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COME,CONNECT AND CREATE: SOCIALISATION OF FINANCE IN EMERGING MARKETS

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ABSTRACT: -
Despite the need and the significance of the financial intermediaries in the financial markets of an economy especially emerging nation, yet there is a substantial chunk which remains untapped and not served owing to multiple reasons. Hence, we try to analyse the limitations of these organisations and advantages and potential of a young way of raising finance in the markets. We go onto to discuss social lending, peer-to-peer lending, crowd funding as a way to attain the goal of financial inclusion in its totality. Finally, we conclude that such a novel idea has its potential in emerging market like India where there are increasing internet users.

KEYWORDS: *Financial Intermediaries, Financial Inclusion, Crowd-funding, Peer-to-peer lending.*

INTRODUCTION :

Diversity and inequality are the two major features of the Indian economy which can't be neglected by the policy makers. Since independence (1947) efforts are made by the Indian government to eradicate poverty, develop rural sector and to minimize income inequalities and such agendas are often included into India's five years plans. Though Social banking program of 1977 where Banks were asked by the reserve bank of India to open minimum four branches in rural area was of substantial help (Burgess, 2005)but was soon ended with financial sector reforms in 1991. Further a sharp increase in income inequalities was seen due to balance of crises in 1990. A strong financial system is needed to alleviate such income inequalities and to safe guard the interest of the poor (Ang 2010). Financial liberalization in the developing nations like India seems to enhance the problem of income inequalities. The traditional banking system was unable to resolve the two major issues in the financial system namely the problem moral hazard due to the presence of asymmetric information and were also unable to include all in the system i.e. poor farmer, small traders etc.

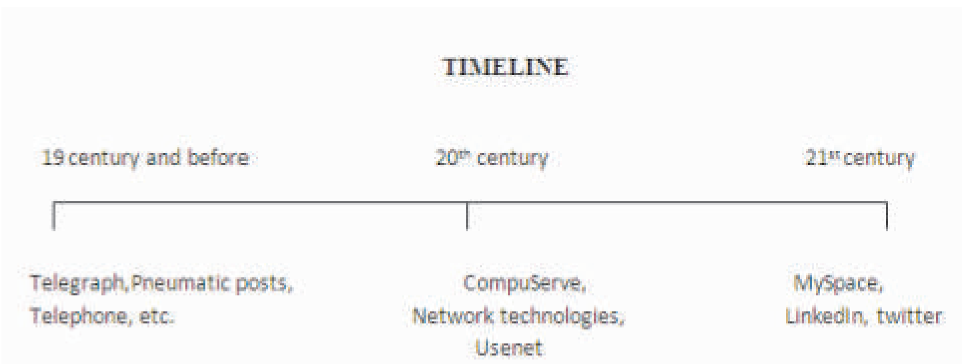
The above problems led to the foundation of Financial intermediaries (Borio& Zhu, 2008) and the importance of Financial inclusion (in India the term was first introduced by the former RBI governor YV Reddy in 2005). Informed investors exploiting uninformed investors for their personal gain is what is seen throughout the world (Kyle, 1985; Grinblatt& Ross, 1985). The presence of asymmetric information and problems of moral hazards among the investors led to the shift from the traditional system to the intermediaries (Dewatripont&Tirole, 1994; Freixas&Rochet, 1997; Diamond, 1984, Campbell &Kracaw 1980). Though it is always better to spread the investment rather than giving it to the single party but spreading the investment and associated risk not only requires information but is a time consuming process. In order to resolve the issue and to provide a better platform for the investors financial intermediaries evolved. Financial intermediaries acts as a link between the two parties. It spreads the risk and facilitates the transaction particularly benefitting uninformed and small investors like farmers, shopkeepers, small traders etc. in spite of the support given by intermediaries (like consulting house, banks, brokers etc.) one can't neglect its limitations like low returns, fees and commission charged by intermediaries, profit intention and opposing goals of intermediaries etc. In addition to this intermediaries are equally dominated by the open stock equity markets.

In recent decades, transaction cost and the problem of asymmetric information is reduced to the great extent. Over this same period the importance of financial inclusion is recognized worldwide including India (2005-2006). The khan commission in 2004 recommended the need of financial inclusion for improvement in the financial system. The commissions' recommendations were incorporated by the RBI in 2005-2006 in India. Financial inclusion refers to a financial system where services are provided to all at affordable cost and on time. The major focus is on the underprivileged sector like poor farmers, small traders, weaker section etc. as they are the one who are unable to grab the facilities from the system due to the lack of resources and information. In order to tab the unbanked masses the banks were asked to check their practices and form strategies which could be aligned with the objective of financial inclusion. With this initiatives like facility of business correspondence and introduction of "no frill accounts" was taken where ease of opening bank account at a minimum cost or at Zero balance was provided to low income groups. In spite of widely growing banking sectors and increasing role of financial intermediaries, the present day banking system has not yet succeed in providing its services to all including weaker and underprivileged sections in the economy or is unable to tab the unbanked masses. There is a section of economy that remains excluded from the banking services. For inclusive development financial inclusion can't be ignored as it is an important subset. To insure income equalities and for removal of poverty including the untapped one remains central. As the goal of financial inclusion has not been achieved fully because of limitations. Hence a new way of "looking at old things" is discussed in the following section.

COLLABORATIVE WAYS TO RAISE FINANCE

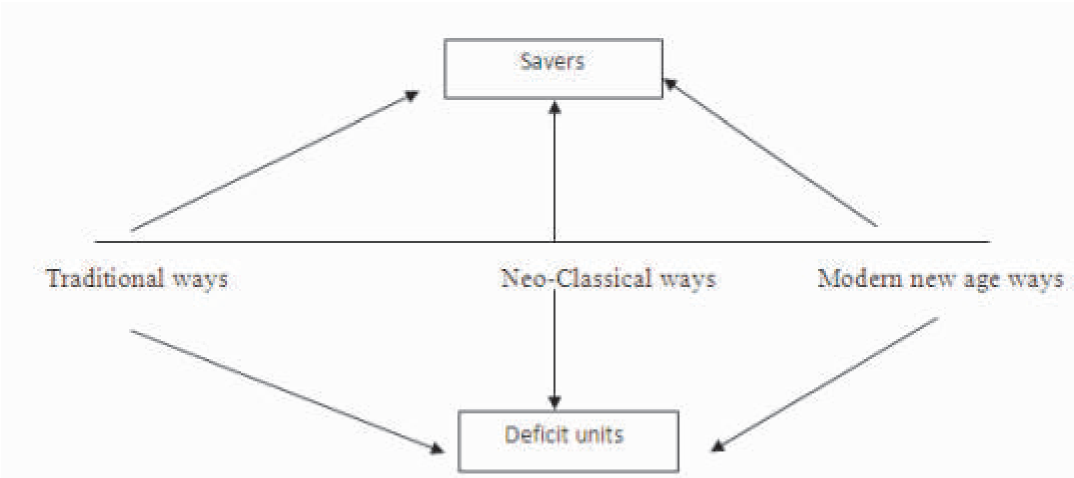
Gone are the times when manual operations were deemed efficient. Nowadays, all the core and noncore operations of any business organisation[1] are carried out in online space. By online and digital space, we mean majorly social networking sites that are meant to strengthen networks of users.In this paper, we focus on role of social lending via social media and other related forums to include the otherwise uncovered population across the globe (collaborativefinance.org)

Interest has made its way through our lives and has made everything possible at theclick of a button. Today, the net-worthy people are less valuable than networked people. Face book, twitter, instagram, etc. have not proved to be a media for exchange of thoughts but of finance off late. Social networking sites have grown as a way to collaborate, connect and create value for interacting parties and it can be channelized into a useful way especially in emerging economies having maximum young population with increased internet usage. The social media and interaction today has a long history starting from eighty's[2] and enthralling us till date.



Source: (Hendricks, 2013)

The same had found its application in the domain of finance wherein the old and traditional mechanisms of mobilising funds have been transcended over to embrace the opportunities available in every nook and corner. Such form of financial transactions mainly lending and borrowing is known as social lending or informal lending. In our opinion, it hassle free lending and borrowing as it does away with the requirements and cumbersome channels involved in formal regime. The regime moves from three phases[3] when placed on a continuum.The main object of all the ways of different times is to connect the units (who are needing funds) and surplus units (surplus of funds) to accelerate financial activity. The sole aim is to create value through connecting with each other by coming together over the social media.



There are many ways through which such object is being fulfilled. One such is usage of a social site to place a loan request which willbe further processed by the concerned party. Upon fulfilment of certain credit conditions, bids will be asked from multiple parties in the form of contribution to the loan amounts (Everett,2015). Such method of reaching masses is extremely less expensive and easy these days when internet usage is at its height. Especially in developing countries like India, there is huge and humongous opportunity for lenders and intermediaries to make use of such platform. Moreover, it's one of the best ways to give a boost to the entrepreneurial tasks in an economy (Bruton et al., 2014). Start-ups, Small businesses, Sole proprietors at times find it difficult to secure loans and raise funds as they are siky ventures. Moreover, the interest yield charges on the loan amount taken could be very high based on the variability and uncertainty of their future survival (Bruton et al., 2011) .In all such cases, apart from the government's schemes to promote these industries, social lending could also be utilised to augment the benefits further.

The other offshoots of social lending are crowd funding[4] , micro financing[5] and peer-per lending[6] . The common thing amongst all such alternatives is that they cater to small amount needs which eventually reduce the default risk on part of the borrower. These methods are becoming extremely powerful and famous in many economies of the world irrespective of the level of development. The data till 2010 shows that more than half of theses social lending sites operate in America(Bachmann et al., 2011)Social media, peer to peer lending and crowd funding initiated by developed nations are making their mark in emerging markets, given the potential. India is one such country where the percentage of people using internet is increasing each passing minute along with the favourable demographics.

CONCLUSION

Through this paper, we sought to throw light on the importance of informal and off track ideas to target the people who have not been able to be a part of the formal financial regime and take benefits of the existing financial system. In the end, we would like to bring to the fore that financial inclusion doesn't imply to gather people under the financial regime through organised channels but the definition has more and more to it. The definition should rather be take open ended incorporating both formal and informal, organised and unorganised and offline and online ways to tracking he needs of finance and fulfilling such needs by making finance available to them and that too hassle free.

FUTURE SCOPE

The paper suffers from limitations both at empirical level and theoretical level. The gaps in this study can be further explored to study other components of collaborative finance as a way to attain financial inclusion. Such evidences could be further used to provide insights empirically.

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1.It refers to financial intermediaries in case of our study.

2.For details of history of social interactions, see annexure 1.

3.Traditional ways are the old intermediaries (banks, financial institutions, etc.), neo-traditional are angel investors, venture capitalists, etc and modern are the internet savvy social lenders.

4.An online platform to get funding for a new idea or a venture from the crowd as the name suggests. The savers or the funds providers are lured by some future benefit in the form of products or services.

5.This is more or less similar to the above mentioned source but the purpose may not be realisation of an idea.

6.Micro finance has its roots in Bangladesh when it started off with a group of females. It has now spread to many regions of the globe.

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ANNEXURES
ANNEXURE 1

Table1.

YEAR	SOCIAL SITE	DESCRIPTION
1979	Usenet	Public messages
1997	Open diary	Community of online writers
2003	Weblogs	Mix of more than 90 blogs
2003	My space	Interactive interface for media
2004	Facebook	Web space to connect with people across the globe
2006	Twitter	Message posting site
201-	Instagram	Interaction with stories