



FINTECH IN CHILE

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ABSTRACT

The purpose of the presented bibliographic research is to describe the characteristics, opportunities, and challenges posed by the emergence of Fintech in Chile and to answer how these institutions affect the Chilean financial sector. The starting hypothesis is that Fintech facilitates access to banking and financial services, and for this, a descriptive, qualitative, and bibliographic method has been used. The study results show the high implementation of these tools in the Chilean financial market, the financial sector's openness to less formalized agents of the economy, and the adaptation of these tools to the global digitalization environment in various aspects of social life, with particular emphasis on the economic sphere.

This study is only a first step to more exhaustively addressing the research on Fintech in Chile and Latin America. The conclusions point to the need for new studies that can measure the volume, type, and form of transactions of Fintech in the country, assess the adequacy or not of existing legislation and characterize the profile of users of these tools, among other aspects.

FINTECH IN CHILE: HOW INNOVATION DEMOCRATIZES BANKING

Fintech: Definition, Scope, and Opportunities

Fintech is not just an acronym in the English language but has burst into the financial market as an opportunity to facilitate access to banking services for all population segments. These banking institutions have precedents, as indicated by Schueffel (2016) in his essay, at the dawn of the 90s, when Citigroup led the Financial Services Technology Consortium project to support the incorporation of ICTs into the financial sector, offering alternative channels for services and financial information to users.

The emergence of initiatives of this style is predictable, given the trend of the economy to move much of its operations into the network framework, a process known as the digitalization of the economy. In the knowledge society, also known as the digital society, digitalization becomes necessary as the scales of needs and aspirations have expanded their range. Likewise, the use of technological devices, software, and applications avoids time delays, in-person procedures, or transactions with obstacles and formalities that the homo digitalis neither wants to nor can face in the face of pressing demands and rigorisms inherent in the contemporary pace of work. Concerning this, Terceiro (1996) was already foreshadowing some notes on the changes in life and implications experienced in a society where communications, demands, and needs are challenging to defer in the face of the emergence of the internet, and smartphones, among others.

Fintech appears as a digital banking agency whose account openings or closings are managed from an application and payments, transfers, and currency exchange. According to the IDB, IDB Invest, and Finnovista (2018), the services offered by these applications are payments and remittances, loans, management of business and personal finances, crowdfunding, and enterprise technologies for financial institutions. Langley (2014), quoted by Schueffel (2016), defines Fintech as "technology applied to financial services (...) [covering] everything from facilitating the payments of goods and services to providing the essential infrastructure for the functioning of the world's financial institutions" (p. 41). Concerning this same concept, Kim, Park, and Choi (2016) add that Fintech "is a service sector that uses mobile-focused computer technology to improve the efficiency of the financial system. As a term, it is a compound of finance and technology and refers (...) to the industrial changes forged from the convergence of finance and computer technology" (p. 1058). The conceptualization offered by these authors provides an etymological reference framework that can enrich a more complete definition.

FINTECH: LEADING THE DIGITAL FINANCIAL REVOLUTION AND DEMOCRATIZING ACCESS TO BANKING SERVICES FOR ALL SEGMENTS OF THE POPULATION.

In summary, Fintech has emerged as a response to the need to digitize the financial sector and provide more accessible and efficient banking services. They appear as digital banking agencies that allow the opening and closing of accounts and the execution of payments, transfers, currency exchange, loans, and management of business and personal finances, among other services.

In this sense, Fintech is transforming the financial industry, opening the sector to less formalized agents of the economy and adapting to the global environment of digitalization in different aspects of social life, emphasizing the economic aspect. However, challenges also arise concerning regulation and the profile of the users of these institutions, making it necessary to continue investigating to measure the volume, type, and form of transactions of Fintech in Chile and Latin America.

Ultimately, Fintech represents an excellent opportunity to accelerate financial inclusion and foster regional economic development. However, addressing its use's challenges is essential to ensure safe and sustainable adoption.

Continuing with the previous lines, Barberis (2014), quoted by Schueffel (2016), conceptualizes Fintech as "the application of technology in the financial industry. The sector covers a wide range of activities, from payments (for example, contactless) to financial data and analytics (for example, risk management), digitalized processes (for example, authentication) and, perhaps, the most known to the general public, payment platforms (for example, P2P loans)" (p. 40).

The elements that can be taken from each one to present a more complete, descriptive, and illustrative definition are as follows: firstly, the assertion of Langley is accepted since; indeed, they are technologies applied to the financial sector, which, as Kim, Park & Choi point out, is a service sector that uses computer technology explicitly. From these authors, the etymological contribution will also be taken, as well as the indication that

Fintech constitutes alternative means of access to financial services. Therefore, it is postulated that Fintech is:

Applied technologies to the financial sector, particularly mobile-focused computer technology, to improve the industry's efficiency and generate alternatives to conventional ones, perfecting them. Among their services are: the opening of digital accounts with online authentication, risk management, payment for goods and services, and P2P loans, among others. The term coinage comes from the convergence of finance and technology, and the formation of this neologism originates in the English language.

The promising scope of Fintech envisions South American solutions to the problems of access to financial services and credit in the region. According to the World Bank (2017), financial system exclusion reached 45% at that time. In the same tone, Roa (2013) points out that the use by Latin Americans of financial instruments remains limited, both in saving and in credit. Families and small and medium-sized enterprises intricately access the latter, and there is still a high degree of dependence on the informal financial sector. The region's most challenging barriers to evade are the high commissions on loans and deposits and geographical barriers, as most branches are bank branches, even in rural areas.

In the given context, Fintech leads the region towards a greater universalization of banking and finance, which is crucial for their economies and paves the way to financial inclusion. This process of banking, used by some authors to describe how banking entities permeate the economy, results, in the opinion of Tafur (2009), García (2018), and Uribe (2019), in what they have coined as financial inclusion. This is not only the result of banking but also of the digitalization of finance and other sectors of the economy. Fintech represents an opportunity to democratize access to financial services, especially in countries with limited access to traditional banking. These new technologies provide a more efficient and economical alternative, saving users time and money in financial transactions.

**EXCLUSION FROM THE FINANCIAL
SYSTEM IN SOUTH AMERICA REACHES
45%, EVIDENCING THE NEED FOR
FINTECH SOLUTIONS IN THE REGION.**

Additionally, Fintech can enhance the quality of financial services by offering innovative solutions that better adapt to consumers' needs and preferences. For example, P2P lending platforms can offer lower interest rates than traditional financial institutions, making them a more attractive option for those seeking financing.

However, there are also challenges associated with the use of Fintech. For instance, there is a risk that the platforms are not adequately regulated, which could increase the risk of fraud and other illicit activities. Additionally, the lack of online security could expose users to risks of identity theft and other cybercrimes.

In conclusion, Fintech is a disruptive force in the financial industry that offers an excellent opportunity to improve financial inclusion and the efficiency of the financial system. However, appropriate measures must be implemented to ensure the regulation and security of these new technologies.

Fintech: Areas of Activity and Proportions in Economic Life

In the payments and remittances sector, as pointed out by the IDB (2017), Fintech provides coverage for transactional needs due to two factors: first, a high percentage of the population is excluded from the financial system, and second, because there has been a high penetration of smart devices. Conversely, Chile has the highest penetration of banking in the region. Moreover, Finnovista (2019) details the following payment and remittance platforms available at the time:

Fintech and the Rise of Financial Inclusion

Financial inclusion is included in the United Nations' sustainable development goals, and it has also been discussed in international forums, such as the G20, which in 2011 at the Pittsburgh Summit committed member countries to facilitate access to formal financial services, emphasizing unbanked individuals. The contemporary experience since the 70s

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has been positive, from the microfinance sector in Latin America and Bangladesh, which in the opinion of Lacalle-Calderón (2008), has contributed to the formalization of ventures by including sectors marginalized from debt and financial system products. The main reason for this inclusion lies in preconceived ideas about their ability to save and assume the obligations that financial products contract.

The sector has always been a pioneer in innovation, as noted by Chrishti, Barberis, and Vidal (2017), who highlights the invention of the credit card in the 1950s and the ATM a decade later. These examples are relevant because implementing these innovations confirms a trend that has contributed to the banking of economies and brought the public closer to banking services. Now, banks have launched applications that can manage different operations on mobile devices. Torres (2017) classified this Fintech into the following categories: (i) financing; (ii) advisory; (iii) transfers, collections, and e-commerce payments; (iv) distributed accounting or blockchain; and (v) cryptocurrencies.

Fintech in Chile

In context, Chile enjoys high standards of banking. According to data reported by SBIF, the report on access to and use of financial services indicated that in 2013, 79% of the population had some financial product, and by 2016 this had reached 98%. On the other hand, Aravena (2016) collected the following data for El Mercurio: in cash management products, current accounts and sight deposits are positioned as the product with the most outstanding coverage, with 76% of the population while savings and credit products cover 69% and 52% respectively, surpassing the OECD average.

Aravena (2016) also found that 58% of the population has superior financial inclusion, meaning they can access a wide range of financial products, from cash management to savings and credit. In contrast, 40% fit into a basic profile that barely accesses cash management or savings products. Among these, the RUT account from Banco Estado, a government entity, has achieved broad market penetration, being the instrument with the most accessible opening and greatest massification.

Fintech also experiences broad incorporation into the market, which could be boosted by the shortcomings that massified traditional services might present and the limits that they establish and that Fintech can bypass. For example, the maximum amounts that Banco Estado sets for RUT accounts affect certain operations essential for daily life. Fintech Radar (2021) places the growth of Fintech startups at 60% and collects in a study piloted among 102 startups of the 179 that make up the Chilean fintech ecosystem. This report reveals that 68% of Chilean Fintech companies are dedicated to providing e-commerce solutions to unbanked and underbanked SMEs, making the B2B business model prevalent in the industry.

In this survey, Chilean startups identify a sector's weakness: the lack of specialized legislation. However, without going into detail, they believe that a specific regulatory framework would favour the already overwhelming growth of the industry. Nevertheless, financial supervision is not precisely absent in this area, and the assimilation of this industry into the one that regulates the conventional or face-to-face financial sector is more of an opportunity than a disadvantage from our point of view. At least, this hypothesis will be maintained until specialized research can discard it.

The configuration of the market, which is what we call the distribution of efforts and economic agents in the sub-branches of the sector, concentrates according to Fintech Radar (2021) in the segment of remittances and payments, which groups 23% of the companies providing services in Chile. This is not surprising, with the increase in foreign population in the Andean nation and the need for this new human resource to operate within the economy with the formalization of their operations and the urgency to transact with their countries of origin. Nonetheless, the growth of the digital economy in Chile is increasingly pronounced, with the provision of services abroad increasing local demand for economic exchange mechanisms.

In second place, the segment referred to the provision of business finance solutions represents 20% of the sector. The services in this segment include collection management, electronic collection, automatic reconciliation, intelligent debtor evaluation, and financial indicator management, among others. In total, there are 35 Fintechs in the Chilean market that Fintech Radar (2021) reports. 13% of startups are dedicated to loans that range from personal to business. In this order, the following branches follow business technologies for financial companies; scoring, identity, and fraud; insurance; wealth management; crowdfunding; personal finance management; trading and capital markets; and digital banks; all these segments accumulate 44% of the industry.

Most of these companies report their headquarters in the Metropolitan or capital region; this figure is located at 83% of the survey conducted by Fintech Radar (2021), while 17% are in cities such as Viña del Mar or Puerto Varas. According to this study, Chile holds the most mature Fintech system in the region, with over 66% of them having been in the market for more than three years. Likewise, by 2018 IDB and Finnovista point out that the Fintech that internationalizes the most are Chilean, with their central countries of operation being Peru (20%), Mexico (17%), Colombia (14%), and Argentina (10%).

CONCLUSIONS AND RECOMMENDATIONS

- a. Fintechs are autonomous financial institutions that, initially, about the conventional banking sector, appeared limited or complementary. Their origin lies in traditional institutions, in their quest to support their activity on the foundations of software and information technologies. However, today they have managed to differentiate themselves and generate a sub-sector capable of competing with them in the market.
- b. The eruption of such a specialized segment within the sector implies limits and problems. It needs that have yet to be addressed by the traditional industry, even more so when the convergence of these towards unification seems more precise. In this sense, as a research line, future work can address how traditional and digital banking complement, diverge or integrate.
- c. Fintech represents an opportunity for South America, especially in including the population in the financial sector, whose services often need to be improved in developing individual and collective projects of economic and social interest. However, due to such economies' high degree of informality, these projects do not fit the systematic filters necessary to access the essential products of credit and finance, such as a bank account, a credit line, and other associated financial products. From this premise arises a recommendation that will have to be supported by more precise research, which is to reduce, even further, the dependence of the private sector on the public sector in the bureaucratic and tax formalities necessary for the formalization of businesses and companies.
- d. Fintechs decrease the presence of procedures associated with finance, which perfectly fits with an interconnected world and a digitized economy, much more than the ways of working of conventional banking. However, it is also worth noting that such status is maintained because the security protocols imposed by regulatory entities require such presence. In any case, Fintechs in Chile dispense with such requirements by relying on conventional banking or identity validation through a selfie.
- e. The geometry or distribution of Fintechs in Chile favours the Santiago region in proportion to Chilean economic geography. In this sense, Fintech also constitutes a source of regional-local development that can help balance the economic weight of the regions.
- f. Fintechs have organized themselves into Fintechile, an association that brings them together and represents them as a collective and economic actor.

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