

Fintech In India

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Abstract

Fintech is financial technology; FinTech is about the introduction of new technologies into the financial services and application of digital technology of the financial sector. The research topics have been studied theoretically. The data has collected by PwS, KPMG, RBI, and SSRN. The paper provides the historical evolution of Fintech and Market size and growth. In addition, the advantages and disadvantages of Fintech, Fintech hub, and Fintech regulation of India.

Keywords: Fintech, Financial Technology, E-Commerce, Fintech Hub, Digital Finance.

1. INTRODUCTION

Fintech, short for financial technology (Service, P. B. 2019) even though the interplay between information technology and financial services is not a new topic. It has been discussed quite a bit in the past few decades (Thakor, A. V, 2019) With the deep application and development of information technology in the financial field, Fintech has become a hot topic in the financial industry and the scientific and technological community (S. Mei et al, 2018) Fintech and the Remaking of Financial Institutions explores the transformative potential of new entrants and innovations on business models (Elsevier, 2018) Fintech is touted as a game-changing, disruptive innovation capable of shaking up traditional financial markets (Lee, I., & Shin, Y. J. (2017)

A wide gamut of Fintech sub-sectors has emerged and has been adopted by key players of the financial sector globally. The Indian financial services sector has embarked upon its digital journey and is catching up fast with its global peers in terms of adoption. Multiple Fintech hubs have evolved across the globe—the U.S., the U.K., Israel, Singapore, Hong Kong, and Sydney to name a few—which may well serve as a yardstick of Fintech evolution for the emerging markets (Fintech in India) India is amongst the fastest growing Fintech markets in the world. India ranked the highest globally in the Fintech adoption rate with China. Digital payments value of \$65 bn in 2019 is expected to grow at a CAGR of 20% till 2023 (BFSI)

2. REVIEW OF LITERATURE

Kavuri, A. S., & Milne, A (2018) new financial technologies (Fintech) have erupted around the world. Consequently, there has been a considerable increase in academic literature on Fintech over the last five years. Research tends to be scantily connected with no coherent research agenda. Significant research gaps and important questions remain. There is much work to be done before this area becomes an established academic discipline. Thakor, A. V (2019) This paper is a review of Fintech and its interaction with banking. Included in Fintech are innovations in payment systems (including

cryptocurrencies), credit markets (including P2P lending), and insurance, with blockchain-assisted smart contracts playing a role. Allen et. al (2020) Fintech, particularly the blockchain, has the potential to be disruptive to financial systems and intermediation. Our aim in this paper is to provide a comprehensive Fintech literature survey with relevant research studies and policy discussion around the various aspects of Fintech.

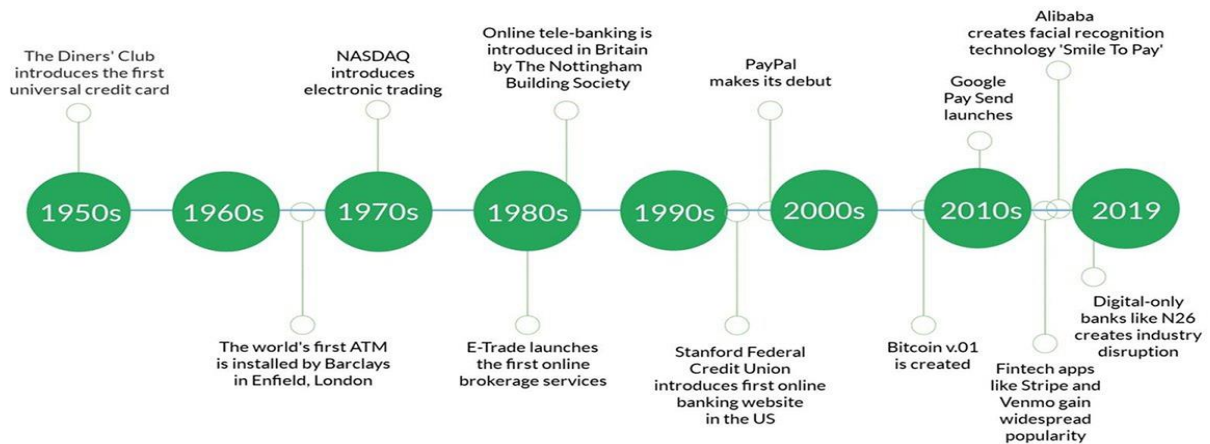
What is Fintech?

Fintech is any use of technology in financial services to develop or improve products and services. While this definition can be applied all the way back to the introduction of the first ATM in the late 1960s, Fintech really became a term applied to the rapid redesign of financial services following the GFC in 2007/08. From this point, we have seen new technology being used to introduce a raft of new banking and lending products that are increasingly becoming faster, cheaper and more accessible (Barry, E., 2020)

Evolution of Modern Fintech

Financial technology applies to any innovation that involves financial transactions, be it personal use or for business. Initiated by the birth of the credit card (the 1950s) and the ATM (1960s), Fintech had since been disrupting our world. There used to be a time when Fintech only pertains to the back office operations of banks or stock trading companies. The Internet boom and the rise of mobile computing had propelled Fintech to become a continuing global revolution. Today, Fintech has indeed taken an important space in today's digital world. With an expanding family of robust technological tools for personal and commercial finance, it is poised to further grow in use and impact (Andre, L., 2019)

Fig 1: Evolution of Modern Fintech



(Source: Abhishek Soni/Medium.com, 2019)

Fintech Market Outlook

Fintech or financial technology is the new technology and innovation that is gaining prominence and replacing conventional financial services in various sectors such as payments, E-Commerce, banks, social trading, wealth management, and others. Owing to the fact that E-Commerce is rapidly pervading across the globe, it happens to be the key application segment of the Fintech market, estimated to grow with a superlative CAGR of 10% to 12% through to 2025 (<https://www.industryarc.com>)

Evolution of Fintech in India

India, a country with more than 1.3 billion people, is making a move towards a radical and disruptive Tech-Finance alliance. This alliance between technology and finance is upgrading, all the while

enhancing operations. Primarily, Fintech is the combination of technology in finance, offering more effective financial solutions than traditional institutions. Fintech began by setting its operations in the banking industry. Over the last few years, this industry has witnessed tremendous development, extending its wings to the insurance and asset management industry. Today, Fintech companies are analyzing customer behavior patterns by implementing innovative technology like machine learning and artificial intelligence (Resources 2019)

India has also experienced the marvels of financial technology in the banking and finance sector. For India, which is a cash-driven country, this is a step towards creating a cashless society. With a range of Fintech services and Fintech software, it has changed the way the people carry out daily transactions and handles their money (About The Author) A NASSCOM report on Indian startups identified the Fintech space as one of the top high potential sectors in the ecosystem. Financial inclusion, lending, wealth management, banking, and insurance are the key segments driving the growth of the Indian Fintech industry (Mukewar, P., & Community. 2020) and while wallets collapsed due to UPI, Lending Fintechs/Insuretech prospered. Wealth business went through challenges due to direct plans of Mutual Funds (Singh, S. 2020)

The Indian Fintech industry has focused on the consumer-facing side of banking, and we, therefore, see a rapid increase in the use of mobile wallets, apps, and other technology products designed for the consumers. Only a few startups have focused on the banking back-end systems and processes (The Evolution of Fintech in India)

Market size and growth

The Nasscom (NASSCOM)-KPMG (KPMG) report estimates that the total Fintech software and services market in India was around \$8 billion in 2016 and likely to grow 1.7 times by 2020. The report adds that the transaction value for the Indian Fintech sector was approximately \$33 billion in 2016 and slated to reach \$73 billion in 2020 growing at a five-year compound annual growth rate (CAGR) of 22%. (Feb 11, 2.)

Fintech investments in India nearly doubled to \$3.7 billion in 2019 from \$1.9 billion the previous year, putting the country as the world's third largest Fintech center, behind only the U.S. and U.K., according to Accenture (Mandavia, M, 2020)

Growth Drivers (<https://www.investindia.gov.in>)

Jan Dhan - Aadhar - Mobile

JAM Trinity enabled Govt. to make direct transfers of INR 740 bn

India stack

Open API platforms i.e. Aadhar, UPI, Bharat Bill Payments, GSTN

Favourable Govt. initiatives

Digital India, National Payments Council, tax benefits on surcharges etc.

Blockchain

Blockchain market in India is expected to grow at a CAGR of 37% till 2024.

Start-up India

GoI's flagship initiative to build strong start-up ecosystem in India

Aadhar

Biometric identification database - more than 1.2 bn citizens enrolled

New business models

Implementation of new business models driven by technologies such as Artificial Intelligence and Machine Learning

Fintech Hub in India

The government of Maharashtra is the first state in India to create a Fintech policy (announced February 2018) to support the sector with a vision to make Mumbai a global Fintech hub. The key stakeholders in this journey include financial institutes, regulators, governments, technology partners, academic institutes, research labs, incubators/accelerators, industry bodies, and market influencers (About Us) Mumbai has emerged as the leading Fintech hub in India —with Mumbai and Bangalore being a home to nearly 42% startups(These are the top Fintech hubs in India)

As per the 'Global Fintech Index 2020', among the world's 100 leading Fintech cities, six are based in India. These include Bangalore, Mumbai, New Delhi, Pune, Hyderabad, Chennai and Ahmedabad (India emerging as a Fintech hub) India secured 15th rank in Fintech Country Rankings and 11 Indian cities featured in top 20 cities across Asia-Pacific(Rawat, A., & Staff, I. 2019)

Fintech Valley Vizag

Fintech Valley Vizag, a project championed by the Government of the State of Andhra Pradesh in India, has signed a memorandum of understanding (MoU) with Visa and Thomson Reuters.(<https://www.fintechfutures.com>)The eight participating startups - Moneytor, FingPay, Incremint, Gyandhan, TAQBit, Nanobi, Heckyl Technologies, and iProov operated from Vizag for the duration of the accelerator program and worked to develop solutions for four key focus areas: financial inclusion, security and fraud prevention and customer and risk analytics (Jain, N.,2018)

Digital Revolution(Golikeri, P,2018)

- 82% – legacy banks and financial institutions expect to increase partnerships with Fintech start-ups in the next five years
- 30% – Of consumers plan to increase usage of non-traditional financial service providers in the near future

The top 10 Fintech startups and Fintech companies in India are: (Saumya Uniyal 2020)

Paytm
PhonePe
MobiKwik
PayU
Policy Bazaar
LendingKart
Freecharge
Billdesk
Mswipe
ezetap

Regulatory Bodies

There is no universal regulatory body for Fintech entities in India (Kaila, A., & Mathias,S,2019) Fintech activities in India are primarily regulated by the Reserve Bank of India (RBI) (Chowdhury, P. R,2020) However, the RBI currently regulates the majority of Fintech companies dealing with account aggregation, peer-to-peer (P2P) lending, cryptocurrencies, payments, etc. (How Fintech is regulated in India)

RBI pioneering Fintech Growth

RBI has given a boost to Bharat Bill Payments System and Unified Payments Interface along with P2P lending, digital payments etc. The use of automated algorithms has disrupted the industry and has made it simpler for consumers to utilise these facilities. RBI has granted 11 Fintech entities licences to introduce payment banks that offer deposit, savings, and remittance services (www.Fintechfutures.com)

Advantages of Fintech

- Saving. They say time is money, and never better. In this case, the possibility of carrying out the procedures much faster and through automated processes increases the efficiency in the day to day of the companies (also at the user level). Which also translates into more than visible economic savings (<https://www.integrainternet.com>)
- Faster Rate of Approval, Fintech has the potential to increase accessibility and greatly speed up the rate of approval for finance or insurance. In fact, in many situations, the application and approval process can be completed within 24 hours (<https://besure.com>)
- More efficient and lower-cost than traditional financial services: Fintech solutions work for customers too. Fintech solutions, with their simplified and more user-centric approach, offer transparency and clarity and, in turn, a better overall experience for the users (YS, T,2017)
- Transparency: companies can manage in a transparent and fast way. All in one click on your home community from computer (<https://sites.google.com>)

Disadvantages to Fintech

- Going digital for payments can be complicated in an economy like India's which is dominated by micro, small and medium enterprises (MSMEs) as they cannot bear the costs (Drishti IAS,2018)
- Cyber security: Fending off cyber-attacks in one of the greatest challenges faced by businesses and governments around the world, and given the sensitive nature of the client data they hold, they're a serious concern for Fintech firms (<https://www.globalbankingandfinance.com>)
- Regulations: One of the main Fintech challenges facing new institutions is managing regulatory risk and compliance. It's a factor inherent to the financial industry, but one felt particularly keenly by Fintech companies (Chris D,2020)
- User retention and user experience: User experience and retention is one of the biggest concerns during any banking app development. A Fintech app should keep a balance between user experience and security: for example, you should make sure it's neither too easy nor too hard to get access to a mobile banking application (Cherednichenko. S,2020)
- Lack of awareness: More than 70% population of India live in the villages and use of these digital payment platforms are done by most of the urban people. This sector needs to make its way through awareness in rural India (Modi, A,2019)
- Fintech is still a nascent player in the Indian financial sector. Hence, collaboration with the ailing traditional financial institutions would help provide a new direction to India's financial sector (Gurung 2018)

CONCLUSION

Advanced technology, big data, and complex AI/ML algorithms have provided benefits to both consumers and lenders. Fintech has a potential to disrupt and to create new types of risk. Regulators around the globe are working diligently and thoughtfully to provide consumer protection and to maintain financial stability while at the same time to create an environment for safe Fintech innovations (Jagtiani, J., & John, K., 2018) Future of FinTech, however, is rooted in deliberate integrated actions to improve framework conditions related to consumer trust, regulation and scalability (Mention, A., & Management, S. O)

Fintech is important for the future of the financial sector, as inclusive finance is strongly national economic growth. Fintech is reshaping of the financial sector. Fintech is innovative ideas for financial services. Fintech has taken the next level of financial services like shopping, transfer; receive funds, save time everything happens in real-time, and user friendly. Fintech benefits of both consumers and business. The government introduced the UPI and BHIM has attracted millions of users in India to transaction online.

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