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AN INSIGHTFUL STUDY OF INDIA'S FINTECH INDUSTRY AND IT'S FUTURE GROWTH PROSPECTS

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ABSTRACT

FinTech refers to the incorporation of digital technology into the financial sector. It gives clients from various locations the ability to access extensive banking and financial services through a standard interface. Given the current situation, cash substitutions have become increasingly important. FinTech provides infrastructure in the form of digital transfers, WealthTech, InsurTech, RegTech, and plenty of other services. This article discusses how India approaches this modern phenomenon. With over 2100 fintech companies established in the last five years and the highest fintech adoption rate, 87 percent, compared to the global average of 64 percent, clearly, India is making a name for itself in the world of FinTech. Ever since these start-ups pushed the financial system towards an untapped population, India has established itself in the digital world. Also, the Indian FinTech movement is all geared to breaking records by enriching all its stakeholders. Whilst having powerful foundations like digital payment infrastructure, a constructive political establishment and regulators, and broad coverage of its financial services. In the end, the FinTech landscape has moved economies forward by strictly adhering to the expansion of alternative solutions. As a result, the study focuses on India's FinTech ecosystem, including how its resources and intelligence can help expand globally and develop a significant position in this interconnected universe.

Keywords: FinTech, Financial Sector, Digital Technology, Digital Payment Infrastructure.

1. INTRODUCTION

Fintech is a blend of the word’s "finance" and "technology", so it applies to every company that practices technology to improve or automate financial products and services. It is arguably the largest emerging segment of the banking and financial services professions. Fast expanding business world that caters to both individuals and companies in numerous ways. It is transforming the financial experience by offering a more interactive, customized, and engaging system. Further, Fintech not only provide a digital payments infrastructure, but also quick lending mechanisms. This also provides innumerable services viz. WealthTech, InsurTech, RegTech,

The FinTech services industry is a crucial shaper of different, yet viable, approach to the Indian economic system's stressful pitfalls. Like to put the bottom rail on the top, either for the under banked or unbanked, India's challenge with the distribution of wealth is exceptional. Besides India's insurance, infiltration is ridiculously limited, with only 3.76 percent of GDP, especially when compared to Asian nations like Malaysia, Thailand, and China, which feature adoption rates of 4.72 percent, 4.99 percent, and 4.30 percent, consecutively (India's Insurance, 2021). Fintech businesses in India do have the capacity to change the banking and finance environment by lowering prices and enhancing quality, along with building alternative risk appraisal modalities or secure payment mechanisms.

Establishing India as a robust digital economy and leading transition do need the confluence of financial services and accelerated innovative technologies. FinTechs' spread across India has been propelled by expanding relationships with conventional banking, insurance, and retail industries that are aggressively adapting to changing client requirements. Besides, the Digital India approach has been crucial in shaping payment systems. Already, millions of Indians have opted for digital transactions. People in India embraced Fintechs in a variety of fields; even financial institutions have positively welcomed Fintechs. As a result, the presence of Fintechs in India grew considerably. As per the joint report of BCG and FICCI, 67 % of India's 2100+ Fintech companies are being formed during the last five years. Currently, eight companies have attained the prestigious "billion-dollar valuations" landmark, with another 44 Fintechs worth US $100 million or more. The Indian fintech market has grown to a net worth of US$31 billion and is set to thrive to US$84 billion by 2025. Compared to US$284.9 million in China, 33 new fintech investment agreements worth US$647.5 million have been sealed in the Indian market by June 2020. As far as location is concerned generally fintech businesses locate their headquarters in Bengaluru or Mumbai (Kapur, 2021).

Considering the current scenario, substitution of cash has become extremely relevant. India has positioned itself into a digital age with Fintech start-ups driving the banking industry. Likewise, natives that are faraway are open to the idea of digital payment choices which has caused the ascent of Fintech players in India. Within the digital revolution, mobile wallet operations have outperformed credit card usage and will gradually supplant conventional payment methods. Fintech industry is supporting established banking and financial service. Still on certain occasions, some organizations are challenged given the increased data analytics convolutions.

2. REVIEW OF LITERATURE

There are studies that focus on the challenges as well as the future possibilities of Fintech in terms of financial inclusion, technology, and financial services within India. Potentially, we look at financial inclusion as a major facilitator of the Fintech sector, as well as the causes for India's Fintech upsurge and privacy and security vulnerabilities (Prasad, 2019). To facilitate digital platform, services have resulted into a safe and interconnected financial sector. Underlined effect of incentives, policies, and regulation are implemented by the RBI and the Government of India (Kandpal & Mehrotra, 2019). There are three aspects to the word Fintech: the innovation object (Business Model, Product/Service, Organization, Process, System), the innovation degree (disruptive and incremental), and the scope of the innovation (inter-organizational and intra-organizational) (Puschmann, 2017). Besides, there are five main components: Fintech startups, government, conventional financial institutions, financial customer base, and tech developers. Indeed, the Block chain, alternative lending, robo advisory, digital payments, and a change in the insurance industry are some of the developments that will shape the fate of the Fintech ecosystem in India (Vijai, 2019). RegTech and SupTech deal in a variety of financial concerns and regulatory efforts that improve the efficiency and effectiveness through process automation. The central KYC registration, designing financial instruments, minimizing the gender gap, attempting to bring more merchants onto the online world, smart point of sale (pos) terminals, and Quick Response codes, among other things, are all possibilities (Raj & Upadhyay, 2020). Elucidate emerging Fintech developments, types of Fintech firms along with Fintech menace consist of market share erosion, lower margins, operational risk, and a widening bank dependency on FinTech technology advances (Romānova & Kudinska, 2017).

The influence of technology on the banking sector and financial services is being studied. Moreover, some studies highlight cross country comparisons with India. China is shown to be ahead of the rest of Asian nations in terms of financial technology breakthroughs. The study by Gupta and Xia (2018) discusses how India might benefit from digital payments and the legal structure in place for India. This study examines Fintech services in Kenya, India, and China, as well as their regulatory frameworks and practises towards increasing financial inclusion through technical innovation in financial products. Many tailored financial services in Kenya and India, as well as peer-to-peer lending digital platforms in China, are part of the financial technology revolution (Guild, 2017)

3. OBJECTIVES

The purpose of the research article is to**:**

i. Analyse the growth of Fintech industry in India.
ii. Review evolution of Indian Fintech system.
iii. Identify determinants influencing the Fintech Industry in India.
iv. Suggest measures to build on Fintech industry in India

4. INDIA'S FINTECH INCLUSION

With the emergence of e-marketing strategies in the nineties, and by the next decade, digitalized banking services had moved the world thoroughly to a new and higher level of financial innovation. As far as India is concerned, ICICI Bank made the inception possible with the advent of new financial innovation like internet banking to penetrate the market. Other banks jumped on due to the bandwagon effect, redefining the banking landscape. Likewise, in 1987 HSBC installed the very first ATM in Mumbai. The Central Bank of India released the maiden credit card in 1980. Yet no surprise that banks has encountered problems such as technological difficulties, embezzlement, convoluted cross-border procedures, payment methods, and so on (M2P fintech, 2021).

In India, 'Demonetization' in 2016 was another famous episode that changed the Fintech ecosystem. Up to that point, presumably rare entities dared to launch as Fintech firms but the following financial crisis in India bloomed on the global picture. The decision to ban big bucks, Rs. 500 and Rs. 1,000 effectively dab away 86.4 percent of monies from the structure abruptly. When traditional monetary systems went astray, people were required to adopt cashless transactions via digital operations. Privacy and accountability turned more crucial than ever. Such adjustment in approach, combined with cloud computing technology, led to the creation of personalized products and standard procedures, like getting access to one's bank account, making payments, and fund transfer, instantaneously converting currencies. UPI, Pradhan Mantri Jan Dhan, Start-up India, payments banks, Digital India initiative, accreditation of peer-to-peer lenders as NBFCs, National Common Mobility Card, as well as e-Rupi are among the government initiatives that have boosted financial services. On top of all, during the corona virus, India's fintech sector brought assistance for the masses by empowering them to execute important pursuits at the ease of their dwellings.

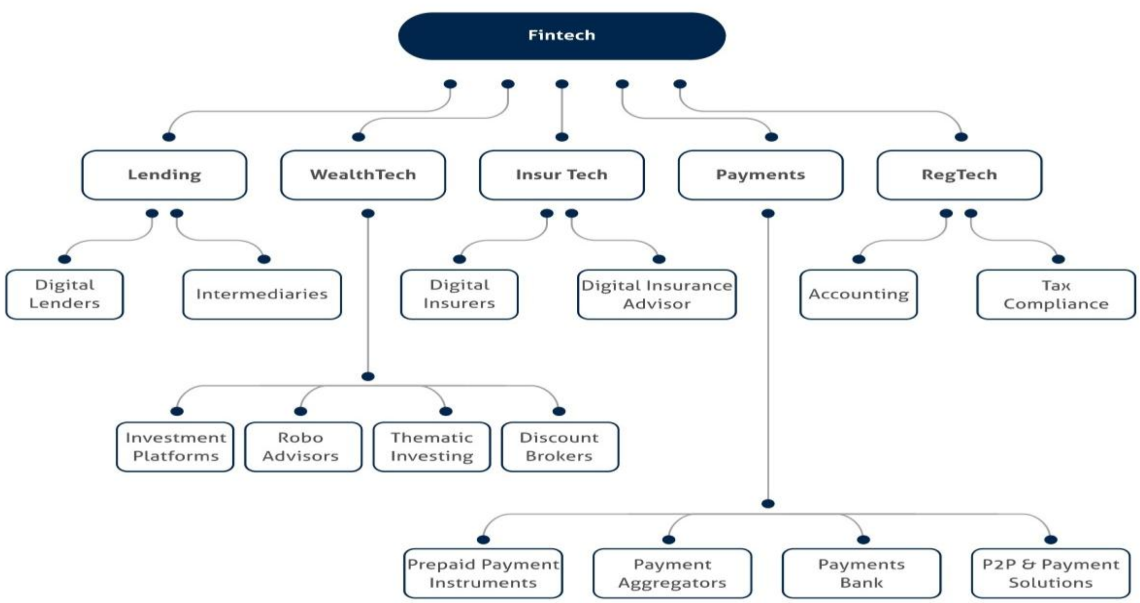

Figure 1: Fintech setting in India
Source: RBSA Advisor report FinTech Industry in India - Future of Financial services; p9; February 2021.

Fintech companies often strive to satisfy the credit requirements of the underserved and underdeveloped areas of the economy. In that context, MSMEs made a substantial contribution to the nation's socioeconomic activities as an outlet for occupation, development, and entrepreneurialism. Notwithstanding their critical significance, MSMEs obtain a relatively tiny share in financial loans. Referring to an RBI study, overall lending commitment as of June 2020 stood at US$ 919.06 billion, with MSMEs accounting for just 25.27 percent of total financing, or US$ 232 billion. Furthermore, the anticipated loan needs for Indian MSMEs indicate a massive credit imbalance of nearly US$ 219 billion (business fast, 2021). This offers a great promise for Fintech companies into institutional credit through Merchant Lending. Provided banking may be divided into digital lending & intermediaries. These divisions employ information and analytics to screen and advance credit. The retail lending aspect mainly incorporates services such as personal loans.

5. RISE OF INDIAN FINTECH SYSTEM

In India, the financial technology sector has been sprouting over the last decade. Certain regulatory interventions have been enacted in India to safeguard client interests, stimulate investment and innovation, to provide resilient and sustainable structural support to firms. This area must stay during the watch over by several diverse authorities such as the Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI), Ministry of Electronics and Information Technology (MEITY), Ministry of Corporate Affairs (MCA), and Insurance Regulatory and Development Authority of India (IRDAI). The government and regulatory bodies are considered catalysts for the Fintech sector's expansion in India. Accordingly, RBI had already built a system for a regulatory sandbox, enabling Indian Fintechs to experiment their products without complying with any regulatory obligations. Besides, SEBI and the Bombay Stock Exchange (BSE) jointly created an online innovation sandbox platform to stimulate advancements in the securities market. This initiative helped to support the premise of an innovation sandbox where Fintechs may assess their apps before launching them in a live setting.

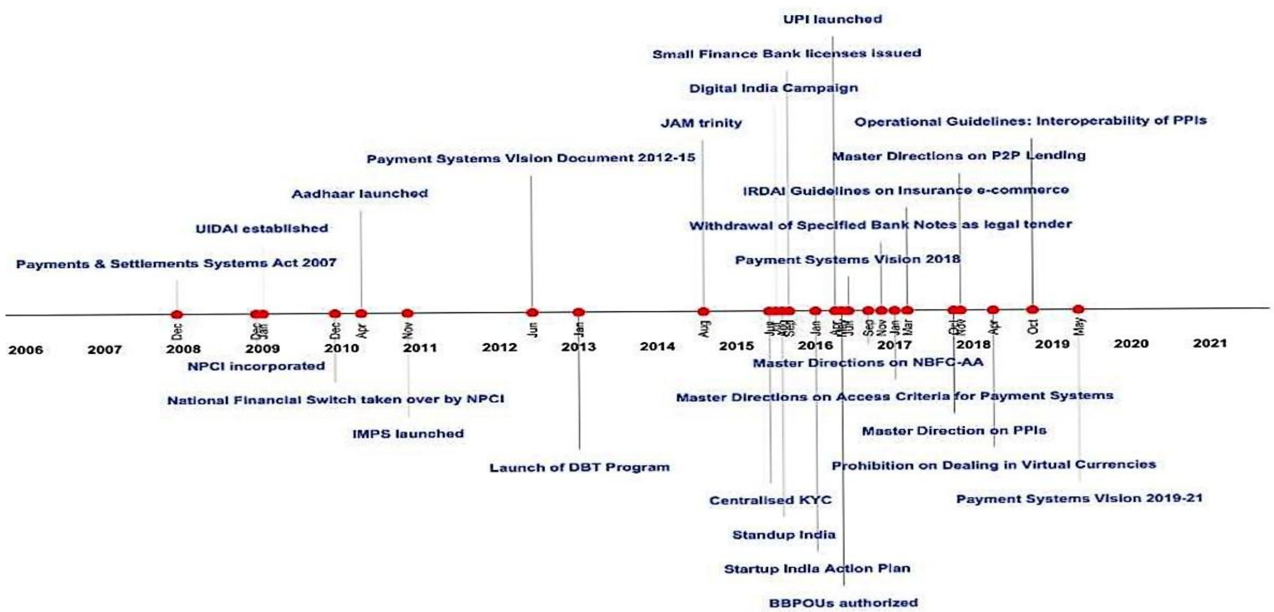

Figure 2: Framework of Indian Fintech

Source: RBI Bulletin November 2020; RBSA Advisor report Fintech Industry in India - Future of Financial services; p22; February 2021.

India has always been a cash-based society with a sizable informal sector. In recent times, blending has evolved between banking institutions and the virtual world of tech firms. This phenomenon is well-known as Fintech, a term for financial technology. It contains services such as internet banking, electronic payments, and credit and debit cards, digital insurance, etc. The manners in which monetary functions are carried out have revolutionized the concept, Fintech. Besides unlocking economic opportunities, digital payment connectivity has been extremely effective.

In India, a bank-led strategy has been enfolded. When it comes to floating, the tactics have been to indulge banks, whilst non-banks eg: Paytm and PhonePe, can partake by charging some premium. RBI has traditionally been the major facilitator of digital transactions. RBI and the Indian Banks' Association (IBA) mentored the formation of NPCI, which serves as an apex body for India's retail payment infrastructure. IMPS, RuPay card, UPI, NACH, Aadhaar-enabled Payments System (AePS), Aadhaar Payments Bridge System (APBS), NETC, *99# (USSD based), and BBPS transpires amongst its offerings. In addition, NPCI's partnership with foreign associates namely Discover Financial Services, Japan Credit Bureau, and China Union Pay has opened the road for RuPay to be accepted as a means of transactions abroad (Payment and Settlement Systems in India, 2021).

6. DETERMINANTS INFLUENCING THE FINTECH INDUSTRY

Increased accessibility, acceptance of emerging technologies and innovation, management capacity, and so forth, are some vital components in guaranteeing secure and speedy transfers, this helps to build trust in fintech. Here is a listing of a few important deciding factors:

6.1 Funding **-** Investment is necessary not just for existing firms to expand, but also for start-ups to grow and prosper. The amount of money poured into Fintech in the last several years has seen an upsurge throughout the world. For India, the amount of investment is just insufficient albeit growing.
As shown in Figure 3, the fiscal year 2019 has been the strongest year in the past four years in terms of deal value and count. The period 2018 demonstrates consistency in executing agreements throughout quarters with the maximum amount, although it exhibits a decline. In 2020, the Covid hit the universe, still just after the third quarter, investment surged. 2021 has bestowed India a vibrant beginning with $2 billion funding inside the first half, equalled its cumulative fintech investment in 2020.

6.2 Human capital – Fintech start-ups primarily supplicate for entrepreneurial and technical abilities. Entrepreneurial skill is perhaps the most challenging to assess since it is based on folk's endurance to take risks and implement innovative conceptions. However, it also depends on many factors ranging from safety to business climate. The technical skills are contingent on the presence of IT firms. Still, India excels admirably in this area, with a plethora of low-cost IT professionals clustered in the tech hotspots of Bangalore, Gurgaon, Pune, and Hyderabad. Computer scientists, programmers, and coders are examples of technical knowledge.

6.3 Regulation – India has a long way to go in respect of ensuring protection to business platforms like cryptocurrencies. Given the vibrancy of the Fintech space, a regulatory paradigm will need to be completely integrated. Likewise, cross-border transfers are presently not being routed via modern digital start-ups but instead over conventional banking mechanisms. A universal set of standards, uniform linguistic and harmonized KYC guidelines together with appropriate regulation might open a window of international transactions via Fintech.

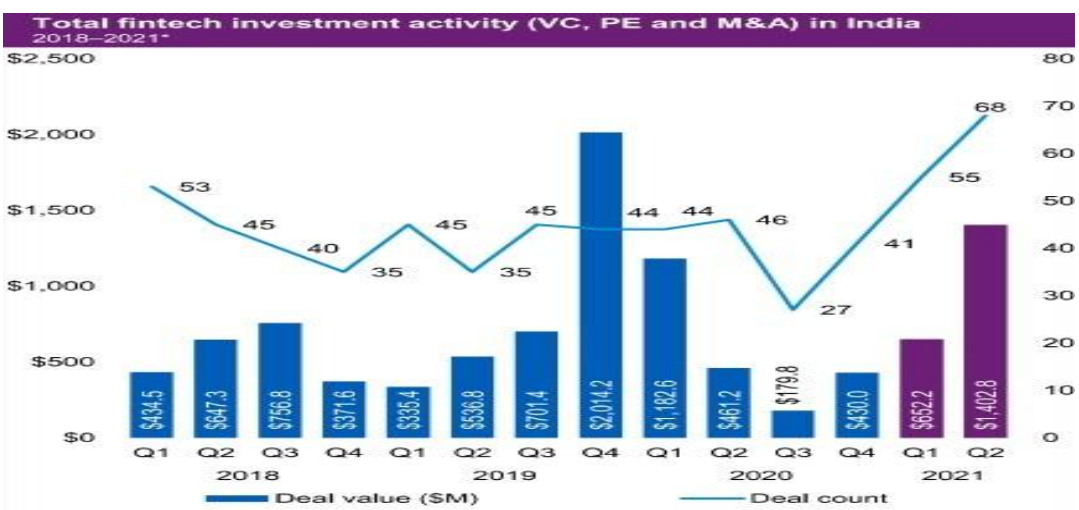

Figure 3: Fintech investment, value, and volume

Source: Pulse of Fintech H1'21, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), bi-annual report 2021.

6.4 Data Jeopardy – Fintech is centred on data, artificial intelligence, and machine learning. Data breaches, system failures, and cybercrime are becoming so prevalent inside this industry. Therefore, establishing a robust data security mechanism is critical, plus participants must invest profoundly in techniques to limit inherent risk. Similarly, adherence to the rules for security and privacy consciousness, and digital literacy is a must. Moreover, data management and the decision of sharing personal data with applications and websites must be practiced as a fundamental right by the Indian masses.

6.5 Smartphone and Internet Penetration – As shown in a Newzoo survey, India is second in the world in terms of Smartphone users, trailing only to China, with 439.42 million i.e 31.8% active users in 2020. Besides, total number of internet users in India kept rising. According to ICUBE 2020 estimations, 622 million Indians are active internet users out of 1433 million. That signifies that over 43% of the Indian population, including urban and rural has used internet services at least once in the month before the survey. The number will continue rising, predicting about 900 million or perhaps more active internet users in India by 2025 (Bhattacharjee et al, 2021).

7. CONCLUSION AND GROWTH PROSPECTS

Since India has the colossal rate of fintech adoption, that is 87 percent, compared to a worldwide average of 64 percent. Generated a new milestone; 3.6 billion UPI transactions worth $68 billion during Aug. 2021. (*Hindustan Times*, 2021). This indicates that India has the potentials to develop Fintech both vertically and horizontally in the foreseeable future. As a result of horizontal expansion, existing infrastructure may become more evident to a range of individuals. While newer financial innovations may arise because of vertical expansion. Providing users with novel ways to deal, invest, save, and recreate their financial affairs. These types of developments will help the country advance towards financial competence.

Given the enormous opportunity for innovation, Fintech might face an array of alternatives and quandaries. To become far more economical, reliable, inclusive, and robust, authorities must work on general services problems. For instance, cross-border transfers remain unfamiliar turf for Fintech firms, implying that appreciable breakthroughs could be achieved within the current setup. Also, the Indian economy is reforming as highly data-rich with internet and cell phone penetration swell, so the next priority must be to potentially generate appropriate policy and institutional efforts. Data localization becomes prominent across such situations where data shall solitary be processed in India. Besides, companies must concentrate on compliance with laws related to cyber-security risk handling. Wherein, individuals have the same rights over their data as they do over physical events. Seeing that India is among the world’s rapidly booming economies, indeed a place whereby a Fintech revolution is changing individual lives. As a result, it is necessary that India emphasizes more on specified aspects that might help its Fintech business.

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