

Rising Fintech Ecosystem in Indian Financial Sector

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Abstract- Fintech is finance plus technology. The main purpose of this paper is to study history, opportunity, current trends and challenges in the Fintech Sector in India. The present paper studies the growth and potential of the Fintech Sector along with challenges. Further this paper studies different types of Fintech Companies and their role in Indian Industry. Share of Indian Fintech Industry is being studied globally and conclusions are drawn.

Keywords: Fintech, History, Opportunity, Current Trends and Challenges

I. INTRODUCTION

The Indian financial services industry has undergone a transformation since many years. Indian financial sector gained reputation after liberalization. It comprises all activities involved in the translation of savings into investment. Fintech is Finance plus Technology. FinTech, companies considered to belong to that sector provide services including payment options, online marketplace loaning, mobile apps, funding, foreign exchange and settlements, savings, distributed ledger tech, digital currencies, mobile wallets, artificial intelligence and robotics financing, mob funding, insurance, and wealth management. The financial services sector has become significantly impacted and influenced by emerging technology enabled trends that support innovation.

II. OBJECTIVES OF THE STUDY

- To study functions of Fintech Industry
- To study potential of Fintech Industry
- To study current trends in Fintech Industry
- To study challenges of Fintech Industry

III. RESEARCH METHODOLOGY

Secondary data has been collected from journals, official company websites, other supplementary websites, Government documentations.

IV. HISTORY OF FINTECH INDUSTRY IN INDIA

Retailer banking and instalments, protection, financier administrations, business banking, venture, and riches are affected the most by the development of Fintech. Money related innovation is said to be a problematic power that is relied upon to reshape the budgetary division, plans of action, and banking structures. New money related innovation simply keeps on progressing, has pulled in speculators from different nations, and has cleared the way for the development of markets and the Fintech industry itself¹The power of the Fintech industry can be understood by the fact that even the traditional banking system, which is antagonistic to changes, is being forced to adopt digital technologies to keep itself afloat²

V. FUNCTIONS OF FINANCIAL SERVICES

- Exchange of goods and services in the economy.
- Assembling and allocating funds in the country.
- Monitoring Managers (so that the funds allocated will be spent as envisaged).
- Renovating Risk

Source:<https://www.statista.com/topics/2404/fintech/#topicOverv>

VI. CHARACTERISTICS OR NATURE OF FINANCIAL SERVICES

Financial Services include:



Fig.1

- Intangibility means services of finance cannot be seen
- Inseparability means services of finance cannot be separated
- Perishability means services of finance suitable for a particular time period only
- Financial Services are some based on some specific information and it vary from person to person.

VII. IMPORTANCE OF FINANCIAL SERVICES

Interest and investment in Fintech grew eloquently in many regions of the world. Importance of Fintech Services are increasing day by day. Following are some of importance of Financial Service:

- Economic Progress: The financial service manufacturing mobilizes the funds of the people, and channels them into prolific investments by providing various services to people.
- Increases Savings in the Country: The financial service industry mobilizes the savings of the people by providing transformation services. It provides liability, asset and size transformation service by providing huge loan from small deposits collected from a large number of people.
- Creation of Capital: Financial service industry facilitates capital formation by rendering various capital market intermediary services. Capital formation is the very basis for economic growth.
- Creation of Employment Opportunities: The financial service industry creates and provides employment opportunities to millions of people all over the world.
- Provision of Liquidity: The financial service industry promotes liquidity in the financial system by allocating and reallocating savings and investment into various avenues of economic activity. It facilitates easy conversion of financial assets into liquid cash.

VIII. TYPES OF FINANCIAL INFORMATION SERVICES

The financial services can be broadly classified into two:

- (a) Fund based Services and
- (b) Non-Fund Services (or fee-based services)

Fund based Service: Fund based Service include Underwriting, Hire Purchasing, Venture Capital, Mutual Fund, Insurance Service etc.

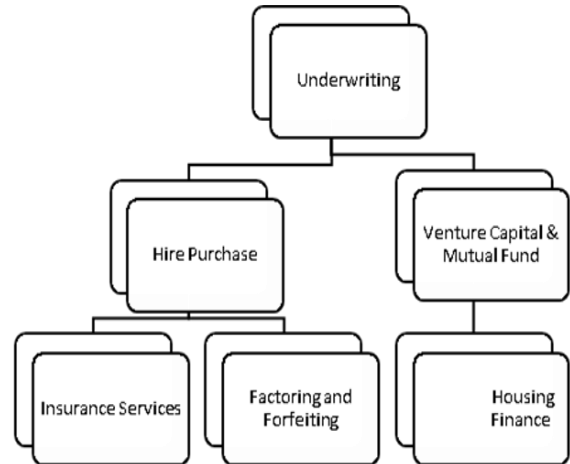


Fig.2

(b) Non-Fund Services are as follows: Non Fund Service include Securitization, Merchant banking, Project advisory services, Merger and Acquisition, Capital Restructuring and Stock broking.

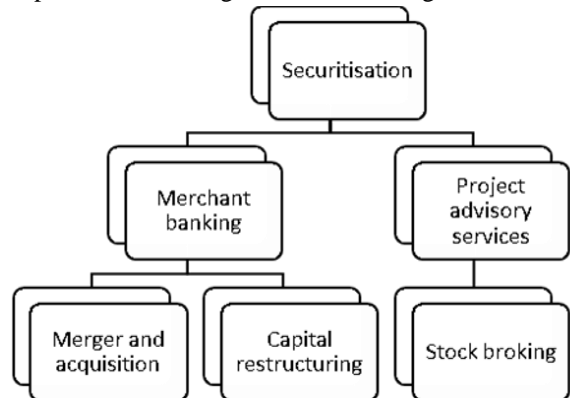


Fig.3

IX. EMERGENCE OF FINTECH IN INDIA

Indian Fintech’s have made swift expansions in the payments space over some years. Fintech’s are expected to play a vital role in increasing financial inclusion and digital adoption. The Fintech sector in India has seen remarkable growth and currently facing augmented regulatory and defiance scrutiny. Following are reasons are emergence of Fintech in India:

- Quicker Payments-- emergence of quicker payment resolutions

- Effective Lending System-Propagation of lending options for consumption financing, digitization of asset-backed lending, experimentation with decentralized finance.
- Wealth technology- Direct distribution converging with discount broking; convergence of robo advisory services with personal finance management and manufacturing of standardized model portfolios; growth of investment in alternate asset classes, especially crypto
- Insurance technology -Expansion of digital non-life insurers and bite-sized insurance, rise of digital platforms for insurance distribution.
- Neobanking-Expansion of millennial, MSME-focused neobanks, and incumbent- launched digital attackers

X. FACTORS AFFECTING GROWTH OF FINTECH INDUSTRY IN INDIA

Visakhapatnam is being created as FinTech valley and the nearby administration of Andhra Pradesh opened Fintech Valley to advance the interests in this area. India's financial technology market is the fastest growing in the world. More than sixty-seven percent FinTech entities in operation have been set up in the last five years. Most of Fintech companies have their India headquartered in Bangalore and Mumbai. India's Fintech market is appreciated at US\$31 billion, estimated to grow to US\$84 billion by 2025. The Fintech transaction value size is expected to grow to US\$138 billion by 2023 from US\$66 billion in 2019³. A number of encouraging reasons are propelling the comprehensive growth of Fintech in India.

Some of them are:

Upsurge of Digital Payment

Backed by the government's Digital India initiative and collaboration between the government, banks, and fintech's, the digital payment ecosystem in India is growing at profligate speed.

Neo Banking: Neo banks provide quicker and efficient access to financial services. Neo banks provide services- like payment gateway and processing, cash delivery, online payments, and other banking services.

Lending Platforms: Recently, there has been an uptrend in online lending platforms that process personal and business loans efficiently and digitally. These platforms have replaced the old-style lending

process and made loans accessible to the underserved sections.

By leveraging technology, these online lending platforms evaluate the creditworthiness of borrowers and provide them with the money they need. These lending platforms provide a seamless financing experience as minimal or even zero paperwork involved.

Insurance Technology: Insurance technology ecosystem in India is promptly evolving, with stakeholders pushing the limits of product innovation and offering newer value-added services.

XI. GOVERNMENT INITIATIVES FOR THE PROMOTION OF FINTECH IN INDIA

The Fintech industry in India got importance due to demonetization. Government shifted their focus from paper to electronic payment by rebates in taxes.

Jan Dhan Yojna: Pradhan Mantri Jan Dhan Yojana provides affordable access to financial services such as bank accounts, remittances, credit, insurance and pensions. **Digital India:** The Government of India tossed the "Digital India campaign" through which Government is providing services electronically to citizens of India. **Unified Payments Interface:** The evolution of Unified Payments Interface has bolstered several private troupes to provide replacements for digital payments⁴. **Financial Literacy:** It include setting up the National Centre for Financial Education and implementation of the Centre for Financial Literacy project by the RBI. **E-RUPI:** e-RUPI is a person & purpose specific digital payments instrument to allow for contactless & cashless payment solutions and play an important role in making the Direct Benefits Transfer more seamless & effective. **India Stack:** India Stack is a set of APIs that allows governments, businesses, start-ups and developers to utilise a unique digital Infrastructure to solve India's hard problems towards presence-less, paperless, and cashless service delivery⁵.

XII. CURRENT TRENDS OF FINTECHS IN INDIA

India is among the wildest growing Fintech markets in the world. The Indian Fintech industry ecosystem sees a wide range of sub segments, including Payments,

Loaning, Capital Technology, Personal Finance Management and Insurance Technology.

Growing number of banks will offer embedded solutions. Embedded finance has been a growing trend over the past year and is well-positioned to grow even further as numerous banks look to become service providers to non-bank and non-financial institutions looking to deliver a customer experience or service proposition involving financial services as a component of a larger offering.

There will be increasing regulatory scrutiny of embedded finance offerings. The increase in financial products or services embedded within and delivered through non-regulated entities is expected to drive greater levels of regulatory awareness. Fintechs will focus on branding themselves as data organizations. Many Fintechs will likely reinvent themselves into data organizations and data providers that happen to provide payments and other financial services in order to differentiate their organizations in the eyes of investors and the market.

- Share of Fintech in India grew from Two Percent in 2017 to Thirty-Five percent in 2021.
- Currently about 7% of India’s \$1.4 trillion FS EV, The Fintech sector is expected to grow to \$350 billion in by 2026.
- Covid-19 led to transformational shifts in consumer behavior and hastened digital adoption. UPI transactions grew between FY20–21.
- Number of Demat accounts grew in Financial Year 2022.
- Fintechs are looking for customer retention and engagement by introducing new revenue tributaries and cross-selling related services and products.
- Consumer financing, neobanking, and Fintech infrastructure have emerged as the top three Fintech themes that industry leaders are most bullish on for the short to medium term⁶.

XIII. MAJOR PLAYERS OF FIN TECH TECHNOLOGY IN INDIA

India has the highest number of Fintech adopters in the world.

There are many Fintech companies in India⁷. Some of the leading Fintech companies in India are Paytm, Policybazaar, PayU, PineLabs, Mobikwik and Kissht

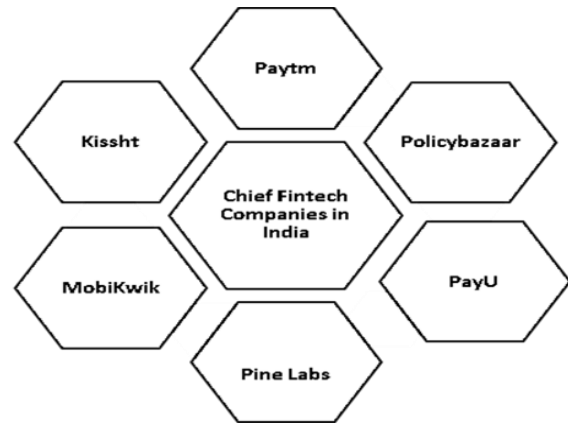


Fig. 4

Financial service sector has to face lot of challenges in its way to fulfil the ever-growing financial demand of the economy. Some of the important challenges are listed below:

- Absence of knowledgeable personnel in the Fintech sector.
- Deficiency of investor cognizance.
- Nonexistence of transparency in the disclosure and accounting practices.
- Lack of skills in different financial services.
- Deficiency of adequate data to take financial service-related decisions.
- Dearth of efficient risk management system in the financial service sector.

India is one of the key markets from where future growth is likely to emerge. The growth in India’s consumer market would be primarily driven by a favourable population composition and increasing disposable incomes.

XIV. SHARE OF INDIAN FINTECH IN GLOBAL WORLD

Fintech programming and administration advertising in India was around \$8 billion in 2016; it was expected to develop 1.7 times by the end of 2020. India has seen a substantial rise in Fintech investment, with about \$35 billion invested across segments ; more than doubling India’s share of global Fintech funding since 2016. The years 2021 and 2022 saw more than \$19 billion of Fintech funding and the addition of 18 Fintech unicorns⁸.

Share of Different Countries in Global Fintech Industry:

COUNTRY	FINTECH AS ON JUN'22	CAGR OF NUMBER OF FINTECHS OVER 2019-22
USA	22,290	16%
UK	8,870	15%
India	7,460	20%
Canada	2,530	10%
Australia	2,640	9%
Canada	2,770	7%

Table 1.

Source: Traxcn data as on Jul'22 2. UPI data from NPCI, CAGR represents value increase from CY19-21.⁹

XV. FUTURE OF FINTECH IN INDIA

Following trends of Fintech will be prevailing in coming years

Digital Only Banks

Digital-only banks are those banks which provide various virtual banking services will make tasks complete more efficiently and quickly:

Robotic Process Automation

Robotic process automation can be defined as the process automation technology which utilizes software robots or digital workers to automate the tasks which are usually performed humans.

Block Chain Technology

Block chain technology has completely transformed the modus operandi of the FinTech industry. With this cutting-edge technology, transactions can be done in a safe and secure manner. Due to this banks and financial institutions are readily adopting Block chain technology to leverage its benefits.

Artificial Intelligence & Machine Learning

AI can also be used to manage rising cybercrimes by identifying financial frauds and threats. It can also be more customer-centric as the algorithm of AI & ML can record all the interactions with the utmost accuracy and preciseness. AI has already shown how useful it can be in managing customers via cutting-edge client service solutions.

Acceleration in Financial Inclusion

Although, the user penetration for mobile phones is quite high in these regions which makes it the perfect destination for FinTech apps and branchless banking.

In the year 2022, this trend is set to rise as innovative technology of FinTech apps will offer banking facilities to the unbanked, weak, and illiterate section of the society. This trend will improve financial inclusion by making access to financial services easy, fast, and convenient for the unbanked.

Biometric Security Systems

Biometric security systems have emerged as a reliable and fool proof measure that takes security to the next level. It provides users and institutions with the confidence that the data is safe and protected.

Open banking

Open banking forces banks to release data in a standardized and secure form which makes the sharing of information easier between various authorized organizations online. Not only this, but it also enables to control consumers' banking along with financial information via third-party applications by data sharing with the help of AI and APIs.

Regulatory Technology

Regulatory Technology the regulatory process in the financial industry with technology. The rise in digital products has also increased the cases of money laundering, fraudulent activities, cyber hacks, and data breaches¹⁰.

Future of Fintech consist of Following points:

- Fintech administration firms are right now re-thinking the manner in which organizations and customers deal regularly.
- In India, the scale has been less steep when compared to the international developments. The interest in India's Fintech industry, which caught pace somewhere between 2013 and 2014, continues to grow.
- Furthermore, India has a huge undiscovered market for budgetary administration through innovation in new businesses.
- With cell phone entrance expected to increment to 85-90% in 2020 from 65-75% at present and web infiltration consistently climbing, the development potential for Fintech in India can't be exaggerated.
- These holes in access to organizations and administrations offer a significant opportunity for Fintech arrangements to flourish and grow.

XVI. CONCLUSION

Fintech is an emerging concept in the financial industry. The result of this study shows that Fintech industry is growing very fast in India. Share of Indian Fintech is increasing globally. The Indian government is promoting Fintech industry in India through various schemes like Jan Dhan Yojna, Digital India etc. Fintech is growing in India due to growing number of banks, Block chain Technology, Artificial Intelligence and open banking. On the other hand, Fintech is facing many challenges like Absence of knowledgeable personnel in the Fintech sector, Deficiency of investor cognizance, Nonexistence of transparency in the disclosure and accounting practices, Lack of skills in different financial services. Even after facing so many challenges Fintech sector is growing with a greater pace.

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