals and businesses in rural areas.
- A digital wallet is required to make transactions and maintain balances of crypto currencies.

Types of Digital Wallets

The following are the three types of digital wallets:



- Closed Wallet:

A company selling products and /or services can develop a closed wallet for customers. Users of a closed wallet can use the fund stored to make transactions with only the issuer of the wallet. The money from cancellations, returns, or refunds is stored in the wallets. Amazon Pay is an example of a closed wallet.

- Semi-closed Wallet

A semi-closed wallet allows users to make transactions at listed merchants and locations. Although the coverage area of such wallets is restricted, both online and offline buying can be done through the wallets. However, merchants need to enter into agreements or contracts with the issuers for accepting payments from the mobile wallets.

- Open Wallet

Banks or institutes partnered with banks issue open wallet. Users with wallets can use them for all transactions allowed with a semi-closed wallet in addition to withdrawal of funds from banks and ATMs and transfer of funds.

By:

Srinidhi Bhat

I MBA

EMERGENCE OF FINTECH COMPANIES

In the last couple of years, we have witnessed the making of Fin Tech in India with several successful companies marking their presence at Asian / Global level. As Fin Tech reaches the adolescence phase, it is showing confidence and seeking recognition from peers and others alike. Fin Tech are looking at incorporating global best practices in the Indian context keeping consumer insights and broader ecosystem in mind.

The Fin Tech opportunity in India has five broad dimensions – Ecosystem, Fin Tech companies / start- ups, Banks and Financial institutions, Consumers and Regulators.

FINTECH COMPANIES:

Fin Techs have various opportunities, and can choose the space they want to get into. It can be B2B, where one is partnering / offering services to institutional clients like payment processing, analytics, transaction authentication and security solution, or customer facing like lending, wallets, investments etc. Depending on space, business model and underlying technology, Fin Techs can sharpen their play.

Today, richness of data across credit, social media, merchant transaction, spends and financial aggregator is making us data rich country, and companies focused on data science and analytics can leverage this across business models. Such data can be initial capital to build business models in areas like lending, insurance, payments and investment solutions. As motor vehicle, health, land, and property records get digitised, we will witness more new innovative solutions from Fin Tech.

Technology is playing another pivotal role in the growth of Fin Tech as cost starting a business has dropped dramatically with cloud-based storage, plug n play offices and access to technology at low cost. Areas around identity and fraud management, artificial intelligence and natural language processing (NLP), advance analytics, Block chain, Internet of Things(IoT), augmented and virtual reality provides unimaginable range of products, solutions and experience to consumers and the industry alike. The advent of customer centred design and experience will redefine experience for end user. With close to 90% of smartphone users on android, building a mobile first android experience is fast, cost effective and easy for many start-ups.

Access to capital and readiness of banks and financial institution to work with Fin Tech is helping them validate their business model and raise capital at a faster pace. This is also helping Fin Tech companies to go beyond Indian shores.

Key Elements of Emergence of Fintech Companies

Growth of Fin Tech: The rapid growth of financial technology, commonly referred to as" Fin Tech", over the last four to five years. This term has become popular, with Google search trends for 'Fin Tech' multiplying significantly in 2015. The intersection of technology has always been integral to finance, but its application to finance has only gained attention in the past few years.

Promise of Fin Tech: Technological innovations in the finance industry had been stagnant until recently. However, the recent emergence of Fin Tech platforms like mobile wallets, Digital transfers, payment instruments, and insurance technologies have radically altered financial operations in India. Despite of these innovations, cost of intermediation of the financial sector to the Indian economy has not changed and has remained highly inefficient. The financial industry has a habit of formulating large institutions that continue to grow and, thereby, curtail the benefits of competition innovation. Theoretically Fin Tech offers scope for major disruption in the finance sector and can ensure reductions in its cost to the Indian economy.

Innovation is the top driver of the fin tech success, followed by targeting the unbanked and good product quality

Fin Techs benefit most from innovation and cost- efficiency. For incumbents, products quality and distribution are key

Unicorns focus more than peers on management expertise, good distribution, low pricing and customer acquisition.

FINTECH MARKET SIZE AND GROWTH ANALYSIS (2022 – 2027)

The global financial technology market is expected to grow gradually and reach a market value of approximately $324 billion by 2026, growing at a compound annual rate of about 25.18% over the forecast period 2022 – 2027.

Fin Tech is a combination of technology and financial services that have transformed the way businesses operate. In the last few years, the financial technology sector has emerged considerably, resulting in the modification of businesses to a customer-centric approach. Therefore, find room in a large number of companies ranging from start-ups to technology companies and established companies around the world. With a collaborative or demanding approach, financial services companies and technology companies have taken reciprocal paths and progressed with innovative and disruptive techniques in a continually changing business scenario.

Fintech or financial technology is a novel advancement that is gaining prominence across the globe by replacing traditional financial services in various sectors. As e-commerce is spreading rapidly around the world, it succeeds the key application segment of the Fin Tech market, which is expected to grow with a superlative annual growth rate of about 12% until 2026.

With a large number of mobile users who have a penchant for online transactions, coupled with the fact that the implementation of Fin Tech significantly improves the customer experience by providing convenience in payments and delivery in the e-commerce, the global Fin Tech market demand will experience incredible growth in the future.

By:

Deeksha Prabhu

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CONCEPT OF CASH FLOW LENDING

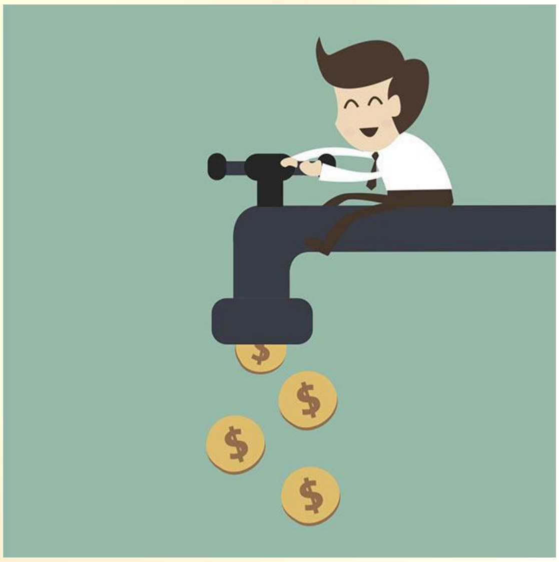
If your business extra cash need to cover daily expenses, you may want to consider taking out a loan. After all, cash flow is the lifeblood of a healthy business, and sometimes you need a little extra help during times when cash flow is inconsistent or you're dealing with late payments. But depending on your credit history, certain type of traditional bank loan may not be available. That's where cash flow lending comes in... Find out more with our cash flow lending definition, as well as our explanation of asset-based lending vs. Cash flow lending.

CASH FLOW LENDING DEFINITION

Cash flow lending is a type of unsecured loan that is used by business for day-to-day operations. Generally, the loan is used on finance working capital, such as payments for payroll, rent, inventory, and so on, and is paid back by your business's incoming cash flows. This means that you'll be borrowing from revenues that you're expecting to receive in the future.

When you're looking at cash flow lending for businesses, it's important to remember that these loans aren't traditional bank loans, which require a much more thorough analysis of the business's financial health, including credit history. Instead, eligibility for cash flow lending is determined almost exclusively by your business's capacity to generate cash flows.

HOW DOES CASH FLOW LENDING WORK?



In most cases, cash flow lending is used by small companies that don't have the required assets to back up a loan, a track record of profitability, or a significant credit history. This means that the lender will often charge higher interest rates, while the origination fee is also likely to be higher. It's always important to repay cash flow loans as quickly as possible, as they can become a real drain on your business's finance if you start missing payments.

Let's look at a situation where cash flow lending could be an appropriate course of action. Imagine a seasonal business, such as a greeting cards company, that makes most of its annual sales from November to January. This company may experience low cash flows during the summer months, so to cover the cost of payroll and rent, they may consider taking out a cash flow loan. When cash flow kick in during the winter, they'll repay the loan, with interest.

LIMITATION OF CASH FLOW LENDING FOR BUSINESSSES

While cash flow loans provide the type of quick capital injection that can be vital for businesses in dire straits, it's important to remember that there are several limitations associated with them.

- High fees - As well as high interest rates, cash flow loans typically have very high fees, as well as significant penalties for late payments. Before taking out a cash flow loan it's worth thinking about whether you have the capacity to deal with these fees if you miss one of your schedules payments.
- Personal guarantees - while you don't need assets to cover a cash flow loan, lenders may place a general line over your entire business as part of the loan agreement. This means that your business itself will serve as collateral. In addition, you may be required to sign a personal guarantee for the loan, which would make you personally responsible for paying it back.
- Automatic payments - some lenders will require automatic payments as a condition of the loan. For businesses whose cash flow varies from month to month, let alone day to day, automatic payments could mean that you don't have enough money in your business account to make the payment.

ASSET - BASED LENDING VS. CASH FLOW LENDING

There are a couple of differences between asset – based loans and cash flow loans. First and foremost, the collateral is different. Asset – based lending is backed up by assets, such as real estate, inventory, or equipment. By contrast, cash flow lending for businesses is based on expected future cash flows. Although cash flow is an asset – based loan, its secondary consideration to the value of assets on the company's balance sheet.

It's also worth thinking about suitability when it comes to asset – based lending vs. Cash flow lending. Asset – based loans are much better suited for organisations with large balance sheets, while they may also be a good idea for companies in industries that don't provide significant cash flow potential. Cash flow lending, however, tend to be well suited to companies with high margins on their balance sheets, as well as businesses which lack the hard assets required to back an asset – based loan.

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UMBRELLA INSURANCE

Umbrella insurance is also known as an Excess Liability Policy which means it is a protection for bad things that are happened to others because of you or with your vehicle or home. The auto insurance will cover medical bills and court costs for injuries to other people and damage to their cars whereas homeowner's insurance also covers medical bills and court costs for injuries to other people these are liability coverage. Umbrella policies can cover the incidents which home and auto insurance cannot, such as being sued for libel, defamation or slander.

EXCESS LIABILITY COVERAGE

A personal Umbrella policy adds additional or extra liability coverage on your Home & Auto Liability Limits. This covers after a claim has reached the liability coverage limit on the regular policy. This also protects in the truly worst case scenarios. You should have the liability limits that properly protect the personal assets. They offer the peace of mind that is covered even in a worst case scenario.

This claim includes two things: ● Loss of Life ● Permanent disablement

What does Umbrella insurance cover?

These are the insurance policies that cover a range of problems like medical bills, a legal defence and other expenses if you hurt someone in an accident. This includes car accident, guests who are injured while visiting your home or if your dog bites someone.

For example:

- **Causing a serious auto or boating accidents.**

if you're responsible for the medical bills of many people your auto or boat insurance policy would pay first, up to its maximum then it is followed by umbrella insurance.

- **If dog bites someone.**

These are covered by a homeowner's insurance policy but in case if you're sued for an amount above your home insurance liability limits these umbrella policies will start playing.

- **If you drive a car into a building**

If someone is parked close to a store and if they put the car in drive rather than reverse, causes extensive building damage. An auto insurance policy will pay for the property damage first if your auto insurance limit isn't enough then it is followed by the umbrella insurance.

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