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# **India Is At The Vanguard Of The Fintech Revolution;** **Preparing The Ground For Future Economic Advancement.**

Authored By- Arun Arangil

## **Abstract**

India's burgeoning FinTech industry is prepared to welcome a slew of new unicorns, soonicorns, smaller entrepreneurs, and conventional incumbents eager to collaborate. It has encountered its share of glitches and obstacles, including data security and privacy threats, legislative changes, general public awareness, financial literacy, etc. The tailwinds demonstrate that the lines between technology and business are becoming increasingly blurred, and both start-ups and big financial institutions have recognized the critical nature of technology innovation. It will be fascinating to see where the industry goes and how each player does. SuperApps, Buy Now Pay Later, InsurTech, Neobanks, and WealthTech are just a few emerging trends.

**Keywords:** - Fintech Industry, Financial Literacy, Start-ups, Data Security, Technology Innovation, Emerging Trends

## Introduction

Today, financial institutions are often thought of as businesses that originate and manage transactions from start to finish, typically placing their capital at risk. Financial institutions may increasingly act as an intermediate, with less at stake, or as a single node in a network. This transition will be fueled by peer-to-peer transactions, which will be enabled through collaborations between established financial services corporations and a new generation of FinTech firms. We have already seen this with peer-to-peer lending platforms, which operate in conjunction with traditional banks in countries like the United Kingdom, the United States, and China. Many of these new businesses are focused on a particular segment of the value chain or a subset of clients.

Rather than relying on relatively expensive bankers to link people who have and those who want, disruptors use technology to create the match: faster, cheaper, and possibly even better. Numerous enabling companies focus on particular verticals, like student debt, or connect debtors and investors. They are developing platforms that will enable everyday persons to raise capital and access credit from retail investors. Apple has filed a patent for "person-to-person payments utilizing electronic devices," which might make money transfers easier for iPhone users. This might potentially further commoditize retail banking.

Physical distribution will continue to evolve in developing economies, where branch networks are often less dense, particularly in rural regions. Banks are more likely to cooperate with new entrants to create alternative distribution channels. In Kenya, for example, M-PESA manages deposits and payments through consumers' smartphones and a network of agents. According to a recent survey, 90 percent of the adult population in the country now uses the program.

Financial institutions should seriously investigate opportunities in the sharing economy, such as collaborations with digital intermediaries or even end-users, to deliver services at significantly lower costs. With their somewhat casual demeanor, start-ups may not appear to be a threat at first glance. However, as organizations and individuals become more technologically aware in the new digital age, new customers will gravitate toward lower fees, convenience, and ease of use. Furthermore, once critical mass and liquidity are achieved, the network effect kicks in, allowing disruptors' market share to rise rapidly, as it did in Kenya.

## **Financial Technology (Fintech); Indian Perspective**

India's FinTech ecosystem has seen a significant increase in digital payments and alternative lending forms in the recent few years. Government measures such as the RBI's implementation of UPI and P2P payment standards have been critical growth drivers. Other hot areas include insurtech, wealthtech, and regtech, all of which have witnessed strong funding growth in recent months. While FinTechs have gained momentum in the market, there is still enormous space for growth in the segment, particularly when compared to established countries such as the United States.

### **I. Digital payments**

In terms of funding and usage, digital payments have dominated India's FinTech sector. Numerous FinTech businesses, such as PayTM, Google Pay, and Amazon Pay, are utilizing innovative technology to cover the final mile. Furthermore, compared to traditional financial institutions' offerings, the availability of multiple payment mechanisms such as UPI, QR codes, and wallets and services available on multiple platforms for customers contributes to their popularity. This new generation of FinTech has also created offline (e.g., kirana stores, MSMEs, toll and transit, and smart cities) and internet modes of operation (e.g., eCommerce and government tax payments). This has resulted in a drop in cash usage, which has fallen from 78 percent to 68 percent in the previous few years.<sup>1</sup> According to a research published by NITI Aayog titled, Digital Payments – Trends, Issues, and Opportunities, India's digital payment market is expected to reach US\$1 trillion by 2023, with mobile payments accounting for US\$190 billion of that total.<sup>2</sup>

### **II. Alternative lending**

Alternative lending is the second most funded FinTech segment, behind payments. According to a survey by The Economic Times' Prime Research, alternative financing start-ups got US\$288.4 million in funding for 36 agreements in the first half of 2018.<sup>3</sup>

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<sup>1</sup>Cash ISA advantages which mean you should still consider .... <https://www.whatinvestment.co.uk/cash-isa-advantages-and-why-you-should-bother-with-one-2617197/>

<sup>2</sup>Post-Demonetization E-Payment Trends. <https://academiccommons.columbia.edu/doi/10.7916/d8-18mf-yf50/download>

<sup>3</sup>India is going electric. Here's how | World Economic Forum. <https://www.weforum.org/agenda/2019/10/how-can-india-transition-to-electric-vehicles-heres-a-roadmap/>

Ten years ago, obtaining a loan was a lengthy process that required consumers to approach banks with evidence of their creditworthiness. By leveraging technology and reaching out to people with thin credit files, new-age lending entrepreneurs are developing alternative credit scoring models to close the US\$230 billion loan supply gap in the MSME sector. Additionally, as a result of the RBI's decision to regulate peer-to-peer lending in the country, an increasing number of companies are entering this sector, with the industry estimated to reach US\$4-5 billion by 2023.

### **III. InsureTech**

InsureTech in India has exploded in popularity over the last year. With insurance penetration in India being shallow (2.76 percent for life insurance and 0.93 percent for non-life insurance), the sector presents a tremendous potential for firms to enter the market with cutting-edge solutions. According to Venture Scanner, insuretech in India received a total of US\$462 million in funding through the first half of 2018 and is home to 66 firms. New-age start-ups are using multiple platforms to cross-sell their products due to the development of microinsurance, context-based insurance, and insurance in a sachet concept.

### **IV. RegTech**

The financial crisis of 2008 was a watershed moment for regulators worldwide, motivating entrepreneurs to establish roots in Regtech, as conventional players must comply with regulators' standards due to ever-changing regulatory regulations.<sup>4</sup> RegTech start-ups are focused on streamlining their compliance management processes by breaking down statutory duties into simply digestible procedures and automating critical reporting components through data. FinTech firms operating in these industries use chatbots, trading platforms, and investment products. Additionally, they have established markets to sell products from various sectors. These markets consolidate financial services and goods such as insurance, credit cards, and loans, which appeal to clients.

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<sup>4</sup>Reputation in Financial Services: Problem Solved? - ENGINE MHP. <https://www.mhpc.com/reputation-in-financial-services-problem-solved/>

## **A Plethora Of Factors Impact The Indian Fintech Industry.**

In the recent decade, the expansion of FinTech (Financial Technology) has taken center stage in the worldwide financial services business. FinTechs' sleek and efficient offerings throughout value chains have permanently altered the financial services industry's status quo. Enabling technologies such as exponentially increasing processing power, extensive internet usage, and more incredible internet speed and coverage have enabled FinTech solutions and companies to reach global markets profoundly, widely, and swiftly. Additionally, rising demand for inclusive financial services, rising customer expectations, and the business imperative to lower costs while providing faster, safer, and more dependable services contribute to FinTech's rise and expansion.<sup>5</sup> Real-time payments, speedier loan disbursement, investment advising, transparent insurance advisory and distribution, and peer-to-peer lending are becoming a part of the digital-native FinTech ecosystem. The industry's winds of change are fueled by breakthroughs in technology such as automation, data science, artificial intelligence/machine learning, smartphones, and telecommunications, which are ushering in a new era of FinTech players.

### **Significant Challenges for India's Fintech Industry**

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Though the FinTech ecosystem in the country has evolved at a breakneck pace, it has not been without its share of hitches and hurdles. While the actual number of FinTech participants in the world is unknown, the industry agrees universally on India's significant contribution to the global FinTech scene in start-up numbers, investment values, userbase, and transaction volumes. Several critical difficulties and challenges confronting the sector concerning the past and future growth of the FinTech business in India include the following:

- **Data security and privacy risks:** - In the financial services industry, data leaks, platform downtimes, and information theft have become increasingly common. FinTechs are built on data. Developing a robust data protection strategy is critical, and players will need to invest heavily in mechanisms to mitigate this risk and adhere to regulatory standards for data security.

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<sup>5</sup>The Boom of Fintech Industry in 2021: A Retrospect. <https://www.panamaxil.com/blog/fintech-industry-2021-a-look-back/>

- **Diverse adoption:** -Adopting FinTech is not straightforward for every organization. It is particularly challenging for an economy like India's, dominated by MSMEs primarily on the fence about digital adoption.
- **Regulations that are constantly changing:** - India has to accelerate its regulatory maturity in the FinTech space. Regulatory compliance is not free, and frequent changes do little to instill confidence in businesses. Several regulations, such as investment exits, cryptocurrency, payment systems, data security, infrastructure security, and consumer protection, are still developing. On the other hand, we realize that FinTech is a dynamic business and that real-time regulatory adjustments are critical to keeping pace with that dynamism. Regulators must balance progressive reform and avoid regulatory overkill on the fledgling industry.
- **Financial literacy and awareness are lacking:** - India's rural population exceeds 70%, and usage of these FinTech platforms is mainly centered in the urban segment. This sector must expand into smaller cities and towns due to increased awareness and financial literacy.

## **Market Trends in the Indian Fintech Industry**

Globally, the Financial Technology (FinTech) business has advanced from being the new kid on the block to becoming the norm in financial services during the last decade.<sup>6</sup> The tailwinds demonstrate that the barriers between technology and business are becoming increasingly blurred. Both start-ups and important financial institutions see the value of technology innovation and exploit it to create unique products and solutions for their clients.

- ✓ FinTechs, BigTech, and corporate behemoths are racing to build India's first genuinely complete financial services SuperApp.
- ✓ Buy Now Pay Later is redefining the rules of credit in India, enabling citizens to forego credit cards in favor of digital credit at the moment of purchase.
- ✓ InsurTech fosters product innovation, and digital distribution increases insurance product penetration.
- ✓ Neobanks are gaining traction by providing hyper-personalized banking experiences to (served) portions of the client base.

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<sup>6</sup>How The Battle Between Fintech Vs. Banks Could Pan Out In .... <https://www.inventiva.co.in/trends/how-the-battle-between-fintech/>

- ✓ WealthTech was a pleasant surprise during Covid. It is reshaping the investment environment and attracting many first-time stock investors.
- ✓ Embedded banking, fueled by API banking development, enables any organization (financial or non-financial) to incorporate FinTech as a feature and expand on the ecosystem they control or influence.
- ✓ The micro, small, and medium-sized enterprise (MSME) sector is the next battleground for FinTech. Start-ups, large technology companies, and conglomerates are all fighting for a piece of this market. Covid19 has expedited the adoption of digital by small and medium-sized businesses, ripe for disruption.
- ✓ Digital lending, one of the most funded FinTech business models, is maturing, with an increased emphasis on collection.
- ✓ Digital payment attracts significant capital and has the highest number of start-ups queued up for an initial public offering. The conflict has shifted from issuance to acquisition. With decreasing margins, players continue to innovate new ways to make money through cross-selling other financial products using payment as a hook.



These headwinds herald a paradigm shift in India's manufacturing, delivery, and consumption of financial services and products. Adoption of new technology, not just through the development of an exclusive intellectual property but also through leveraging partnerships with other FinTech ecosystem stakeholders, has become critical for growth for all types of companies. The Indian FinTech story is unique in that it has brought together FinTechs, Financial Institutions, regulators, and governments to determine its course. This type of collaboration via technology and policy levers is required to attain higher peaks and sustainable growth.

## Conclusion

FinTech's opportunity is to grow the market, shape client behavior, and influence long-term changes in the financial system. Indian Fintech firms have the potential to address a number of the fundamental structural issues plaguing Indian financial services - expanding outreach, improving client experience, reducing operational friction, and promoting digital channel adoption and usage. As conventional banks and financial service providers play catch-up with these more agile and inventive start-ups, their legacy-prone processes and higher operating costs will give digital FinTech start-ups an advantage.

In three ways, Indian FinTech firms can transform the financial services landscape:

- FinTech businesses are anticipated to lower financial service costs and increase service quality. Without the burden of outdated operations, information technology systems, and costly physical networks, the advantages of leaner operating models may be passed on to customers.
- The FinTech industry will create novel and inventive risk assessment models. By leveraging big data, machine learning, and alternative data to underwrite credit and produce credit ratings for customers with limited credit histories, India's financial services penetration will increase.<sup>7</sup>
- FinTech will reshape the financial services sector, making it more varied, secure, and stable. FinTech firms are less homogeneous than traditional banks and provide excellent learning opportunities to enhance capabilities and culture.

Similarly, incumbents can learn a great deal from rising FinTech start-ups. Fintech companies can also benefit from and embrace best practices in risk management and internal controls, operational excellence, compliance culture, and employee engagement, which have proven successful for most of India's banks and financial services providers.

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<sup>7</sup>What's Driving India's Fintech Boom ... - Knowledge@Wharton. <https://knowledge.wharton.upenn.edu/article/whats-driving-indias-fintech-boom/>

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