



FINTECH IN INDIA: OPPORTUNITIES AND CHALLENGES

DR.SHIVA MANOJ

Associate Professor

Lal Bahadur Shastri Group of Institutions, Lucknow, India

Email: shiva.lucknow@gmail.com

ABSTRACT

India has seen a significant rise in Fintech investment, with about \$35 billion invested across segments thus far, 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 unicorns. India is amongst the fastest growing Fintech markets in the world . Currently there are 2,000+ DPIIT-recognized Financial Technology (FinTech) startups in India with this number growing fast. Indian Fintech industry's market size is \$50 Bn in 2021 and is estimated at ~\$150 Bn by 2025. After mobile banking, digital currency in cryptocurrencies, virtual currency, and central bank digital currency have emerged recently. The research has been undertaken and presented to gain an in-depth understanding of Fintech in India. The study is based on secondary data.

Keywords: Technology, Fintech, currency, finance, banking, digital money



INTRODUCTION

The Indian Fintech industry ecosystem sees a wide range of subsegments, including Payments, Lending, Wealth Technology (WealthTech), Personal Finance Management, Insurance Technology (InsurTech), Regulation Technology (RegTech), etc. Indian fintech market has received \$29 bn in funding across 2,084 deals to date (January 2017-July 2022), gaining 14% share of the global funding and Ranked #2 on the deal volume. The Fintech sector in India has seen a funding of \$8.53 Bn (in 278 deals) in FY22. Though traditional institutions were slow to adopt fintech solutions, both startups and established companies are betting on digitized financial services. Fintech has been around much longer than most people think. While the latest iteration of fintech allows you to pay for a cup of coffee with a mobile app, the history of financial technology can be traced back to the earliest credit cards that were adopted into the general public in the late 1950s. Before the 1990s and the era of the internet, traditional financial institutions, such as banks, thrived on fintech. According to the Federal Deposit Insurance Corporation, banks grew from around 13,500 commercial bank branches in 1950 to over 83,000 in 2008. In the late 1990s and early 2000s, online fintech companies, such as PayPal, entered the market but didn't really threaten the traditional infrastructure until the 2008 global financial crisis. During this time, many people lost their trust in traditional banking while millennials welcomed free and online financial services.

Financial technology (fintech) describes new technology that works towards enhancing and automating the delivery and use of financial services. At its core, fintech is utilized to help companies, business owners, and consumers manage their financial operations, processes, and lives better by utilizing specialized software and algorithms that are used on computers and, increasingly, smartphones. The term fintech is a combination of "financial technology".

Financial technologies, or fintech, encompasses advanced technologies that are used to improve or digitise traditional activities in finance. Blockchain, cloud computing, artificial intelligence, advanced analytics and other financial software solutions help to modernise, automate and boost financial services.



LITERATURE REVIEW

Priya and Anusha (2019) contemplated Fintech Issues and Challenges in India. At this start the article centers around the essential sorts of monetary innovations and their capacities and furthermore talks about the chances and difficulties it has in the Indian business climate. In all facets of financial administration there is a lot of balance Techs emerging in India. By seeing the speed of balance experts rise, the way that India has enormous spearheading capability can't be contradicted. There are close to 1500 FinTech startup firms working in India, and of these, practically half had begun in last two years. Both really and fiscally the equilibrium tech firms ought to be prepared well. We can see a greater part of effective new businesses in an installments space, and it is generally expected the identical with various money related partitions as well

According to Accenture, financial technology companies can be classified into two major categories that are Competitive Fintech Ventures and Collaborative Fintech Ventures. In the latest report in 2016, Accenture explains that the Competitive Fintech Companies are those who will cause direct obstacles as well as create challenges for the financial services organizations. These companies have achieved a lot of success over the years by focusing mainly on providing new experiences and benefits to their customers through technology products instead of targeting at high profits. For example, the professional business strategies with the preferred price offered by eToro aim at supporting, advising and providing optimal solutions for the retail investors. Moreover, the card service has also been upgraded and developed by Square to maximize benefits for micro merchants. (Accenture 2016)

Badrudin (2017) contemplated Conceptualization of the Effectiveness of Fintech in Financial Inclusion. She introduced an exploration paper that is conceptualized and depends on the auxiliary information gathered from different assets like diaries, books, sites, and so on She proposed that the advancement of FinTech has decreased expenses as well as builds effort and entrance of the Microfinance model. She closed her investigation by expressing that the current situation is apparent about the viability of the FinTech. Even though there are difficulties looked by this industry.



Vijai (2019) contemplated that the FinTech in India: Opportunities and Challenges, the focus of his paper is the opportunities and the challenges in the FinTech Industry, the evolution of the FinTech technology in India. FinTech facilitates a more secure, fast mode of transaction for the user. His research paper shows that FinTech industry change for the financial services in India.

OBJECTIVES OF THE STUDY

The paper aims at analyzing the challenges and future opportunities of Fintech in India. The research has been undertaken and presented to gain an in-depth understanding of Fintech in India.

METHODOLOGY

The study is based on secondary data. The paper basically uses the data available through journals, reports, articles, etc.

DISCUSSIONS

Segments in the Indian fintech companies

The term ‘Fintech’, the short form of the phrase financial technology denotes industry that is comprised of companies which use technology for efficient delivery of financial services. It is an emerging type of service in this 21st century. The new start - up companies are trying to replace the traditional transaction system with the new, effective methods by applying technology in financial sectors for mobile payments, loans, money transfers and even for asset management. Some more examples of technology applied to the financial transactions are peer-to-peer lending, peer-to-peer payment technology, digital wallets, Block chain and mobile banking. These aim in bringing further benefits and achieving high efficiency for the financial transactions. The Indian Fintech industry is now concentrating on lending to both customers and MSMEs. At the same time, this industry now includes more traditional financial insurance services, personal finance, and gold lending. Let’s look at a few segments in FinTech India.



PayTech

Fintech companies India enter this market through services such as payment gateways, card networks, application programming interface (API), and payment security. Third-party application providers (TPAP), prepaid card/Wallet, bill payment, QR code payment, payment aggregator, and point of sale are among the consumer-centric services available (POS). Corporate cards, B2B payments, and invoice payments are examples of business-centric services. The biggest participants in this area include Paytm, PhonePe, MobikWik, and Google Pay. PayTech segment focuses on offering services and products such as prepaid cards, QR code payments, payment aggregator services, point of sale, corporate cards, and bulk invoice payments for large organizations. The PayTech companies offer these services by using card network services, payment gateway, and API-enabled services. CashfreePayments, offers payment solutions, revolutionising the payments sector of the country.

LendTech

Lendtech includes the following: lenders and providers of Buy Now Pay Later (BNPL) services, AI and anti-fraud technology, data interchanges, marketing, and insurance services such as personal loans, salary loans, gold loans, vehicle loans, school loans, and peer-to-peer lending. Google Pay, M-Swipe, and Razor Pay are positioning themselves as prominent financing systems for customers and retailers.

InsurTech

Insurtech is the application of technological advancements to obtain savings and efficiency from the present insurance business paradigm. It does more than only supply digital communications. It enables carriers to manage schedules and increase the productivity and effectiveness of their adjusters, including mixed workforces made up of direct-hire employees and third-party contracts. Fintech in Insurtech can be used to provide services like claims processing, a sales platform, underwriting risk management, insurance infrastructure API, and a policy administration system. Policy Bazaar is a market leader in this category.

WealthTech

WealthTech combines money with technology to deliver digital solutions that enhance personal wealth management, investing, and portfolio management. The WealthTechFintech firms are



helping more millennials invest without having the expertise of it by providing personalized suggestions based on goals, willingness to invest, and risk appetite, they offer investment advisory, wealth management, mutual fund investment platforms, and alternate investment platforms using advanced technology. The growth of digital payment methods, e-KYC via Aadhar, online money transactions and online investment reports has enabled the emergence of a fully automated asset management system. The use of Big Data, artificial intelligence, and deep learning to analyze investment alternatives, improve portfolios, and manage risks are examples of advancements. Zerodha and Small case are two notable companies in WealthTech in the FinTech market.

RegTech

Regtech uses technology to manage regulatory processes in the financial industry. Its primary tasks include regulatory monitoring, reporting, and compliance. The rising use of digital products has increased data breaches, cyber-attacks, money laundering, and other fraudulent activities. By leveraging big data and machine learning technology, it decreases the risk to the compliance department by providing real-time data on money laundering operations undertaken online.

Digital Payments

Digital transactions currently account for 98.5 percent of total non-cash payments. According to Statista, suppliers of UPI in India reported 2.8 billion digital payment transactions totaling more than five trillion Indian rupees in June 2021. Payment gateways, payment processing, cash delivery, online payments, and several other banking solutions are all made easier and faster by neo banks. A few examples of Fintech services used in digital banking are - API providers and aggregators, banks with open APIs, banking as a service, and core banking. Paytm, PhonePe, RazorPay, etc., are the leading fintech organizations in India in the field of digital payments.

Opportunities For Fintech

Financial innovation is definitely an opportunity for sectors like commercial banks to rethink service distribution channels and find ways how to leverage its benefits. Many sectors using innovative solutions offered by Fintech already know it's worth and are benefitting from this. Fintech is financial technology; Fintech provides alternative solutions for banking services and non-banking finance services. Fintech is an emerging concept in the financial industry. The main



purpose of this paper accesses the opportunity and challenges in the fintech industry. It explains the evolution of the fintech industry and present financial technology (fintech) in the Indian finance sector. The fintech provide digitalization transaction and more secure for the user. The benefits of fintech services reducing operation costs and friendly user. The fintech services India fastest growing in the world. thefintech services are going to change the habits and behavior of the Indian finance sector.

- Data analytics. Analyzing user data could provide valuable insight to help predict overall customer satisfaction, measure the success of service offerings, and identify target markets.
- Tax credits. R&D tax credits are an ongoing development of technology platforms. The California Competes Tax Credit (CCTC) also provides support for entities looking for significant expansion of labor forces in California.
- Tech-friendly financial institutions. Fintech companies that are more technology focused often partner with financial institutions for transaction processing. Some banks are very fintech-friendly, which provides great opportunity for fintech companies to seek out those relationships. Some traditional brick and mortar financial institutions also seek to explore further fintech opportunities.
- Investments. Private equity and venture capital firms in fintech companies show strong investment interests, which creates initial public offering (IPO) and special purpose acquisition company (SPAC) opportunities.

Key Challenges

1. Informal banking population- India has one of the world's largest unbanked populations.i.e citizens without bank accounts. New government schemes and policies are being devised to make people aware and shift from informal to formal banking. Although India is making great efforts to change this, the pace of change is extremely slow due to its size and population. The growth of Fintech is a gradual process due to the fact that it only works with digital money, which requires a formal banking system.

2. Lack of Skill: With the fintech industry gaining attention there are more participants emerging. Banks and other governing financial institutions have difficulty keeping up with the technology and various new things emerging with the development in the world market. We need skilled,



self-motivated individuals from the fintech industry who have the proper knowledge to correctly exploit the true potential of this.

3. Compliance law and lack of clear guidelines: To protect and create value there are regulatory and compliance laws for all institutions same goes for the fintech industry. But there are certain laws that are slowing down the growth of fintech in India. These laws are there to protect the firms from fraud and wrongdoings, but they also restrict outside competitors to enter the Indian market freely which makes it difficult for an industry to grow and expand.

4. Lack of knowledge of mobile technologies : Some banks or financial organisations in the fintech sector lack adequate or practical mobile banking capabilities. Although some banks attempt to mimic websites, nobody would choose a mobile application in today's digital environment. Every user seeks a simple and practical alternative.

5. Governmental inaction and lack of support: Government incentives and assistance for FinTech's to safeguard their interests in the Indian financial markets are severely lacking. For new Fintech players, this can be very discouraging. Fintech's are essential for generating economic growth and must be provided with all the resources they require to succeed.

CONCLUSION

The Fintech landscape in India is predominantly led by the PayTechs, LendTechs, and WealthTechs, which are closely interconnected with BaaS. Therefore, the future of Fintech is Banking-as-a-Service and the upcoming digital banking ecosystem enablers. Though the journey of digitization has taken decades, its acceleration has been exponential as mobile data plans became cheaper and the world faced the Covid-19 pandemic. Some of the main forces influencing the Fintech revolution in India are supply side enablers like exponentially growing computing power, widespread internet penetration, and increased internet speed and coverage, combined with demand side stimulants like the need for inclusive financial services, customer expectations, and the business need to reduce costs while providing faster, safer, and more reliable services.



REFERENCES

- Yoon, B., Kim, J., You, Y., & Kim, S. (2016). A study on user behaviors for consulting of fintech companies. *Indian Journal of Science and Technology*, 9(26), 1-6.
- Badrudin, A. (2017). Conceptualization of the Effectiveness of Fintech in Financial Inclusion. *International Journal of Engineering Technology Science and Research*, 4(7), 960-965.
- Vijai, C. (2019). Fintech in India–Opportunities and Challenges. *SAARJ Journal on Banking & Insurance Research (SJBIR)* Vol, 8.
- Kandpal, V., & Mehrotra, R. (2019). Financial inclusion: The role of Fintech and digital financial services in India. *Indian Journal of Economics & Business*, 19(1), 85-93.
- Priya, P. K., & Anusha, K. (2019). Fintech Issues and Challenges in India. *International Journal of Recent Technology and Engineering*, 8(3), 904-908.
- <https://www.india-briefing.com/news/what-trends-are-driving-the-fintech-revolution-in-india-23809.html/>
- <https://www.businessworld.in/article/Future-Of-Fintech-Industry-In-India/11-09-2020-319217/>
- <https://www.bis.org/bcbs/publ/d431.pdf>
- https://www.tni.org/en/publication/the-promises-and-perils-of-investor-driven-fintech?gclid=CjwKCAjwvNaYBhA3EiwACgndgmJatr8SdlwTjZldFca0vgXqzikEMmli8ejQszkWfZTopa3N9JL5sBoCqkgQAvD_BwE
- https://www.academia.edu/38402183/A_Study_of_Impact_of_Financial_Technology_on_Banking_Sector_in_India
- <https://documents1.worldbank.org/curated/en/099450005162250110/pdf/P17300600228b70070914b0b5edf26e2f9f.pdf>