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Alternative finance: definition, sources and implications for the financial sector

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MASTERS IN MANAGEMENT OF FINANCE AND INVESTMENTS

Research Report

Faculty: Management and Commerce, Law and Management

Research Topic: Alternative Finance: Definition, Sources and Implications for the Financial Sector

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CHAPTER 1

1.0 INTRODUCTION

Finance is the main lubricator of modern capitalism; the global financial sector is going through a period of rapid change with the emergence of new and alternative finance. Finance is awash with a large range of new products and technologies such as cryptocurrencies, crowdfunding, peer-to-peer lending, tokenized assets as well as initial coin offering (i.e. firms that try to raise finance by issuing tokens that are more like cryptocurrencies with these tokens providing an investor with a stake in a company. These tokens can later be traded). Alternative finance has caused a wave of disruptions in the financial services sector, in the banking sector. The banking sector had not received much disruption that has been out of the control of the incumbents (i.e., the traditional forms of financial services institutions).

The financial services sector has been a very conservative sector, which has finally been shaken up by technology and the implications are profound. The financial sector is different from other sectors of the economy in that if it stumbles so does the economy. These financial technological advancements have changed what it means to be, for example, a bank. Questions around whether banks are having to evolve or perish arise. Ordinary people are having to change the way they spend, save and invest their money.

In the past number of years, other sectors of the economy have experienced a great deal of change from the introduction of Uber in the transport sector to Air B’n’B in the hospitality sector to Amazon in the retail sector, to mention but a few. The financial services sector of banks has been resisting change and disruptions that technology brings along until recently.

These disruptors are growing organically by providing new ways to bring financial services into people’s lives via services that are already embedded in people’s lives, the mobile phone in this case. We have started to see such a reaction emerging from the

South African banking industry with Standard Bank that recently retrenched 1200 of its employees and closed down 91 branches in efforts to digitise retail and business banking (Sharenet, 2019).

Finance is a derivative of social and political needs that underpin economic theory and principals (S.Tapiero, 2013). Financial innovation/Fintech which has ‘’alternative finance’’ as its synonym results in disruption that facilitates the emergence of new products, ways of financial transaction and intermediation, and new institutions and organizational forms.

Regulatory environments can promote financial innovation by providing an encouraging environment for alternative finance ((Brummer, 2015) and (Wrolden, 2016). Alternative finance, led by non-incumbents (the non-traditional forms of finance) is necessary for the development of the financial sector, from the development of new products, processes, interfaces to developments of new markets ((Chandra & Yang, 2011).

Regulatory arbitrage is a major driver of financial innovation (Financial Conduct Authority , 2016). For example, the development of processes to liquify long-term relationship based assets such as mortgage loans into liquid, standardized marketable securities has been motivated by the desire to evade stringent capital adequacy rules imposed by banking regulation (Ramsay, 2006). There are two faces with regulatory arbitrage, one relating to evasion of laws and rules, in the worst case, with intentions toward facilitating illegal behaviour, and the other is a genuine effort at moderating cost, maintaining efficiency or competitive advantages in the face of laws and rules that create impeding effects for business. Nevertheless, financial innovation that seeks to moderate the effects of regulation could also be a way to manage the risk of policy or regulatory uncertainty (Mishra & Pradhan, 2008).

Against the backdrop of the mixture of factors that drive financial innovation, it is no surprise that financial innovation that is brought about by new and alternative finance has yielded mixed results in terms of social benefit and/or harm. Alternative finance can produce efficiency and widen access to consumers, the result of this would be improving access to finance. The access to finance is achieved as a result of, for example, the cost-effective fixed-rate mortgages for consumers that would not be

possible without the financial innovation of interest rate hedging derivative products (Kling, 2009). Increased access to finance will improve financial inclusion as well.

This financial innovation brought about by Alternative Finance correlates with increases in a country's growth opportunities and GDP per capita (Beck, Chen, Lin, & Song, 2014) and is important for emerging economies in their development (Jha, 2011). There are also cost savings that are enjoyed because of alternative finance that are often passed onto investors and borrowers. Alternative Finance ushers in innovation that transforms asset characteristics such as in terms of liquidity and marketability which also helps in broadening financing opportunities for borrowers whether households or corporations.

There are dark sides to Alternative Finance. The potential for social harms from alternative finance range from the micro-level to the systemic level. With alternative finance there is an increased marketization of financial assets, such marketization promotes access and improves the liquidity characteristics of assets, yet apparent benefits of marketization are often oversold. A balanced view is not taken with regard to the changing nature or increased risks of the assets, such as in securitized products. Some perverse consequences of securitization are a decline in lending standards, an increase in information asymmetry between investors and originators, and a failure to monitor the performance of underlying assets (Jenkinson, 2008).

Alternative finance can be a vehicle through which riskier or less liquid assets are repackaged into apparently risk-managed, liquid and highly desirable assets in order to exploit investors. Over-selling of such marginally suitable products could ultimately result in mis-selling scandals (Financial Services Authority, 2012) . Finally, alternative finance correlates with increased systemic risk for the financial and economic systems, as well as results in more credit creation. Such increases in leverage as a systemic phenomenon often greater risk are created for all participants in the financial and real economies and could raise systemic fragility in the face of shocks or crises ((Adam & Guettler, 2014).

More complexity produced by alternative finance makes systems and markets more susceptible to systemic effects (Judge, 2014). This complexity often exacerbates

information asymmetry that results in mispriced allocations in the market, asset bubbles, and painful corrections and market instability.

As financial innovation seems to be a double-edged sword, “welfare-indeterminate," the regulatory engagement with financial innovation has always been one of relative passivity and catch-up. Regulators, cautious of not impeding the development of competitive innovation and choice for consumers, often dismantle regulatory barriers to support competition or refrain from adding such barriers. This is because much of alternative finance depends on low cost and flexible models, which would be stifled by high regulatory costs (Chuen & Teo, 2015) and (Curtis & Schulman, 2006). Some regulators often take a "wait and see" approach, preferring to monitor developments before regulating alternative finance. Regulators may also adopt informal approaches (Cortez, 2014) or soft law, to be flexible in governing financial innovation (Hedge Fund Working Group, 2008) and (Walker, 2007)

As the years progress the many forms of traditional forms of financial services for example banking, will become increasing contextual. There more progressive and successful banks would be those that would have superior technological prowess data science capability, data analytics and so on. None of these are traditional banking skills. Therefore, you would have to change the structure of the organisation’s board of directors. The banks will have to become more of technology companies than anything else because they are not competing with other banks alone but also with other technology players.

1.1 BACKGROUND OF THE STUDY

The impact from an Intermediation perspective (disintermediation or remediation?):

The intermediation process of financial institutions is usually done for the so-called value for value transactions.

To understand what mediation in the financial system context is about, this illustrative narration would be applied by the use of a house that would be purchased by Mr B and currently owned by Mrs S the house (please see display 1 and 2 below).

In the transaction, an agreement is made that Mr B will pay Mrs S over 20 years periodic payments that are equal to the value of the house of a million Rands, and Mrs S in exchange will have to give over the house to Mr B. A debit-credit instrument is created therefore in the transaction, with this debit-credit instrument which was created as an instrument of exchange to facilitate the value-for-value transaction. All this is done in the absence of the traditional banks to facilitate the transaction. The nature of the transaction at hand is a residential mortgage transaction chosen deliberately, given the impact the 2008 global economic crises that was birthed as a result of the subprime mortgages.

The common exchange between Mr B and Mrs S has its natural disadvantages for Mrs S: there is a liquidity disadvantage, she may not want to wait 20 years to receive her money (even in the presence of a high-interest income motivation although this article will not engage in the discussion of the role and purpose of interest). Mrs S has exposure to solvency and default risk.

Mrs S would have to perform a due diligence process to measure and assess if the risks to be taken are within her appetite, a significant amount of skill and acquired information about the mortgage bond market would be required.

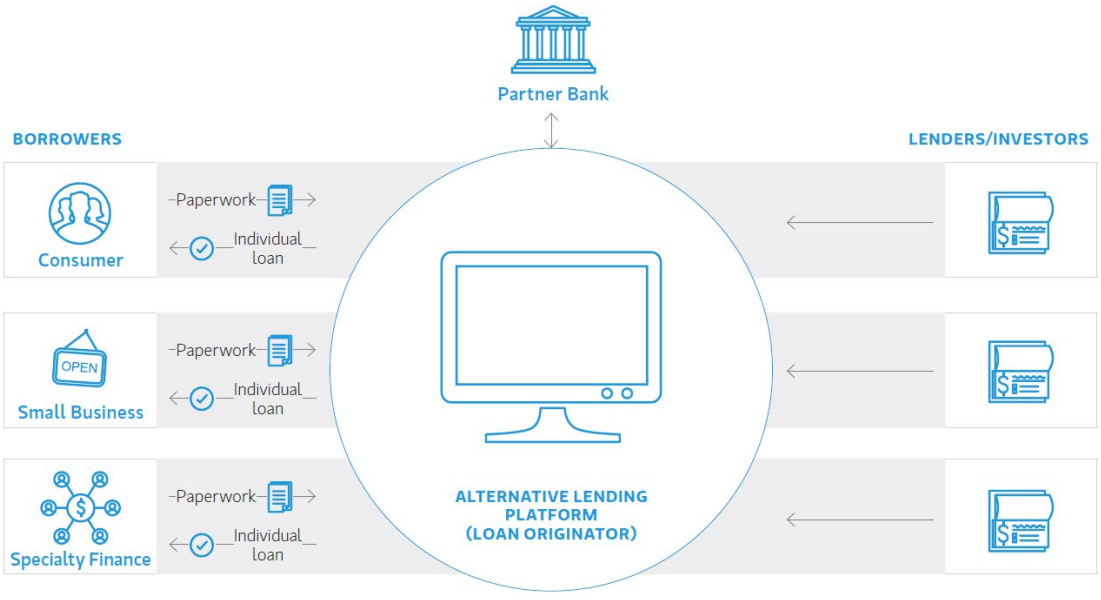
Mr B does not have any significant risk exposures, however, both Mr B and Mrs S face an administrative burden over 20 years to ensure that amounts are paid and collected, respectively.

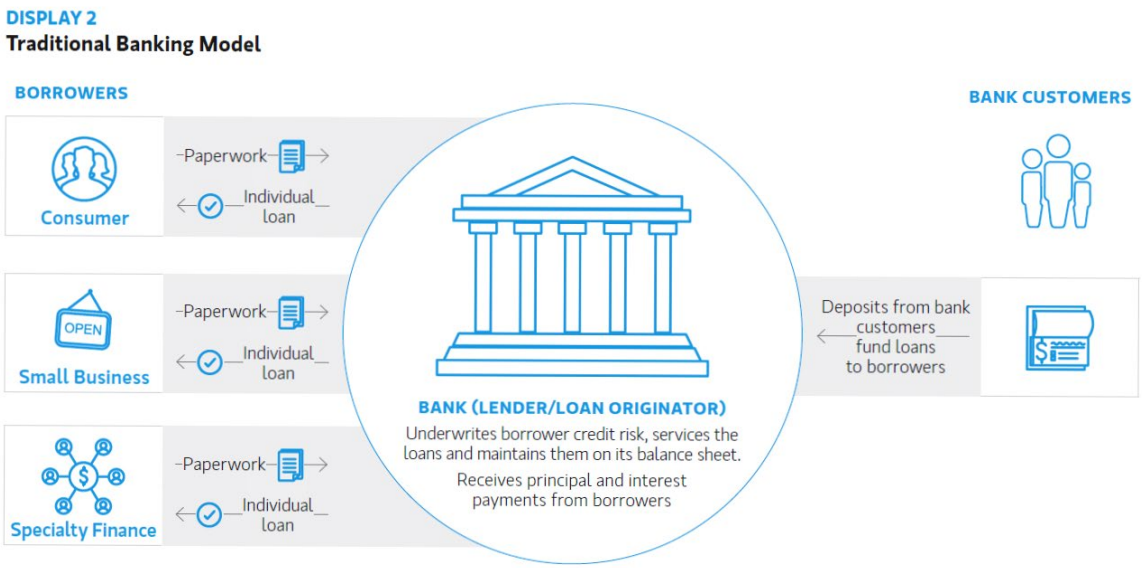
The above narration, therefore, indicates that both parties face potential risks, inconveniences and other associated transaction costs by getting into the common exchange. All these can be avoided by the introduction of an intermediary, a bank to facilitate the transaction and take on a significant portion of the risks and administrative efforts over the 20-year periodic repayment period.

When a bank has been introduced as an intermediary, this would be the traditional banking model, depositors put money in the bank (deposits). The bank then is the intermediary that will lend to businesses and households (i.e. to Mr B). Mrs S can make an arrangement to receive the entire million rands as the purchase price as a lump sum, or if she does not require the entire amount draw down the amount from the bank's coffers up to the value of the house as and when she requires the amount. In the transaction, the claim is no longer a claim from Mr B but rather from the bank.

The bank will make money from the difference between the lending rate and the borrowing rate under this traditional intermediation model. This means that if some of this loan extended to Mr B goes bad the profits of the bank would be heavy negatively impacted because they have balance sheet risk.

DISPLAY 1
Alternative Lending Model





The above diagrams are graphical illustrations of how both the standard banking model and the alternative finance model would work. *Kenneth Michlitsch, (2019), Display 1&2: Alternative Lending Model [ONLINE]. Available at: https://www.morganstanley.com/im/en-us/financial-advisor/insights/investment-insights/an-introduction-to-alternative-lending.html [Accessed 30 July 2019*].

The rise of alternative finance cuts out the physical middleman thereby posing a threat to the traditional incumbents of the financial sector. An example would be how a standard peer-to-peer lending model works versus how a traditional bank model operates. Technology is now the source of mediation in the whole financial process. Very ordinary individuals lend money to other people by going directly on a website/platform, instead of doing it via a bank to get a better deal. The individuals would ordinarily either put money in the money market or savings account in a traditional bank.

For the alternative finance model, the individual would log onto the platform and register as either a lender or borrower, in this case, Mr B, the borrower's side of the journey would require that he provides the permission to the platform providers to find data on them, in addition to finding some data on their own by filling a form so it is a commission

of the data they buy from the credit bureau and the data they would provide would allow the platform providers to give the borrower a unique score that helps assess the level of riskiness of the borrower. All this is done in real-time and allows the use of data analytics.

On a platform they may post several loans that are available to the lenders, the lenders can study these projects and then they decide if they want to buy a part of a loan. The lender would ask for a quote, for the purchase of the property that would state how much money Mr B would want to borrow and for how long. The lender now would be matched with a borrower (Mr B) which would have similar terms which would have been stated, periodic payment of over 20 years for the million rands. The lender would have picked the kind of risk level they want to take and the length of time they want to tie up their money (i.e. 20 years). They would then provide funding of very small amounts of money, for example, two thousand-rand units from say, 500 different people who take money out of their savings (lenders), this is done to spread the risks of the lenders. This solves some of the risks that Mrs S had described above.

They would then assemble the cheapest loan that they can out of those two thousand-rand units to make the million rands that Mr B wants and present that as a quote. Lenders do suffer a bit of credit loss, but the platforms try to mitigate this to keep it in the expectations that they would have set. So that they get a return that is as good as what they expected. The business really lives or dies by their credit decision making, which is more advanced and enlightened because of the use of big data.

In this case, the platform acts as a middleman who charges a fee, the platform provider does not post these loans on their balance sheet it is the actual lender who does this, a different part altogether. What this means is that if the loans were to go bad it is the investor/lender who will suffer a loss. So, what is happening is a process of reintermediation and de-risking in favour of the new alternative finance options. This is kind of the difference between peer-to-peer lending and a savings account (banking model).

It is also very important to note that the way these alternative finance sources are regulated would come from understanding the intermediation element, who is the player

in the mediation process, reintermediation? Or is there a mediator in the financial process, disintermediation?

There is someone in the middle performing a value-added function that investors are prepared to pay for. From the above narration, it is seen that the peer-to-peer model has become so sophisticated to an extent where one is picking their loans with value addition provided by the platform that offers peer-to-peer lending. These platform operators are investing heavily in technology, and algorithms on credit scoring to enable the construction of portfolios of various loans. Because of this most platforms are like any other asset manager: when you sign up, (i.e. what is your risk-return tolerance?) Here is the expected rate of return for the risk you can tolerate, and they fill up your portfolio (An Introduction to Alternative Lending, 2019).

1.1.2 The impact from a regulatory perspective

The significant disruptions that are happening in the financial services sector of many economies have resulted in the continued broadening and deepening of regulation. The financial sector is less tolerant of the financial services industries particularly bank industries to fail and the use of public money to salvage them.

The reason why there is less tolerance for financial industries failures is the systematic risks that arise in the financial system more in particular from banks. Systemic risk arises because the financial system is one intricate and interconnected network. The failure of one bank or other financial services institution has the possibility to result in the failure of several other banks as well as other financial institutions. The reason why this happens is that financial institutions are counterparties to each other in a lot of transactions. Therefore, if one fails, the credit risk event for the other financial institution becomes a reality.

These affected banks or financial institutions would have to write off certain assets as a result of the failure of their counterparty. This writing off often leads to the bankruptcy of other banks, and an unstoppable domino effect on the financial sector would take over. Systemic risk is an extremely bad scenario to be in. A case in point is the 2008 global

economic crises that resulted from the souring of subprime mortgages, it seemed like the entire global financial system would collapse.

The impact of the domino effect extends to insurance companies, pension funds, investment companies, et cetera, as these would either be banking with these banks or invested money in these financial institutions that would have failed. The implication of a failed bank spread far and wide across the financial sector landscape during the 2008 global economic crises. Systemic risks do not affect an individual financial entity but rather the entire financial system. Therefore, there is very little that an individual financial entity can do to protect itself in the event that such a risk materializes.

The failures of the financial system will also result in social problems as pension funds thin, depositors' monies disappear, and non-institutional investors' assets are written off. The failures of the financial system will always give rise to a moral hazard, which can best be illustrated with the events of the 2008 global economic crises were a bailout of banks by many countries created another kind of risk called the moral hazard (Arnold K, 2009).

This risk is not faced by the bank or its shareholders, rather this risk is faced largely by the taxpayers of a country in which banks operate. Banks have become accustomed to taking the risk. If their risk pays off, they get to keep the returns. However, if their risk backfires, then the losses are borne by taxpayers in the form of bailouts. This ''too big to fail'' model which was birthed amidst the 2008 global economic crises has caused financial institutions such as banks to become reckless in their pursuit of profit. Although regulators are using audits to ensure that safe business practices are followed, financial institutions often indulge in risky business the moment they are not under regulatory oversight.

This above scenario makes a robust regulatory system of great importance, this is more especially so in the wake of technological disruptions that have begun in the financial services sector. The way the financial sector is regulated would have to be reassessed as financial institutions become more of technology companies. This inherent systemic risk is by its very nature characteristic of the banking system, and therefore, makes them prone to systemic risks.

Therefore, the is a need to understand the regulatory direction that policymakers should encourage regulators to adopt to ensure that the financial system remains sound and in a healthy state. This can be achieved by a comparison of regulatory reactions to alternative finance in shores where such innovations have taken place.

1.2 THE PROBLEM

The financial services sector has been a very conservative sector, which has finally been shaken up by technology and the implications are profound. The financial sector is different from other sectors of the economy in that if it stumbles so does the economy. These financial technological advancements have changed what it means to be, for example, a bank. Questions around whether banks are having to evolve or perish arise. Ordinary people are having to change the way they spend, save and invest their money.

These disruptors are growing organically by providing new ways to bring financial services into people's lives via services that are already embedded in people's lives, the mobile phone in this case. We have started to see such a reaction emerging from the South African banking industry with Standard Bank that recently retrenched 1200 of its employees and closed down 91 branches in efforts to digitise retail and business banking (South Africa's Standard Bank to cut around 1,200 jobs, close 91 branches, 2019).

Finance is a derivative of social and political needs that underpin economic theory and principals (Tapiero, 2013). Financial innovation/Fintech which has ''alternative finance'' as its synonym results in disruption that facilitates the emergence of new products, ways of financial transaction and intermediation, and new institutions and organizational forms

The rise of alternative finance cuts out the physical middleman thereby posing a threat to the traditional incumbents of the financial sector. An example would be how a standard peer-to-peer lending model works versus how a traditional bank model operates. Technology is now the source of mediation in the whole financial process. Very ordinary individuals lend money to other people by going directly on a

website/platform, instead of doing it via a bank to get a better deal. The individuals would ordinarily either put money in the money market or savings account in a traditional bank. A question addressed by the study is interrogating whether such process are processes of disintermediation or re-intermediation, because we ask such questions it brings about the idea of tainted intermediation.

The significant disruptions that are happening in the financial services sector of many economies have resulted in the continued broadening and deepening of regulation. The financial sector is less tolerant of the financial services industries particularly bank industries to fail and the use of public money to salvage them. With the significant disruptions happening in finance the regulator and the legislator has had to evolve as now there has been a technology element introduced, what should be form of regulation be? How should the regulator respond to these disruptions? These are some of the questions the study will try and address.

This study seeks to explore and highlight the problem of ‘’tainted intermediary’’, as well as lead to an introduction of how regulators and policymakers should frame their thought process and approach in the development of regulation governing the operations of new and alternative finance.

1.3 PURPOSE OF THE STUDY

The research will seek to highlight the sources of alternative finance and in the same vain highlight the structural problems of ‘’tainted intermediation’’ brought about as a result of the rise of Alternative Finance.

It seeks to introduce a framework for regulatory thinking and approach in response to the emergence of alternative finance especially given that it is a new and developing phenomenon. The research will assist with further studies in the area of financial inclusion in the emerging economies as a result of alternative finance as well as the role and impact of alternative finance in the democratization of the financial sector.

The study seeks to contribute in highlighting the main sources of alternative finances from the different types offered in the financial sector. It goes further to explore whether these sources of alternative finance result in reintermediation or disintermediation

answering the questions of who and what the intermediator is because of alternative finance. This exploration would highlight the problem of ‘’tainted intermediary’’, as well as lead to an introduction of how regulators and policymakers should frame their thought process and approach in the development of regulation governing the operations of new and alternative finance.

Because alternative finance is a new and developing phenomenon the study will assist in further study of the area by the academic community from insights provided.

1.4 RESEARCH QUESTIONS

To better guide/focus the purpose of this research the following questions are evolved:

1. Does alternative finance bring about disintermediation or reintermediation?
2. What kind of thinking framework should regulators and policymakers behave in response to the emergence of alternative finance?

1.5 RESEARCH METHODOLOGY

The research methodology was exclusively on the qualitative side, as this is a conceptual paper, that was relying on a great deal of literature review around the themes of interest. There was the use of secondary data (i.e. work that has already been done by others).

The research methodology was a combination of descriptive and exploratory, this blade would be used to assist in the extensive literature review around themes highlighted, to logically drive an argument. Allowing the unpacking of the prevailing thoughts around the theme that has been presented. The exploratory component was applied in the research design because the themes that were highlighted had largely attached to them a great degree of uncertainty as well as near ignorance around the subject matters highlighted. The problems were not very well understood at all, and still are not. Again, there is very little existing research on the subject matters as it is a new phenomenon in the financial industry. The exploratory component was intended to help the paper identify the boundaries of the environment in which the problems, opportunities and

circumstances of particular interest reside and to single out the salient factors. The descriptive component was infused to provide an accurate and valid encapsulation of the representation of the pertinent issues.

The study took a global view of alternative finance and then zoned in to look at the various approaches applied in the developed economies. A light touch was applied to establish what the emerging economies are doing in response to the disruptions caused by alternative finance.

1.6 Contribution of this research

The research seeks to highlight the sources of alternative finance and in the same light highlight the structural problems of the so-called ‘’tainted intermediation’’ brought about as a result of the rise of Alternative Finance.

It seeks to contribute by suggesting a thought framework for regulatory thinking and approach in response to the emergence of alternative finance especially given that it is a new and developing phenomenon.

This research focuses on the various alternative finance channels and instruments that emerge from outside of the incumbent financial system, this area of finance is where the interesting disruptions are coming from. While the Romans could have been forgiven for believing that the world ended at the pillars of Hercules, this cannot be forgiven in this new technological world of Tweeter, Instagram, Facebook and LinkedIn. The reasons why these instruments are emerging is worth studying, and more importantly, how should the regulator absorb these disruptions.

The research strives to be a conversation starter in the area of financial inclusion more in the emerging economies as a result of alternative finance as well as the role and impact of alternative finance in the democratization of the financial sector.

It seeks to contribute in highlighting the main sources of alternative finances from the different types offered in the financial sector. It goes further to explore whether these sources of alternative finance result in reintermediation or disintermediation of the

middleman in the financial system were alternative finance has manifested. The intermediation process of financial institutions is usually done for the so-called value for value transactions. This study answers the questions of who and what the intermediator is because of alternative finance. This exploration in the paper interestingly would highlight the problem of ‘’tainted intermediary’’, as well as lead to an introduction of how regulators and policymakers should frame their thought process and approach in the development of regulation governing the operations of new and alternative finance.

Because alternative finance is a new and developing phenomenon the study will assist in further study of the area by the academic community from insights provided.

This study will further assist future questions which have started to emerge, the question of whether alternative finance e.g. peer-to-peer are essentially asset manager models or a banking model. The peer to peer model has become so sophisticated to an extent where one is not picking their loans without any value addition provided by the platform that offers peer-to-peer lending.

These platform operators are investing heavily in technology, and algorithms on credit scoring to enable the construction of portfolios of various loans. Because of this most platforms are like any other asset manager when you sign up i.e. what is your risk-return tolerance, here is the expected rate of return for the risk you can tolerate, and they fill up your portfolio. Is this really banking? There is a moral hazard now as this sounds more like an asset manager.

On the other hand, we have platforms that have the same funding structures that banks use, but they are not taking in deposits, they are rather using securitization markets as well as very sophisticated algorithms to pick and select their loans taking balance sheet risk. This results in them having this very bank-like model. How does a regulator regulate such a tainted intermediator? How should the legislator develop laws that govern such tainted models of intermediation? The coming chapters in the study will explore these areas.

1.7 OUTLINE OF THE RESEARCH REPORT

The next section would deepen the exposition of the literature review around the themes. It would be tying in the themes in a logical flow into a well-reasoned argument in terms of policy direction. There will also be a conclusion chapter that would reiterate as well as provide an emphasis on the resultant outcome of the deep literature review of the contemporary issues that have been put forward by this paper

CHAPTER 2

2.0 LITERATURE REVIEW

2.1 CHAPTER INTRODUCTION

The preceding chapter introduced the whole paper, listed research questions, provided background to the paper, and highlighted on the purpose of the research. This chapter will acutely analyse literature from different authors in a bid to answer research questions and meet the purpose of the research.

2.2 Definition of alternative sources of finance

Alternative source of finance refers to any form of finance that does not emanate from a mainstream financial services provider, such as commercial banks (Fundingoptions, 2020). Building on the above-stated notion, alternative sources of finance exclude the traditional intermediary, (registered financial services providers), such that alternative sources of finance are sometimes referred to as direct sources of finance (Mishkin, 2019). This is true since alternative sources of finance largely do not use intermediaries, this results in a decrease in transactional costs that's improving market efficiency.

2.3 Drivers behind alternative sources of finance

It has been universally agreed that the financial sector is one of the heavily regulated sectors in both emerging and advanced economies (Mishkin, 2019). This is true since

the failure of the financial sector will result in the failure of other non-financial sectors or rather real sectors. Also, to be highly noted is the effect of saving and spending, which is done through the financial sector, which through the multiplier effect will impact aggregate production, national income, aggregate production, employment, gross domestic product (GDP), economic growth, to name just a few. It has been objectively evident that the flow of funds has changed from the traditional model to a vast array of alternative sources of finance, which resemble a big deal of disintermediation, that is an inevitably, traceable direct connection between fundraisers and funders often through online platforms or websites (Baeck, Collins, & Zhang, 2014). It is however imperative to note that motives behind the use of alternative sources of finance vary depending on the model adopted as well as the industry concerned (Baeck, Collins, & Zhang, 2014). The drivers behind alternative sources of finance can be described below.

- Technological improvement - financial innovation- the birth of online transactions facilitated the growth and applicability of alternative sources of finance such as FinTech, (Chuen & Teo, 2015) reported that giants such as Apple and Google are moving into the mobile payment market. The advancement in technology provided wider access to online sources of finance, such as Bitcoin, cryptocurrencies.
- Financial crisis aftermath- following the global financial crises, alternative sources of finance emerged in the US, UK and European continent (Wardrop, Baldwin, Zhang, & Grey, 2015). Since the traditional financial system lost the trust of investors, the introduction of alternative sources of finance received the best of welcome (Wardrop, Baldwin, Zhang, & Grey, 2015).
- Criteria for financing by mainstream financial services provider- since the financial sector is highly regulated (Mishkin, 2019), mainstream financial providers such as banks often have criteria which smaller and new businesses or even some individuals cannot fulfil thus a need to sort out alternative sources of finance indefinitely inevitable.
- Strict regulation of the financial system- it has been universally acknowledged that the financial sector is among the heavily regulated sectors in every economy

(Mishkin, 2019). Since there is less regulation in alternative sources of finance, most fundraisers would opt for it.

- Immigration- as indicated by the World Bank Migration and Remittances Fact-sheet 2016, 247 million people, equivalent to 3.4% of the world population live outside their country of birth (Nairametrics, 2019). Building on the above-stated notion, some expatriates might still be enticed to their mother countries such that they are eager to invest through different and available alternatives.
- Lucrative structure of alternative sources of finance- the structure of most alternative sources of finance is more attractive than mainstream finance, for example, Israel- Diaspora bonds were fixed, floating-rate bonds, maturity would range from one to twenty years-showing high flexibility and a sense of liquidity, and also carrying large financial incentives yielding a little higher than US Treasury bills (Nairametrics, 2019).
-

2.4 Alternative Sources of finance

2.4.1 Justification of the choice of countries used in the study

There are four countries from which we are going to explore the diaspora bond, these countries are Israel, India, Nigeria and Ethiopia. These countries were part of our basket of countries under study because there is a combination of diaspora bonds that worked/work well, and there is a spirit of experience with the bonds from one country that has done well to fairly with the diaspora bonds and one that received marginal results. The reasons for the selection of these four countries can be expressed well in the unique experiences that these countries have had with their respective diaspora population and the diaspora bonds themselves. Putting these experiences under the microscope:

Israel experience:

May 1951 Mr David Ben- Gurion, the then Israel Prime Minister kicked off the Israeli diaspora bond, the first-ever of such bonds to be issued. The sales were driven on the United States with a rally in New York and then undertook a coast to coast tour to

construct a support base. The Jewish diaspora in the United States of America has supported the development of the Israeli bond. These bonds are issued by the Development Corporation for Israel (DCI). This organisation was established as far back in time as 1951, it has the express idea of raising of foreign exchange for the Israeli state from the Jewish diaspora around the globe, this was done through the issue of a non-negotiable bond. Israel takes such a financial vehicle as a stable source of overseas borrowing; it is a considerably fundamental mechanism for maintaining ties with the diaspora Jewry. The nurturing of such ties is very crucial for Israel, this is mirrored by the fact that DCI offers the diaspora bonds in multiple maturities and minimum subscription amounts that range from $100 to the usual highs of $100 000. This is to accommodate all social levels of the Jewish diaspora. This again makes the diaspora also a valued and well-diversified borrowing source particularly during periods when the Israeli government has difficulty in borrowing from outside sources. Opportunity for the redemption of these bonds has been limited and the past has indicated that close to all the DCI bonds are redeemed only at maturity. There are also close to $200 million of bonds that have never been claimed, such sense of patriotism is very characteristic of the Jewish diaspora. DCI bonds constitute about 32 percent of the government outstanding external debt (Ketlar & Ratha, 2007) .

Indian experience:

Looking at the government of India which is tapping into its diaspora base of Non-resident Indians as a source of finance on three separate occasions (the India Development Bonds (IDBs) which was in response to a balance of payment crisis in the early 1990s, this was followed by the Resurgent India Bonds (RIBS) which was a result of sanctions that had been imposed towards the end of 1990s this was in the wake of the nuclear explosions and finally the India Millennium Deposits (IMD's) in the year 2000). The State Bank of India (SBI) was the conduit for these transactions for the government of India. The IDBs was the vehicle to NRIs to get back funds that were withdrawn earlier that year as India experienced a balance of payment crisis. The IDBs, the RIBs and the IMDs paid retail investors a higher return than should have been

received from similar instruments in theory country of residence. India has experienced significant benefits accruing to them as a result of the diaspora investors who do not seek as high a country risk premium as markets would have demanded. This reflects the different assessments of default probabilities; a much plausible explanation could be that investors of Indian origin viewing the risk of default with a considerably low trepidation. Different from the Jewish diaspora, the Indian diaspora does not provide a patriotic discount on their bonds (Ketlar & Ratha, 2007).

A key element of interest of the Indian diaspora bond is the SBI's decision to restrict access to RBs ad IMDs to investors of Indian origin, this appears a bit strange, as this limits the potential market size. It could be said that restricting the diaspora bond to people of India origin could be a marketing strategy introduced in the belief that such investors would be more willing to in instruments that are directed exclusively to them (Ketlar & Ratha, 2007).

Nigerian Experience:

The Nigerian diaspora sent home $96 billion in remittance in 6 years from 2013 -2018, (Adesoji B. S., 2019), in 2019 Nigeria received $17,5 billion in diaspora remittance. (Adesoji B. S., 2020). Such staggering amounts make Nigeria a leading proponent in the drive for an African diaspora bond.

From Nigeria's first-ever diaspora bond the Nigerian government has looked to get its citizens abroad to contribute towards funding part of its record budgetary deficit. The bonds are pitched to the Nigerian diaspora as an opportunity for them to contribute to the country's development as the country looks to fund significant capital projects. The retail investment opportunity is only available to private banks and wealth managers who are largely used by high net worth individuals and again the investors might not be necessary of Nigerian origin. Against the backdrop of falling oil prices, a dipped output production as a result of militancy in the oil-rich Niger Delta and the loss of value of the Naira, the diaspora is a good alternative for Nigeria to raise much-needed fund to finance the huge infrastructure deficit. Investors of foreign origins exited the Nigerian

market in 2015 as a result of unclear economic policies and lack of trust in government financial management. With the has ambitions to spend heavily on capital projects in efforts to stimulate the growth of the economy. The Nigerian government has looked for various avenues to plug holes in its record deficit budget. The Nigerian diaspora in particular in the United States of America has the potential to present the government with an avenue to raise some of that capital (Kazeem, 2017) .

Ethiopian Experience:

In Africa, only six countries have so far issued the diaspora bond, with most significantly disappointing results. Ethiopia was one of the leading pioneers in the issue of diaspora bonds in Africa, it's government first issued diaspora bond in 2008. The funds were intended to help finance the energy company Ethiopia Electric Power. The bond was not well received by investors as they perceived the risks to be too high. The Ethiopian government then decided to make another attempt in 2011, the object was to issue diaspora bond that would fund the construction of a dam on the Blue Nile it also failed as a result of expatriate's lack of trust in the government. The central bank, the National Bank of Ethiopia (NBE) underwrote Ethiopia's first Diaspora bond, the bond was issued by Ethiopia's state-owned power utility company. In practical institutional terms, the borrower was the Ethiopian Government. The investors that it targeted were Ethiopian passport holders who were residents outside of Ethiopia as well as citizens of foreign countries who could trace their origins back to Ethiopia. The diaspora bond had softener to it which included, the ability to use the investment as a deposit for borrowing from Ethiopian local banks in the local currency and tax exemption on the interest from the source. (Negash, 2009)

The Ethiopian Diaspora which is an estimated 2 million if united can assist in addressing what economists have called the Lucas paradox, this is a phenomenon associated with non-migration of capital to developing nations despite the high return opportunities, but also mitigate risk and influence home country policy. (Negash, 2009)

In addition to their unique experiences with the diaspora bond, the inclusion of Ethiopia and Nigeria was also in the spirit of adding an Afro perspective in the study

2.4.2 Alternative sources of finance models, implications and benefits

Alternative sources of finance take the form of a vast array of models, which are listed and discussed below.

Diaspora bonds- a diaspora bond is a government debt that is targeted but not limited to the nationals of the country living abroad (Nairametrics, 2019). The subjective presumption behind the use, applicability and popularity of diaspora bonds as an alternative source of finance is probably the emotional ties of expatriates to the mother country thus investing in it, mainly if the bond is meant to finance infrastructure in the mother country (Nairametrics, 2019). Diaspora bonds, therefore, provide the government with an opportunity to make use of the diaspora community in a bid to generate funds for national development. Most countries use diaspora bonds in a bid to correct balance of payments deficit, in periods of economic downturns or recessions. As such, due to the use of diaspora bonds a nation can tap into capital markets over and above foreign direct investment (FDI), conventional loans and foreign investors to fund its national development. Diaspora bonds are also beneficial to the investor, this is so since they are tax-exempt, do not carry default risk and normally attract an interest rate which is higher than that given by bank deposits (Nairametrics, 2019). Diaspora bonds have been used by both emerging and advanced economies yielding varying levels of success, cases below validate the statement. It should be noted that Israel and India have recorded the highest levels of success generating funds through diaspora bonds.

The case of Israel

Israel has been issuing diaspora bonds through the Development Corporation of Israel (DCI) since 1951 which saw them raising a vast $32.4 billion as of 2015 (Nairametrics, 2019). The diaspora bond was meant to generate enough funds to finance development projects in various industries not limited to energy and transport (Nairametrics, 2019). Diaspora bond issued by DCI was listed on the Securities and Exchange Commission

(SEC) thus it was open to foreign nationals as well as Israel nationals (Nairametrics, 2019).

The case of India

As the above case was not enough to prove the success of diaspora bonds, India, launched three diaspora bonds in a bid to curb their unfavourable balance of payments, the bonds were issued three times, through Indian Development Bonds (IDB) in 1991 and raised $1.6 billion, Resurgent Indian Bonds (RIB) in 1998 raising $4.2 billion and lastly, the Indian Millennium Deposits (IMD) in 2000 raising $5.5 billion, in total India raised $11.3 billion in the period stretching from 1991 to 2000 (Nairametrics, 2019). Diaspora bonds issued by India were strictly meant for the participation of Indian nationals and were therefore not listed on the Securities and Exchange Commission (SEC) (Nairametrics, 2019).

The case of Nigeria

Following a nose-diving economic trail, evident through falling oil prices, depreciation of the Naira and tremendous infrastructure deficit, bidding through a diaspora bond seemed the only vacant and feasible option to raise much-needed funds (Nairametrics, 2019). However, it has been reported that foreign investors exited the Nigerian market in 2015 due to obscure economic policies and ever-dwindling trust in the Nigerian government.

The case of Ethiopia

Ethiopia is one of the African countries that tried out raising funds through diaspora bonds, however, little to no success was recorded. The first bid in 2008, the Millennium Corporate, meant to finance hydro-electric dam failed dismally since acceptance was extremely low (Nairametrics, 2019). Some experts believed envisaged default risk dissuaded potential investors.

Financial Technology (FinTech) - refers to innovative financial services or products delivered via new technology (Chuen & Teo, 2015). This model of alternative sources of finance is engineered by the smooth sailing and heightening of technology, not limited to the use of mobile phones and the internet. Due to lower transactional costs and cheap international transfers (Chuen & Teo, 2015), FinTech is at its peak sweeping up the globe with services such as Bitcoin, crowdfunding, peer-to-peer (P2P) lending to name just a few (Chuen & Teo, 2015). Industry giants from all over the globe are subscribing to the move towards FinTech, for example, Apple and Google are also tapping into the mobile payment market through the introduction of Apple and Google Pay (Chuen & Teo, 2015). As if this is not enough to convince, in the East, big role players in the internet industry, Alibaba and Tencent are growing in providing banking services with through branchless banks such as Ant Financial and WeBank (Chuen & Teo, 2015).

Moreover, FinTech services are flourishing in China through P2P lending providers (Chuen & Teo, 2015). During the first half of 2015, 2028 P2P platforms were active in China, which raised RMB683.5 billion in loans (Chuen & Teo, 2015). It is however of utmost importance to note that the two most successful FinTech firms are Alibaba and M-PESA. Besides its vast success in most parts of the globe, M-PESA failed in South Africa, according to Fin24 the failure was attributed to lack of demand due to a well-established product differentiation by the mainstream financial services provider.

The level of success enjoyed by FinTech is a pure function of the LASIC principle which describes five major attributes of business models that can successfully hitch or direct technological improvement in the financial sector in a bid to create and maintain a sufficing and sustainable lending outlook (Chuen & Teo, 2015). The LASIC principle has five attributes, these are:

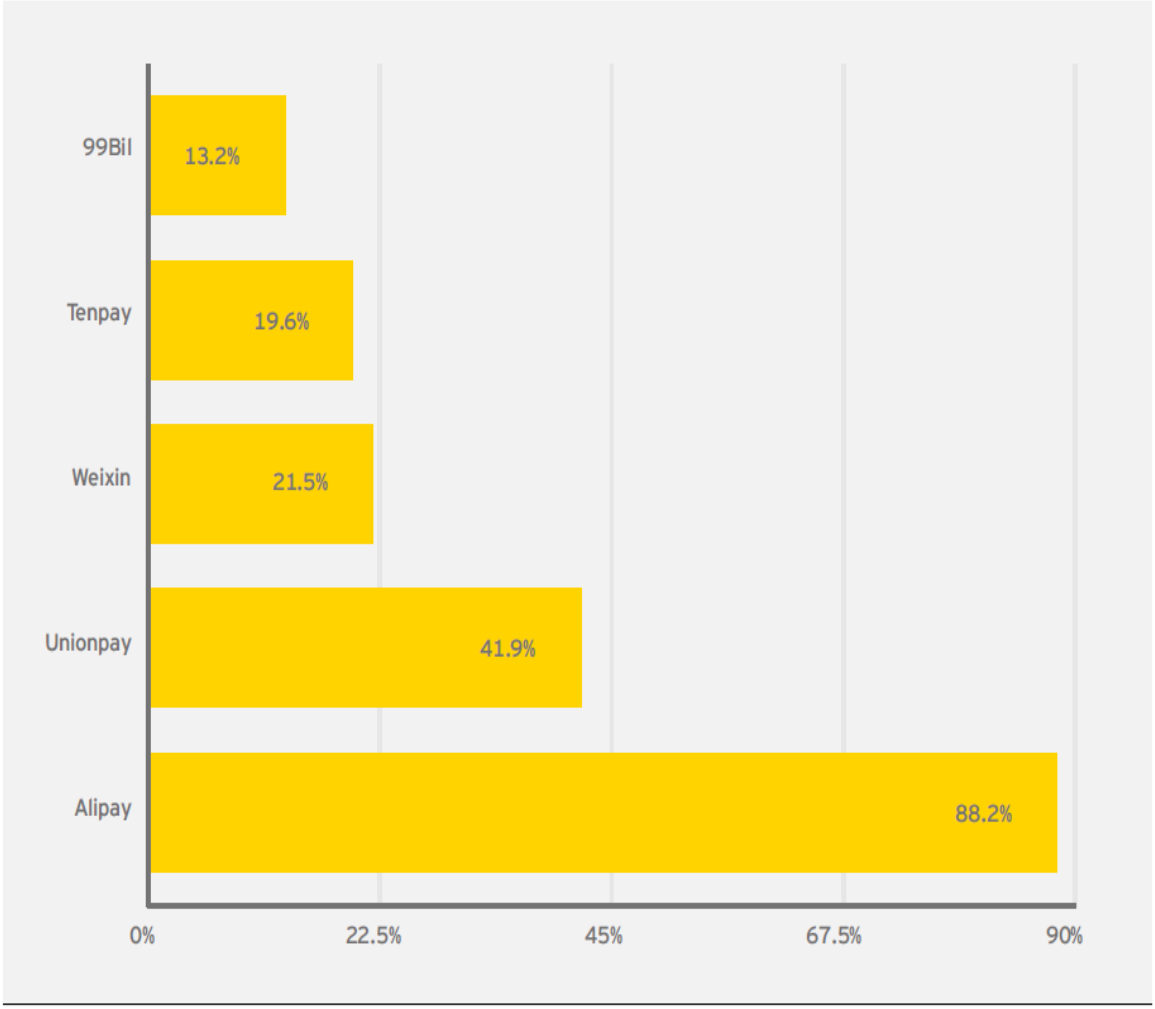
- Low margin- FinTech services aim at yielding the lowest cost possible thereby attaining high profitability through high volumes (Chuen & Teo, 2015).
- Asset light- this speaks to the ability to innovate, take advantage of already incurred fixed costs, thus reducing marginal costs of production landing on the principle of low margin (Chuen & Teo, 2015).

- Scalability- technology is easily scalable with minimum marginal costs but maintaining the level of efficiency (Chuen & Teo, 2015).
- Innovative- innovation is compatible due to the use of gadgets such as phones and online platforms, internet (Chuen & Teo, 2015).
- Compliance- the level of compliance costs are minimal that's freeing capital that can be used to innovate and increase levels of effectiveness as well as efficiency (Chuen & Teo, 2015).

Success spotlights: Alibaba and Alipay

Alibaba incepted Alibaba.com in 1999, which is a business to business portal, supported by the growth in Chinese exports which are a function of the devalued Yen, on 19 September 2014, Alibaba's initial public offering raised a roaring US$25 billion, two months later it raised an extra US8 billion (Chuen & Teo, 2015). Seeing the success in market penetration, in 2013 Alibaba tapped into internet finance, giving birth to their payment platform, Alipay. This was meant to address the prevalence of cynicism between buyers and sellers (Chuen & Teo, 2015). The argument above can be substantiated by the figure below which shows China's internet payment penetration rates.

Figure 1: China's internet payment penetration rates



Source: China Internet Network Information Center

Infrastructure Bonds- these are bonds issued by the private sector with the purpose of financing infrastructure projects of public interest (Rudolph, 2019). As this is not enough, (Ehlers, Packer, & Remolona, 2014) defined Infrastructure Bonds as funds that are used to finance infrastructure projects funded by the government, which are meant to produce public goods. Since infrastructure bonds are used to finance the projects in the production of public goods, they have gained a lot of attention and appreciation in the emerging market economies more than advanced market economies, this is true since there is an ominous need to construct as well as improve infrastructure in the emerging market economies. Basing on the above-stated notion, emerging market

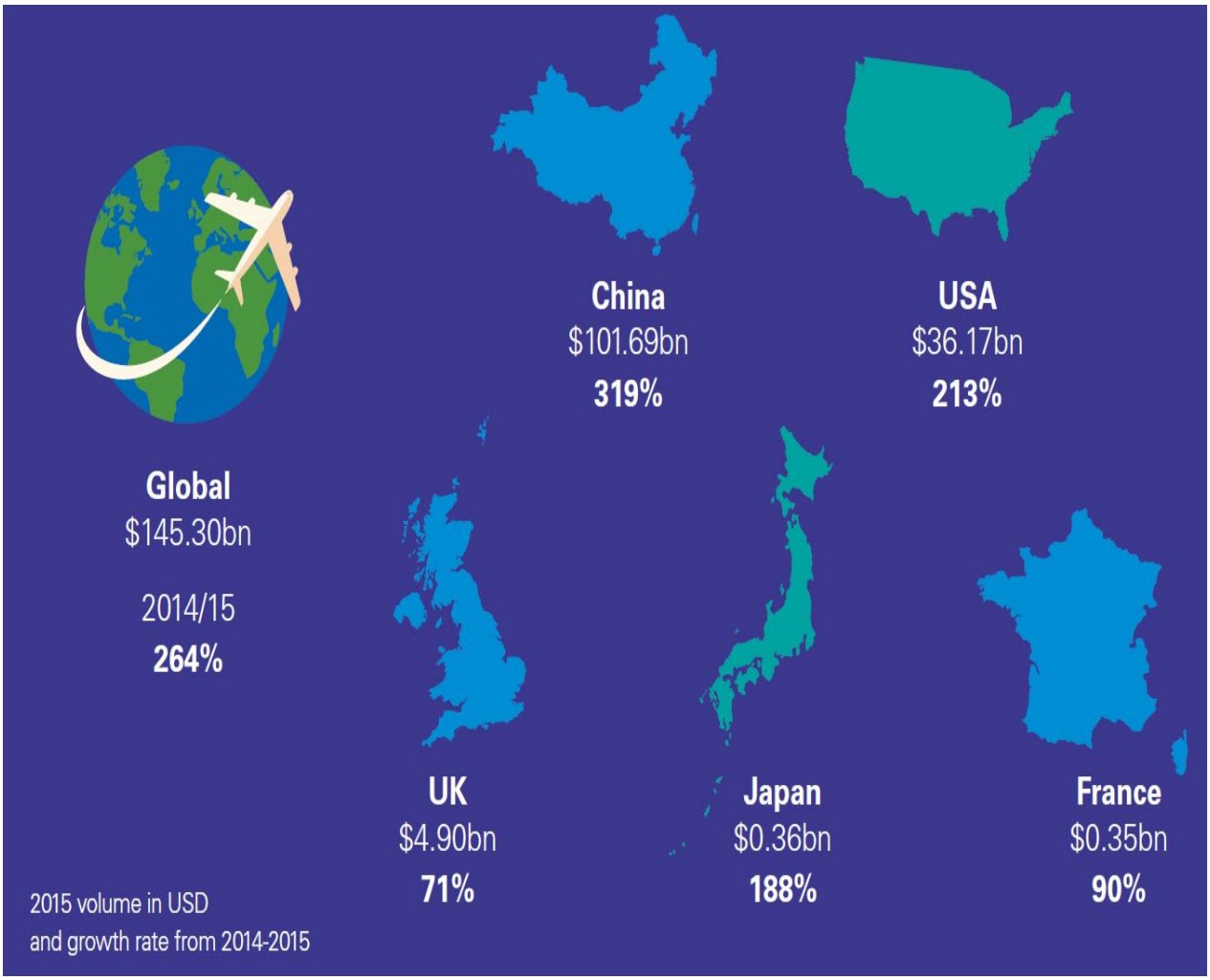
economies in Asia, have ever since relied on bank loans to build projects, which proved inefficient despite huge sums of savings (Ehlers, Packer, & Remolona, 2014). This is true since infrastructure projects usually require vast amounts of finance that have longer maturities and bank loans do not seem to fit in.

According to (Rudolph, 2019), infrastructure bonds are vividly scarce, this is telling since the success of using infrastructure bonds is a function of well-designed concession contracts, thus concession contracts should allow risk to be allocated to the party that can manage it better. Concession contracts are usually prone to risks not limited to, construction cost risk, demand risk, inflation risk, exchange rate risk, policy risk and contract viability risk (Rudolph, 2019). Basing on the above-reiterated notion, success cases in terms of designing concession contracts and ultimately the ability to raise finance through infrastructure bonds have been recorded in the UK, Ireland, Chile and South Africa. According to (Rudolph, 2019), top five mistakes caused a dismal failure in the use of infrastructure bonds in other countries, these are, state guarantees, transparency, incomplete contracts and incentives for renegotiation, Rome was not built in one week and weak legal framework.

2.5 Global insights into the development of Alternative Sources of Finance

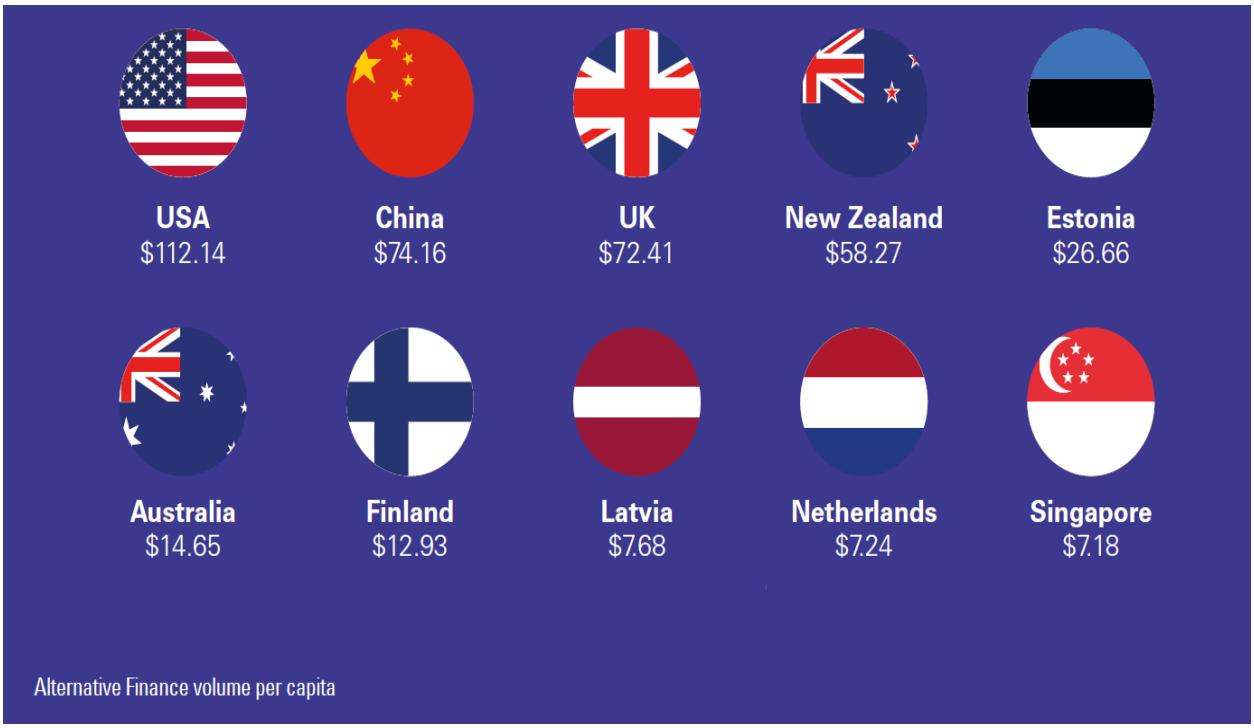
Scholars from different walks of life recently developed an interest in writing about alternative sources of finance, this is telling since alternative sources of finance became so popular in generating much-needed funds to enhance economic-financial sanity. In 2015, alternative finance came to life, this was as a result of dictating pressure from the economic growth in China accounting 70% of global volume, closely followed by the USA (Wardrop & Mead, 2016). The above statistics substantiate the sentiments presented by (Wardrop & Mead, 2016), that alternative sources of finance have inexorably provided the undisputable opportunity to source finance for businesses, projects and philanthropic causes.

The figure below shows global industry growth rates as a function of the dominance of alternative sources of finance.



Growth in industry is accelerating and China still dominates, (Wardrop & Mead, 2016)

It is imperative to note that the adoption of alternative finance varies significantly by country, which is heavily a function of the volume per capita, basing on the above-stated notion, the figure below shows the relative maturity of alternative finance industry adjusted for volume per capita (Wardrop & Mead, 2016).



According to the figure above, adapted from (Wardrop & Mead, 2016), reflecting statistics in the year 2015, the USA recorded the highest volume per capita, followed by China and the UK. Alternative finance was adopted in different industries, differently due to the needs of the nation in question, that is different alternative finance was adopted in different countries. According to (Wardrop & Mead, 2016), in 2015, manufacturing and engineering topped the range through online alternative finance, followed by business and professional services, real estate and housing, technology and lastly construction/ agriculture. Statistics above, therefore, vow positive results from alternative finance, especially online alternative finance.

2.6. Summary table of key Literature review

The below table summaries the key literature and conclusions reached by the authors:

Authors	conclusion
(Mishkin, 2019)	The financial sector is one of the heavily regulated sectors in both emerging and advanced economies.

Baeck, Collins, & Zhang, 2014	Change in the flow of funds from the traditional model to a vast array of alternative sources of finance and connection between fundraisers and funders
Nairametrics, 2019	Immigration as a model of alternative sources of Finance.
Chuen & Teo, 2015	Financial technology as a model of alternative sources of Finance.
Fundingoptions, 2020	Alternative source of finance is any form of finance that does not emanate from a mainstream financial services provider, such as commercial banks
Mishkin, 2019	Alternative sources of finance exclude the traditional intermediary, (registered financial services providers), such that alternative sources of finance are sometimes referred to as direct sources of finance
Baeck, Collins, & Zhang, 2014	It has been objectively evident that the flow of funds has changed from the traditional model to a vast array of alternative sources of finance, which resemble a big deal of disintermediation, that is an inevitably, traceable direct connection between fundraisers and funders often through online platforms or websites
Chuen & Teo, 2015	Technological improvement - financial innovation- the birth of online transactions facilitated the growth and applicability of alternative sources of finance such as FinTech,
Wardrop, Baldwin, Zhang, & Grey, 2015	Financial crisis aftermath- following the global financial crises, alternative sources of finance emerged in the US, UK and the European continent.
Wardrop, Baldwin, Zhang, & Grey, 2015	Since the traditional financial system lost the trust of investors, the introduction of alternative sources of finance received the best of welcome
Nairametrics, 2019	a diaspora bond is a government debt that is targeted but not limited to the nationals of the country living abroad
Nairametrics, 2019	The subjective presumption behind the use, applicability and popularity of diaspora bonds as an alternative source of finance is probably the emotional ties of expatriates to the mother country thus investing in it, mainly if the bond is meant to finance infrastructure in the mother country
(Nairametrics, 2019).	Diaspora bonds issued by India were strictly meant for the

	participation of Indian nationals and were therefore not listed on the Securities and Exchange Commission (SEC)
Chuen & Teo, 2015	Financial Technology (FinTech) - refers to innovative financial services or products delivered via new technology
Chuen & Teo, 2015	Alternative sources of finance are engineered by the smooth sailing and heightening of technology, not limited to the use of mobile phones and the internet. Due to lower transactional costs and cheap international transfers
Chuen & Teo, 2015	The level of success enjoyed by FinTech is a pure function of the LASIC principle which describes five major attributes of business models that can successfully hitch or direct technological improvement in the financial sector in a bid to create and maintain a sufficing and sustainable lending outlook. The LASIC principle has five attributes, these are low margin, Asset light, Scalability, innovative-innovation and Compliance
Rudolph, 2019	Infrastructure Bonds- these are bonds issued by the private sector with the purpose of financing infrastructure projects of public interest.
Ehlers, Packer, & Remolona, 2014	Infrastructure Bonds are funds that are used to finance infrastructure projects funded by the government, which are meant to produce public goods.
Ehlers, Packer, & Remolona, 2014	Emerging market economies in Asia, have ever since relied on bank loans to build projects, which proved inefficient despite huge sums of savings.
Rudolph, 2019	infrastructure bonds are vividly scarce, this is telling since the success of using infrastructure bonds is a function of well-designed concession contracts, thus concession

	contracts should allow risk to be allocated to the party that can manage it better.
Wardrop & Mead, 2016	In 2015, alternative finance came to life, this was a result of dictating pressure from the economic growth in China accounting for 70% of global volume, closely followed by the USA
Wardrop & Mead, 2016	The adoption of alternative finance varies significantly by country, which is heavily a function of the volume per capita, basing on the above-stated notion, the figure below shows the relative maturity of alternative finance industry adjusted for volume per capita
Giaglis, Klein, & O'Keefe, 1999	Disintermediation has been presented to describe the alleged move towards shorter value chains, that is bypassing intermediaries
Giaglis, Klein, & O'Keefe, 1999	The process of disintermediation results in the loss of value-added that is performed by intermediaries, such as price discovery, searching, settlement, to name just a few
Weeks, 2015	Reintermediation relates to a scenario where intermediaries are not forced out of the market but rather forced to differentiate and re-emerge in the electronic market place, that is the direct relationship between end borrower and investor vanishes, debt is then accessed through a specialist vehicle rather than directly, such as P2P platforms
Wardrop & Mead, 2016	Substantially, it has been argued that 2015 declared the much vivid existence of alternative sources of finance
Andresen, 2017	There has been unarguable hiking, rapid growth in the

	popularity and use of alternative finance (heavily evident in Fin-Tech); such alarming financing takeover has caught the attention of regulators and policymakers.
World Bank & CCAF, 2019	The growth in popularity of alternative finance, however, notwithstanding the benefits that come with alternative finance, reduction of the cost of finance being on top of the list, positive impact on competition in the financial market, also negatively hampering investor confidence and introducing risk, thus regulation can never be underestimated
Alois, 2019	despite a boom in alternative finance regulation since 2015, the relevant activities are still not formally regulated in most jurisdictions
Baeck, Collins, & Zhang, 2014	There is a growing movement afoot to revolutionize banking, investing and giving by using technology to simplify the links between those who want to invest money and those who need it
Baeck, Collins, & Zhang, 2014	It was realized that fundraisers that have used the platform of alternative sources of finance have prevailed over and above fundraisers using or tried to use the traditional way of raising funds in this era

2.6 CHAPTER SUMMARY

Substantially, it has been argued that 2015 declared the much vivid existence of alternative sources of finance (Wardrop & Mead, 2016), building on the above-stated notion, this chapter defined alternative sources of finance, analyzed the drivers behind the popularity and applicability of alternative sources. Also, the chapter synthesized different views of different authors pertaining to the alternative of sources, different

sources of finance, implications and benefits. Moreover, the chapter also views the global development of alternative finance.

CHAPTER 3

3.0 RECOMMENDATION

3.1 CHAPTER INTRODUCTION

The preceding chapter defined alternative sources of finance, discussed drivers behind alternative sources of finance, and explained different sources of finance, implications and benefits thereof. The current chapter will provide recommendations on the appropriate model in line with the objective weighing of benefits and implications of the model.

3.2 Recommendation on the appropriate model

(Wardrop & Mead, 2016) Reiterated the fact that there has been a realized hike in the use and volume of alternative sources of finance, which came vividly in the year 2015, differing in models and drivers due to the respective needs of the economies. It has been universally agreed that online channels of finance have become one of the fastest emerging financial market segment of the previous, the current and most likely the decade to come (Wardrop & Mead, 2016), this is talking since the impact of the growing use of online channels of finance have felt not only in a single segment of the world but however online channels of finance has evolved to become a global phenomenon, that is stretching its effects through both emerging and advanced market economies (Wardrop & Mead, 2016).

It is against the above-stated sentiment pertaining to the growth and commanding effects of online channels of finance that the recommended model in this research is Fin-Tech. This is objective since we are living in an era of ever-changing technology. Hiking technological innovations favour the use, appropriateness, applicability of Fin-Tech as an appropriate model of alternative source of finance, thus many believe that Fin-Tech will be able to define and shape the future of the financial services industry (Chuen & Teo, 2015). This is highly possible since Fin-Tech is a function of technology

or innovations thereof, the change or improvement in technology will heighten the growth in the applicability and popularity of Fin-Tech.

There are a lot of enablers and or variables favouring Fin-Tech besides technology. One that needs attention is the underlying LASIC principle in Fin-Tech. The five attributes are low margin, asset-light, scalable, innovative and compliance easy (Chuen & Teo, 2015). These are explained below:

- Low margin- this is a key artefact that defines the success of Fin-Tech business, this is true since the use of Fin-Tech services reduces transactional costs, and yet information is readily available (Chuen & Teo, 2015). The issue of low transactional costs, therefore, creates and maintains a competitive advantage and thus an objective guarantee of the survival of Fin-Tech in the future. In a way, low-profit margins are rather figuratively, this is talking since low transactional costs accumulate to high volumes which ultimately increases the profit margin.
- Asset light- this relates to the ability to innovate without incurring incremental fixed, start-up costs (Chuen & Teo, 2015). This is highly applicable to Fin-Tech since the improvement in gadgets that are used in transactions support and increase the compatibility of Fin-Tech, such that the magnitude of the marginal costs is kept minimal and this attribute tends to concretize the one above (Chuen & Teo, 2015).
- Scalable- this relates to the issue that every Fin-Tech business has to be scalable, that is the ability to increase in scale without an increase in costs or compromising the level of efficiency and effectiveness of technology (Chuen & Teo, 2015). In this regard, developers have to make sure that the technology implemented is highly scalable, such that there will be minimal marginal costs in case a need to increase the scale arises in the future (Chuen & Teo, 2015). The building or development of Fin-Tech technologies in line with this principle helps reduce incremental costs, increases chances of profit maximization as well as the creation and maintenance of a competitive advantage that will assure the survival and the popularity of Fin-Tech in the future.

- Innovative- innovation serves as the backbone of every Fin-Tech businesses, such that there is a dire need for an increasing need for innovation in products as well as operations in a bit to substantiate the whole process (Chuen & Teo, 2015).
- Ease of compliance- since online businesses face the least compliance regimes, it implies that the businesses are then able to innovate since they have lower capital requirements as well as less capital used in compliance efforts (Chuen & Teo, 2015). The above-reiterated notion helps to tie the preceding attributes, all adding together to the viability of Fin-Tech in the future, thus amounting to the judgement presented by many that Fin-Tech has the capacity to redefine and shape the outlook of the financial services industry in the future.

Over and above the enablers provided above, it is imperative to note that another key success factor for Fin-Tech now and in the future relates to the wider adoption of Fin-Tech by industry giants, pulling all their contacts along, this is true since (Chuen & Teo, 2015) preached that Industry giants from all over the globe are subscribing to the move towards FinTech, for example, Apple and Google are also tapping into the mobile payment market through the introduction of Apple and Google Play.

Substantially, basing on the above-given justifications, this research strongly recommends Fin-Tech as the appropriate model in alternative finance, being compatible, currently and in the future, this is true since the model is backed up by technology, which in this case is forever improving.

However, since according to (Mishkin, 2019), the financial sector is one of the most regulated sectors, the need to look at the effects of regulations of Fin-Tech can never be underestimated. This is true since Fin-Tech sets to wipe off the financial industry in the future, its popularity might attract a whole lot of regulations in a bid to try and curb financial crisis that might result from the mismanagement of financial innovation/liberalization (Mishkin, 2019). Furthermore, there is a need to put in place modalities pertaining to the assurance and fostering of trust in Fin-Tech since business take place without physical touch (Chuen & Teo, 2015).

Above and beyond the issue of regulations, Fin-Tech has marked a whole lot of success so far, for example, Alibaba and Alipay in China (Chuen & Teo, 2015). Its success, as expounded before is well-rooted in the compatibility in the era of technological innovations, which has proven to be cultivating every day thus posing, creating and maintaining a competitive advantage for Fin-Tech over and above its rivalry alternative sources of finance.

3.3 CHAPTER SUMMARY

This chapter provided the recommended, appropriate alternative source of finance (found to be Fin-Tech), and went on to analyse the benefits, applicability, compatibility, sustainability, benefits and implications of the model. Also, the chapter went on to analyse the forecast need for remedies to give alignment to regulations since this alternative source of finance still falls under the financial sector, which according to (Mishkin, 2019) is the most regulated sector in both emerging and advanced economies as precautions to try and curb financial crisis and present the financial soundness of economies.

CHAPTER 4

4.0 CONCLUSIONS

It has been universally agreed that online channels of finance have become one of the fastest emerging financial market segment of the previous, the current and most likely the decade to come (Wardrop & Mead, 2016).

> *"There is a growing movement afoot to revolutionize banking, investing and giving by using technology to simplify the links between those who want to invest money and those who need it"* (Baeck, Collins, & Zhang, 2014).

Strongly supporting the above-stated notions, practically and objectively evident, there has been an increase in the use and volume of alternative sources of finance mostly coming to life in 2015 (Wardrop & Mead, 2016), in form of different models and drivers due to the respective needs of different economies (Wardrop & Mead, 2016). Also, it has been realized that fundraisers that have used the platform of alternative sources of finance have prevailed over and above fundraisers using or tried to use the traditional way of raising funds in this era (Baeck, Collins, & Zhang, 2014). This is true since the figures provided by different authors sort to favour alternative sources of finance fetching more funds than the traditional channel.

Vitally, it is of utmost importance to reiterate on the valuable sentiment by (Mishkin, 2019), relating to the fact that the financial sector is one of the most regulated sectors in every economy, such that there is a need to still check the prevalence and sustainability of the different models of alternative sources of finance given the fact that there will be strict and or stiffer regulations imposed in the near future due to their popularity and the possibility of overturning the traditional channels of raising finance.

However, besides the regulation blow, alternative sources of finance has shown tremendous progress in bridging the gap between the surplus units and deficit units (Baeck, Collins, & Zhang, 2014). Since most, if not all the models of alternative financing are a function of technology and given the everyday improvement in technology, one would objectively project an increase in the use and popularity of alternative sources of finance. This is talking since a whole lot of economies have revamped their operations through raising finances through alternative sources of finance (Wardrop & Mead, 2016), global leading economies such as China and the US.

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