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THE IMPACT OF DIGITAL PLATFORMS AND FINTECH INNOVATIONS ON MERCHANT BANKING SERVICES

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ABSTRACT

A country's economic progress is largely dependent on its financial institutions, and their proper operation propels the economy forward. The primary financial institutions in every nation are banks, which guarantee financial stability by offering their clients prompt financial services. Merchant banking has mostly served medium and large sized corporations with an emphasis on corporate financial advising, underwriting and other financial solutions. This research paper explores the evolution of merchant banking services, the role of technology in reshaping these services, their evolution from traditional to modern practices. The study shed light on the challenges, opportunities, and future outlook of digital platforms and fintech innovation in merchant banking.

Keywords: Digital platforms, Finance, Merchant banking services, Technology

1.0 INTRODUCTION

The term "merchant banking services" describes a variety of financial services offered by banks or specialized financial organizations that mostly serve high-net-worth individuals, corporate clients, and entrepreneurs. Instead of standard banking operations like retail deposits or loans, these services concentrate on finance and consulting solutions. Merchant Banks Offer Corporate Financing includes support for capital raising via debt, equity, or hybrid instruments & Underwriting which Ensuring that securities will be subscribed for during private or public issues as well as Advisory Services for Providing advice on corporate appraisals, mergers, acquisitions, and restructurings.

Merchant banking in India can be traced back to the late 1960 and earlier 1970s, economy began to industrialization and there was need of growing financial services to provide support for the businesses as well as providing strategic guidelines to enable mergers and raising capital. The continued growth and evolution of merchant banking services have played a crucial role in reshaping India’s corporate and financial landscape. Merchant banking services firstly commenced by the British bank, Grindlays bank. A dedicated Merchant banking divisions were set up to provide services such as managing public issues corporate advisory and facilitating foreign collaboration. This marked as a professional financial service in India. Recognizing the potential of merchant banking, State Bank of India (SBI) established its merchant banking division in 1972.This was followed by other Indian banks such as ICICI Bank, IDBI, and Bank of Baroda, which played a significant role in expanding merchant banking services to domestic corporations. Development of financial institutions (DFIs) like the Industrial Finance Corporation of India (IFCI) and Industrial Development Bank of India (IDBI) started providing advisory services for project financing and industrial development, contributing to the evolution of merchant banking

The 1970s and 1980s saw a boom in Initial Public Offerings (IPOs) and capital raising activities, driven by economic reforms and industrial expansion. Merchant banks became instrumental in managing public issues and underwriting securities, providing crucial support to companies looking to raise funds from the capital market. In the early 1990s, with the liberalization of the Indian economy, there was rapid growth in merchant banking activities. The Securities and Exchange Board of India (SEBI) introduced the Merchant Bankers Regulations, 1992, to regulate and standardize merchant banking activities. These regulations required merchant bankers to register with SEBI and meet specific net worth and operational criteria, ensuring professionalism and transparency. Post-1991 economic reforms opened up the Indian economy to foreign investment, leading to the entry of global investment banks and merchant banks. This further enhanced the scope and sophistication of merchant banking services in India, with firms like Goldman Sachs, Morgan Stanley, and others offering services alongside Indian players like SBI Capital Markets and ICICI Securities.

2.0 LITERATURE REVIEW

(Shreyas, 2014) Research paper titled **Merchant Banking Past and Present:** Indian Scenario the International Journal of Business & Management Vol 2 Issue 10 October, 2014 in their work investigate that Merchant banking in India doing very well despite the challenges faced, they have room for growth in domestic as well as international business. There is good environment to sustain their business and become the prime organization under primary market to serve financial advice. The demand over the years explores the area in order to establish merchant banking into stronger brands which was earlier started, thus merchant banking has a promising future in India ahead.

(Barot, 2018) Research paper titled **Merchant banking A New Era of Banking** Journal of Social Science and Management vol 2 issue 1 2011 pp17-22, studied that Merchant banking role is different from commercial banks as it also participates in economic growth of a country and regulated by SEBI. It catered the needs of trade and industry through delivering their skills and experience with their clients.

(Limbore & Pawar, 2019) Research paper titled **A LITERATURE REVIEW OF MERCHANT BANKING IN INDIA** journal of emerging technologies and innovative research April 2006 vol 6 issue 4 explored that Public utilize their excess money wisely into various financial instruments which are newly introduced, this is giving merchant banker ever greater opportunities. Simply they support intermediaries with a range of problems, making sure they are abiding by laws and regulations also.

(Sethi & Assistant, 2019) Research paper titled Merchant banking and its function: **A Review THINK INDIA** (Quarterly Journal) Vol-22-Issue-4-October-December-2019 discussed that merchant banks play their significant role through providing services to privately held clients who are too small to consider IPO and unable to manage time, energy and fund necessary to raising the required capital at their end. However, on the other hand investment banks work with large clients who have sufficient capital to initiate the IPO process and it supports business in merger acquisitions as well.

(Dhandayuthapan, 2019) Research paper titled **PERFORMANCE EVALUATION OF MERCHANT BANKING IN TRICHY REGION IJRAR** March 2019, Volume 6, Issue 1 2349-5138) He studied that Indian government open the door for investment especially in the area of banking and insurance which led to competitive environment in financial service. Globalization integrates world economy, merchant banking one of the innovative steps undertaken by the commercial banks in India.

(Jain & Sharma, 2021) Research paper titled Study on Recent Developments In Merchant Banking In India - Elementary Education Online, 2021; Vol 20 (Issue 3): pp. 3555-3564 discussed in his paper that Merchant banking is a vital part of Indian financial system as this resulted into enhanced environment for the investment as well as broaden the scope of the capital market which was the ultimate goal of any financial system to accelerate the pace of growth of an economy.

(Tyagi, 2021) Research paper titled Merchant Banking in India discussed the journey of Merchant Banking Industry in India started with large foreign banks and firms with the challenges faced over the years. Advent of New Economic Policy provide RBI. Consumer trends now a days changing continuously and now it is up to the government to bring in reforms which protect the interest of the consumer as well as provide a platform for these banking service to prosper.

(Rachana, 2021) Research paper titled Merchant Banking - A Comparative Analysis of Private and Government Sector International Journal of Scientific Development and Research (IJSDR) April 2021 Volume 6 Issue 4. This paper focus on the functioning of merchant banking by analyzing public sector and private sector companies in India. There should be sound risk management system and discipline cost management. SBI comes out at top as compare to other player in the market place. Merchant banking does not provide service to the public.

(Narayanan, 2022) Research paper titled Financial Performance of Merchant Banking in India– A study on Kotak Mahindra Capital Company Ltd The International journal of analytical and experimental modal analysis Volume XI, Issue IX, September/2019 pp 147-154, in his study found that the range of services are offered by the Merchant banks includes underwriting, portfolio management, loan syndication consulting etc. it is based on system of intermediation between the organization in which one lend money to other. Financial advisory services are provided with a fee.

(Choudhary, 2022) Research paper titled A Study of Merchant Banking development in India journal of management & entrepreneurship Vol. 16, No.2 (IX), April - June 2022 pp-1-6 finds that Merchant banking services important for national development as large number of domestic as well as international business

Research objectives

To understand merchant banking services and its evaluation.

To compare the traditional merchant banking services and modern merchant banking services.

To study the impact of digital tools and fintech innovation, challenges and future trends.

Research Methodology

There is lot of information available about the merchant banking service in journal, internet and books. In this research paper secondary source of data used for the purpose of gathering information about the traditional merchant banking services and fintech

3.0 RESULT AND DISCUSSION

The Author divided their finding into two sections in order to achieve the goal of the paper. First part discusses the comparison of traditional Merchant banking services vs Modern Merchant Banking services in the light of considering impact of fintech innovations on Merchant banking services and another one discusses about the digital platform's as well as future trends and challenges.

Impact of Fintech innovations on Merchant banking services

Merchant banks have traditionally focused on corporate financing and strategic growth, but with the time financial market shows dynamics behavior and revolves completely and undergone in the complex regulatory environment and competitions also increasing day by day. Thus, it challenges their roles and profitability in the evolving financial market (Shreyas, 2014)

Scope of service: Traditionally merchant banks involved in trade financing which helpful for the business as the credit facilitates the import and export of goods and service. Funds were raised through loans and bond and merchant banks act as intermediary for issuing promissory notes whereas modern merchant banking services includes various services such as corporate advisory, Mergers and acquisitions, private equity placement and portfolio management. Now a days merchant banks also help the companies with initial public offering, underwriting, restructuring and providing strategic advice on risk management and corporate governance

Client Focus: Traditionally merchant banks mainly serve small business owners as well as merchant traders who are engaged in international business and performs small scale transactions. On other hand modern merchant banks targets corporations, high-net-worth individuals (HNWIs), startups, and governments and focus on cross border investment and mergers as well as global transaction.

Role in Financial Markets: Traditionally merchant banks played the role of creating credit instrument whereas modern merchant banks provide advisory services for capital restructuring, fund management, and wealth creation as well as merchant banks utilize advanced financial tools, analytics, and technology to optimize investment strategies.

Technology and Innovation: Traditional merchant banks focus on manual procedures and face to face interaction and limited use of technology in financial operations. Modern merchant banks utilize digital platforms for investment and includes other technology driven solution such as automated risk assessment as well as financial modelling. Now a days merchant banking offers online advisory services, client convenience through transactions management.

Globalization: Traditional Merchant Banking caters only regional market with limited exposure to international market where as other operates in a global economy facilitates cross border transaction and strategic alliance.

Risk management: Earlier risk assessment was based on experience and intuition, focus only minimizing risk in transactions. Modern merchant banking uses the various risk assessment tools and data analytics for decision making, hedging, derivatives and other risk diversification techniques also utilized.

Digital platforms and merchant banking services:

Digital platforms and merchant banking services are increasingly being connected through various modes which results into improving operational efficiency, financial inclusion and client engagement. The evaluation process occurs to meet the complex financial needs of the cooperation especially in the context of globalization and economic reforms. Therefore, key focus will be exploring the adoption of fintech and innovative technologies in merchant banking services by the private as well as public organization and its future implications, opportunities as well as challenges would be valuable to know the transformation from traditional roles to modern banking solutions. Few of them are as follow

Automation and AI

Credit risk analysis: creditworthiness of the borrower checked by using AI algorithms. After analyzing large data sets loan approvals are being sanctioned.

Underwriting: For more faster and accurate investment opportunities, automated underwriting tools are used.

Robo advisors: Provide clients with personalized financial advice and portfolio management using AI- based platforms.

Blockchain Technology

Smart Contracts: Due to technological advancement, intermediaries are eliminated and Automate agreements between parties ensuring transparency.

Tokenization: This system making investments more accessible and enables partial ownership of assets

Digital Lending Platforms

Fintech innovations allow merchant banks to offer:

Peer-to-Peer Lending: Digital platforms create direct lending between investors and borrowers.

SME Financing: Fintech-powered tools simplify access to loans for small and medium enterprises.

Embedded Banking

API Integration: offers specialized financial products including loans, payment gateways, and treasury management by allowing merchant banks to directly integrate their services into their customer's platforms.

Big Data Analytics

Customer Insights: Big data analyze transaction data to understand customer behaviors and provide personal solutions.

Fraud Detection: Use predictive analytics to detect anomalies and reduce fraud risks.

Advantage of Fintech Innovations in Merchant Banking

Cost Efficiency: With the innovative approach now merchant bankers delivers the financial service with optimum operational costs.

Customer Experience: Ensures the best result with customized services and streamlined processes.

Scalability: financial solutions with digital platforms enable banks to scale their offerings to larger level without extra burden on infrastructure developments.

Global Reach: Fintech allows the service offering without any geographical barriers, it drives the worldwide network of the clients.

Challenges and Risks

Cybersecurity: digital platforms also exposures towards the data hacking which is a big issue and needs special attention to ensure risk free service.

Regulatory Compliance: Adhering global regulations remains a challenge for fintech innovations.

Digital Divide: All clients are not aware with these digital tools and comfortable with it.

Future Trends

Central Bank Digital Currencies Could streamline payments and settlements for merchant banks. Decentralized Finance may offer new opportunities for investment and lending outside traditional frameworks. For market forecasting and decision-making AI-Powered Predictive Tools can be used.

4.0 CONCLUSION

Merchant banking services becomes the popular financial service in India and all over the world, its operations facilitate expansion of the business globally. However it undergone into a revolutionary change from being the traditional one to modern era, it transforms completely with the innovations in the financial world and adopting the technological advancement.

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