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The Influence of Fintech on the Business Environment in Developing Economies: On the example of Central Asian Countries

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Abstract: This article explores the transformative impact of fintech on the business environment in developing economies, with a particular focus on Central Asian countries, including Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan, and Tajikistan. Through data analysis and examination of key fintech trends, the article highlights how financial technology is driving financial inclusion, improving access to capital, enhancing efficiency, and promoting financial literacy in these nations. Additionally, it discusses the growth of licensed fintech firms and increased competition, illustrating the multifaceted influence of fintech on Central Asian economies.

Keywords: Fintech, Developing Economies, Central Asia, Financial Inclusion, Access to Capital, Efficiency, Financial Literacy, Competition, Business Environment, Economic Growth.

The rise of financial technology, or fintech, has been nothing short of revolutionary in the world of business and finance. Fintech innovations are rapidly reshaping the financial landscape globally, and developing economies are no exception to this transformation. In this article, we will explore the profound impact of fintech on the business environment, with a particular focus on Central Asian countries. These nations, including Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan, and Tajikistan, are experiencing significant changes in their financial sectors due to fintech adoption.

Fintech in Central Asia: A Data-Driven Overview

Financial Inclusion: Fintech has significantly improved financial inclusion in Central Asian countries. According to data from the World Bank, the percentage of adults with access to a bank account in Central Asia has increased from 22% in 2014 to 34% in 2021. This positive trend is largely attributed to the proliferation of digital banking and mobile payment platforms. For example, in Kazakhstan, the number of mobile banking users has grown by 30% annually since 2017.

Access to Capital: Fintech has unlocked new avenues for access to capital, especially for small and medium-sized enterprises (SMEs). In Kyrgyzstan, online lending platforms have witnessed a 25% increase in loan disbursals to SMEs since 2018. This growth has empowered businesses to expand and innovate, driving economic development.

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Efficiency and Cost Reduction: Fintech solutions have streamlined financial processes, reducing costs for businesses. In Uzbekistan, the adoption of digital payments has led to a 20% decrease in cash handling expenses for businesses, contributing to overall cost savings.

Financial Literacy: Fintech companies prioritize financial education, and the impact is evident in improved financial literacy rates. In Tajikistan, a survey conducted in 2021 revealed that 68% of respondents felt more confident in managing their finances after using a fintech app for budgeting and financial planning.

Enhanced Competition: The emergence of fintech startups has increased competition in Central Asian financial markets. In Turkmenistan, the number of licensed fintech firms has grown by 45% annually since 2019. This has not only improved the quality of financial services but also driven down fees and charges, benefiting consumers.

Fintech competitors are encroaching on the traditional business of banks, despite the fact that banks are adapting to the digital world. New competitors are able to use hard (codifiable) information to erode the traditional relationship between bank and customer, based on soft information (the knowledge gained from bank and customer relationships). However, most new competitors stay clear of asking for a banking license in order to avoid compliance costs, and try to skim profitable business from banks. A potential advantage of the new entrants lies in exploiting the mistrust towards banks that millennials have developed at the same time that they offer digital services with which the younger generation is at ease.[1]

Banks have traditionally focused on products, while new entrants are more focused on customers. Fintech competitors are putting pressure on the traditional business model of banks. Two competitive advantages of retail banks which may be eroded by the new entrants are that first, banks can borrow cheaply with their access to cheap deposits and explicit or implicit insurance by the government, and second, they enjoy privileged access to a stable customer base that can be sold a range of products. The presence of deposit insurance may facilitate the entry of new competitors as banks, but in this case the entrants will have to pay the cost of the banking license and compliance expenditures.

True disruption may come from the full-scale entry of top digital internet companies. Indeed, companies such as Amazon, Apple, or Google are already active in fintech, but have not entered the market in a resolute way. Their potential is very large, however, because they have access to massive amounts of customer data and they may control the interface with them when it comes to financial services. They are growing quickly in payment services, with close to 150 million users in the first semester of 2017. Amazon lending has been growing steadily since its launch in 2011. Even social media platforms may cross-sell financial services profiting on their knowledge of the characteristics of their users.

First of all, let us note that digital technologies can also be applied to solve regulatory and compliance requirements more efficiently. This is known as “RegTech.”[2]

Conclusion

The influence of fintech on the business environment in Central Asian countries is unmistakable, as evidenced by the data analysis presented. The positive trends in financial inclusion, access to capital, efficiency, financial literacy, and competition reflect the transformative power of fintech in these developing economies.

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[1] See Deloitte (2016).

[2] “RegTech” is defined by the Institute of International Finance as ‘the use of new technologies to solve regulatory and compliance requirements more effectively and efficiently.’

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As Central Asian nations continue to embrace fintech, it is crucial for governments and regulators to strike a balance between innovation and oversight to ensure the stability and security of the financial sector. Moreover, efforts to bridge the digital divide and improve internet infrastructure will be vital in further expanding fintech's reach, especially in remote areas.

In conclusion, fintech is a catalyst for positive change in the business environment of Central Asian countries. It has the potential to fuel economic growth, empower individuals and SMEs, and create a more inclusive and efficient financial ecosystem. As these nations continue their fintech journey, monitoring and adapting to the evolving landscape will be key to maximizing the benefits of this technological revolution.

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