

OPPORTUNITIES AND CHALLENGES OF FINTECH IN INDIA

***Aparna Devi U, **Dr. Reshmi R. Prasad**

Abstract

Fintech, as it is more popularly known, is a term used to describe emerging technology that aims to enhance and automate the provision of financial services. Fintech offers options for banking and non-banking finance services. India has the world's fastest-growing fintech services industry. Fintech services will alter the financial sector's practices and behavior in India. The primary objective of the article is to examine the opportunities and difficulties of the financial technology industry..

Key words:- Fintech, Banking and Non-Banking Finance Services, Opportunities and Challenges.

*F*intech is the term for the process through which financial services organisations incorporate technology into their products and services to enhance the usability and delivery to customers. It mostly functions by disentangling these companies' products and opening up new markets for them. Companies in the

finance sector that use fintech have increased financial inclusion and use technology to reduce operating expenses. When fintech became popular in the 21st century, it was used to describe the technology used in the backend systems of reputable financial organizations, such as banks. There was a move to consumer-focused services between 2018 and 2022.

**Aparna Devi U, Research Scholar, Loyola College of Social Sciences, Sreekaryam, Thiruvananthapuram.*

***Dr. Reshmi R. Prasad, Principal, All Saints' College, Thiruvananthapuram.*

Nowadays, fintech spans a variety of fields and industries, including investment management, retail banking, fundraising, education, and so on. Fintech, according to the Financial Stability Board, is “financial innovation that is technologically enabled and may lead to new business models, applications, processes, or products with a material impact on financial markets and institutions and the provision of financial services.”

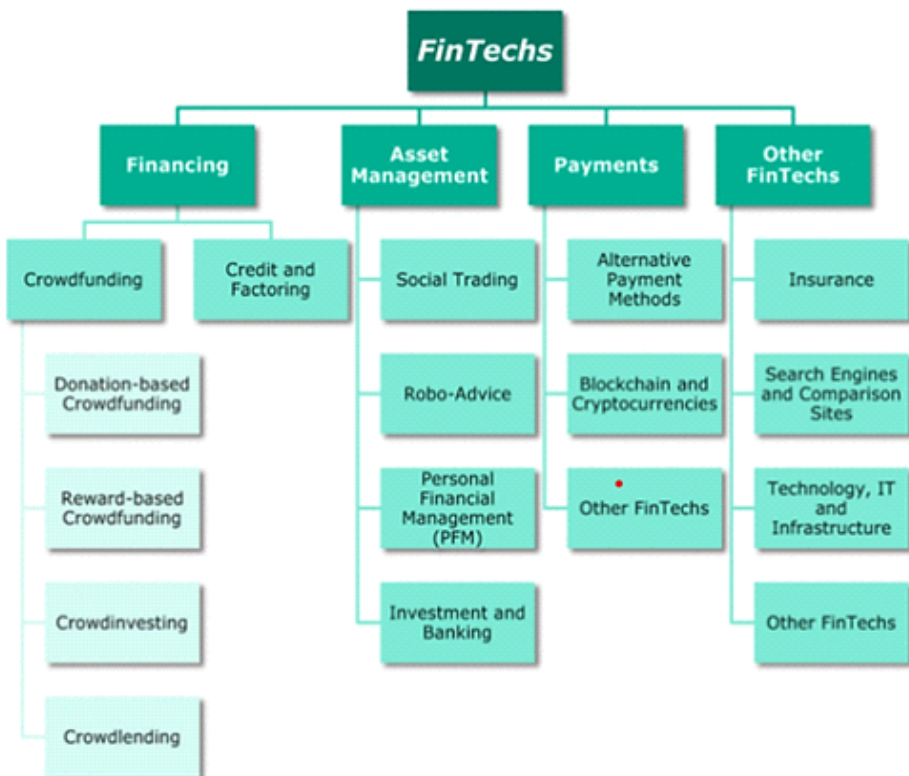
However, there are numerous components that can be informally categorized into four primary divisions, including financing, asset management,

payment, and other FinTechs, according to Dortfleitner et al. (2017: 34–36).

Areas of Fintech Innovation

- Crypto currency (e.g., Bit coin, Ethereum), digital tokens (e.g., non-fungible tokens, or NFTs), and digital cash are all examples of digital assets. These frequently rely on block chain technology, a distributed ledger technology (DLT) that keeps records on a network of computers but does not have a central ledger. Smart contracts, which use code to automatically execute contracts between parties such as buyers and

Figure 1
Segments and elements of Fintech (Source: Dortfleitner et al. 2017)



sellers, are also possible with block chain.

- Open banking is a concept that argues that everyone should have access to bank data in order to build apps that form a network of connected financial institutions and third-party providers. Mint, an all-in-one money management solution, is one example.
- Insurtech is an initiative that aims to improve and automate the insurance sector through technology.
- Regtech aims to assist financial services companies in adhering to compliance regulations, particularly those pertaining to anti-money laundering and know your customer fraud prevention measures.
- Robo-advisors, like Betterment, automate financial advice using algorithms to lower its cost and broaden its accessibility. One of the most popular applications of fintech is in this area.
- Cybersecurity and Fintech have become interconnected since cybercrime is on the rise and data storage is decentralized.
- The adoption of AI Chatbots in 2022 is another illustration of how Fintech is becoming more prevalent in everyday life.

Fintech in India

India is one of the Fintech marketplaces with the quickest growth rates in the world, and there are 6,636 Fintech businesses in India. The market

for Indian Fintech is around USD 50 billion in 2021 and USD 150 billion by 2025. In terms of digital payments by volume (CAGR 50 per cent) and value (CAGR 6 per cent), India's payment scenario has grown over the past ten years to become the most sophisticated payment system. At a CAGR of 20 per cent, the value of Fintech transactions is anticipated to increase from USD 66 billion in 2019 to USD 138 billion in 2023. Payments, Lending, Wealth Technology (WealthTech), Personal Finance Management, Insurance Technology (InsurTech), Regulation Technology (RegTech), and many other sub segments make up the Indian Fintech business ecosystem. In total, the Indian Fintech market has attracted USD 29 billion in funding across 2,084 deals so far (January 2017–July 2022), capturing 14 per cent of the worldwide funding and taking the second position in terms of deal volume. India has 23 Fintech firms that, as of July 2022, have achieved "Unicorn Status" with a valuation of more than \$1 billion. As of July 2022, India's Unified Payments Interface (UPI) has 338 banks participating and had recorded 5.9 billion monthly transactions worth more than USD 130 billion. UPI recorded over 6.28 billion transactions in July 2022, a new high since the service's inception in July 2016.

The Fintech revolution in India is the result of years of work establishing the foundation for creating key enablers through significant projects:

- **Jan Dhan Yojana:** The largest financial inclusion initiative in the world, "Jan Dhan Yojna," has assisted in the opening of new bank

accounts for over 450 million beneficiaries in order to facilitate direct benefit transfers and access to a variety of financial services applications, including remittances, credit, insurance, and pensions. This has allowed Fintech companies to develop technological products that will appeal to India's sizable consumer base.

- **Financial Literacy:** The establishment of the National Centre for Financial Education and the execution of the Center for Financial Literacy project by the RBI are two recent initiatives aimed at enhancing financial literacy in India. With these actions, financial education is intended to be promoted for all demographic groups in India.
- **E-RUPI:** E-RUPI is a person- and purpose-specific digital payment system that enables cashless and contactless payment options. It will be crucial in enhancing the efficiency and seamlessness of the Direct Benefits Transfer.
- **India Stack:** India Stack is a collection of APIs that enables enterprises, entrepreneurs, and developers to employ a special digital infrastructure to address India's challenging issues around the delivery of presence-less, paperless, and cashless services. The acceleration of Fintechs' evolution has been fueled by the India Stack. It is one of the most significant digital efforts ever undertaken, with the goal of creating a public digital infrastructure built on open APIs to support both public and commercial

digital activities. It has also contributed significantly to the development and foundation of India's digital economy.

Key Growth Drivers and Opportunities in Indian Fintech Sector

• **Access to Capital**

The availability of finance from VC and PE firms is critical for Fintech startups to grow. In 2021, India received over \$7.8 billion in VC Fintech deals. Overall Fintech funding in 1H2022 reached \$2.47 billion, headed by \$0.5 billion in lending and followed by \$0.3 billion in payments. Furthermore, Wealth, InsurTech, and neobank players are fast moving from infancy to promising critical mass acceptance, creating investment opportunities for investors.

• **Regulatory Stance**

Financial services regulators have acted as drivers for the growth of the country's Fintech sector. Government programmes have also contributed to the growth of Fintech and the broader digital financial services environment.

• **Tech-enabled Industry collaborations**

Collaborations between traditional financial service providers (mainly banks) and Fintech companies are now commonplace, made possible by the spread of APIs and data exchange standards. With fewer new licences available, Fintech businesses must rely on partnerships to enter the market, which banks embrace. Government offices, particularly the Public Financial

Management System (PFMS), are eager to collaborate with Fintech businesses to develop improved identity verification systems to increase the effectiveness and transparency of direct benefit transfer operations.

- **Access to skilled talent**

India continues to be one of the top IT talent centers on the global arena, which helps emerging technologies develop and improve their application in problem solving for Indian industries, including Fintech. Fintech firms have also had success drawing competent individuals from the technology, e-commerce, consulting and professional services, and traditional financial services industries.

- **Emerging tech adoption**

Identity verification and authentication technologies have been one of the most important enablers of digital-only financial services in terms of consumer confidence and data compliance for regulators. Customers benefit from biometric identity verification technology such as voice, facial recognition, and iris scanning. Regulatory approval and industry adoption of modern infrastructures and emerging technologies like block chain, e-KYC, video KYC, IoT, AI, digital signatures, and account aggregation infrastructures are laying the groundwork for the future of digital-native financial services.

- **Volume of Funds:**

A significant amount of investment from institutional investors, venture capitalists, and private equity firms is fostering innovation in the industry.

Key Issues and Challenges in Indian Fintech Sector

- **Geo-political volatilities**

According to a report from Pareto Economics and Fintrail, geopolitical uncertainty impairs the global Fintech industry's growth potential. It includes their prospective prospects to develop beyond domestic markets, soliciting finance from investors while bearing in mind legislative limits on funding sources, Fin Crime mandates, bans and embargoes, and outsourcing constraints that may limit B2B tech provider Fintech. These dangers have been heightened more than ever in the recent year. Smaller Fintech firms targeting worldwide markets are more likely to be impacted, although large Fintech firms can still manage these risks thanks to dedicated compliance, Fin Crime, and risk teams.

- **Increasing data security and privacy risk**

Data and related technologies continue to be the foundation of Fintech. However, data leaks, platform downtime, fraud, and information theft have increased the threats that Fintech faces. Traditional financial services organisations are not immune to the rising reputational and economic costs of breaches. Developing a strong data protection strategy is critical, and players must invest heavily in mechanisms to control this risk and comply with regulatory data security requirements.

- **Pace of regulatory updates**

The size of India's Fintech system is substantial, and one of the most difficult

problems has been the speed with which regulatory agencies update the industry. While the financial services industry should be cautiously pro-innovative, it is wise to strike a balance between protecting customer safety and promoting innovation.

• **Low financial literacy and awareness**

More than 70 per cent of India's population lives in rural area, and the use of these Fintech platforms is primarily focused in the urban segment. Furthermore, according to a SEBI report, just 27 per cent of Indians are financially literate, posing a significant barrier to on boarding new and informed customers. Fintech is predicted to spread to smaller cities and towns, innovate for the public, and raise financial literacy and awareness.

Conclusion

Fintech refers to the process by which financial services businesses adopt technology into their goods and services to improve usability and client delivery. It mostly serves to organize these companies' products and open up new markets for them. Companies that use Fintech in the finance sector have boosted financial inclusion and use technology to lower operating expenditure. India is one of the world's Fintech markets with the fastest growth rates. In India, numerous elements such as demography, technological support, increasing internet users, and so on contribute to the expansion of Fintech sector. Despite the obstacles, India's Fintech sector is on an upward trend.

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