

# Fintech Services: An Indian Scenario



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## Abstract

The use of FinTech in India is rising but it poses both a threat and an opportunity for Indian financial sector. Its impact will be felt on the supply side like changing business models for banks, driving efficiencies and outreach and also on the demand side. It will change way that India's population accesses and uses financial services. Currently, the FinTech services are limited to the payment side only and the largest FinTech companies are emerging are providers of mobile wallets and digital payments. Since the beginning of 2015, two third of investment in Indian FinTech has gone into this space. Two of these companies, PayTM and FINO PayTech, have grown sufficiently large to receive Payment Bank licenses from the Reserve Bank of India (RBI). These businesses will get a further boost from the government's demonetisation drive. This new wave of Indian FinTech companies will identify inefficiencies and gaps in the structure of existing financial systems and will find technology based and innovative solutions for the same. Data analytics, distributed ledger technology and artificial intelligence are three key examples of these growth areas. The opportunity for tech-based solutions to reduce transaction costs and information asymmetries is enormous, and should support a rapid increase in financial inclusion for India's poorer populations. In spite of tremendous growth opportunities, the Indian FinTech system is still in incubation stage. There exists a knowledge gap as the regulators are studying the growth of market and taking time to decide the ways to intervene as far as regulation aspect is concern. *The present Research Paper attempts to analyse the growth of FinTech Services in India and also to identify its pros and cons for existing Indian Financial System.*

**Keywords:** FinTech, Financial Inclusion, Financial Sector, Digital Payments, Demonetization.

## Introduction

The scenario of Indian Financial Services is changing rapidly specially after introduction of Fin Tech services, in adoption of these services India is at second place, after China. The Indian consumers have started using mobile wallets and PayTM for their payments of day to day transactions. To compare and purchase the products offered by banks and insurance companies, customers use aggregator sites. In the area of investments also peer to peer (P2P) platforms for high interest investments, various investment sites and online stock broking are trending these days. Digital lenders are providing simple and paper less experience to the borrowers. India is moving to the higher ranks in the club of global Fin Tech services. The basic reasons behind this upsurge are urging of Indian customers for simple, innovative and personalized financial services, especially for the young consumers. The Aadhaar Ecosystem is simplifying the account opening and other services for the FinTech service providers as in past few years India has also developed world-class architecture for financial services. The regulatory framework in India is also becoming conducive for the FinTech services. The newly licensed payment banks are driven by ecosystem approach towards banking for integrating huge network of financial service providers where probably these FinTech service providers can play important role. The RBI has also issued detailed guidelines for P2P lending.

These changes have significant implications for authorities. When the process of basic customer engagement is concerned the financial services have important role to play in value chain and are capable of rapid innovation. The major challenge in front of regulatory authorities is to place models to collaborate all the participants of this value chain. On the other hand, FinTech firms will indeed struggle to match the customer base and scale of operations of existing providers. There exists a knowledge gap as the regulators are studying the growth of market and taking time to decide the ways to intervene as far as regulation aspect is concern. *The present*

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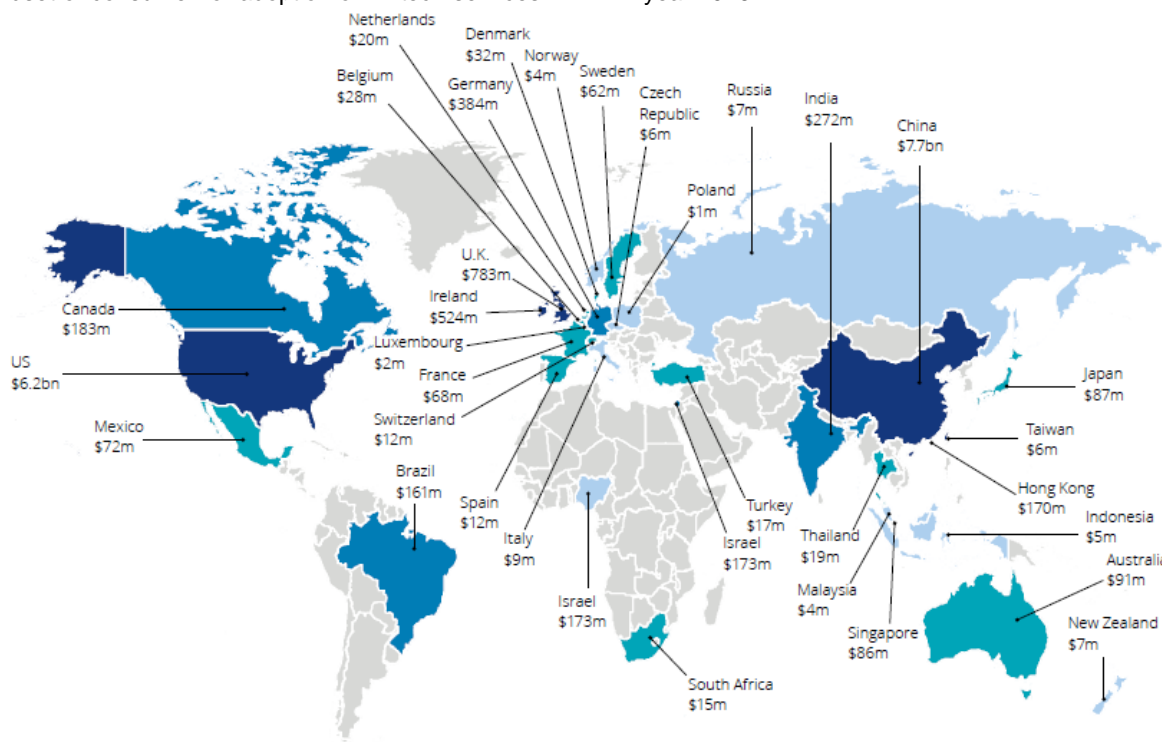
**Aim of the Study**

The present paper aims at analysing the status and growth of Fintech services in India and also the changes require in regulatory framework and mindset of consumer for adoption of Fintech services.

It also advices the Fintech service providers the ways in which they need to mould themselves for Indian environment.

**Global Scenario**

The figure given below reflects the global funding to FinTech sector in the year 2016-17. Globally \$17.4bn are invested over 1,436 deals in the year 2016-17.



**Source:** PitchBook and compiled by Deloitte<sup>1</sup>.

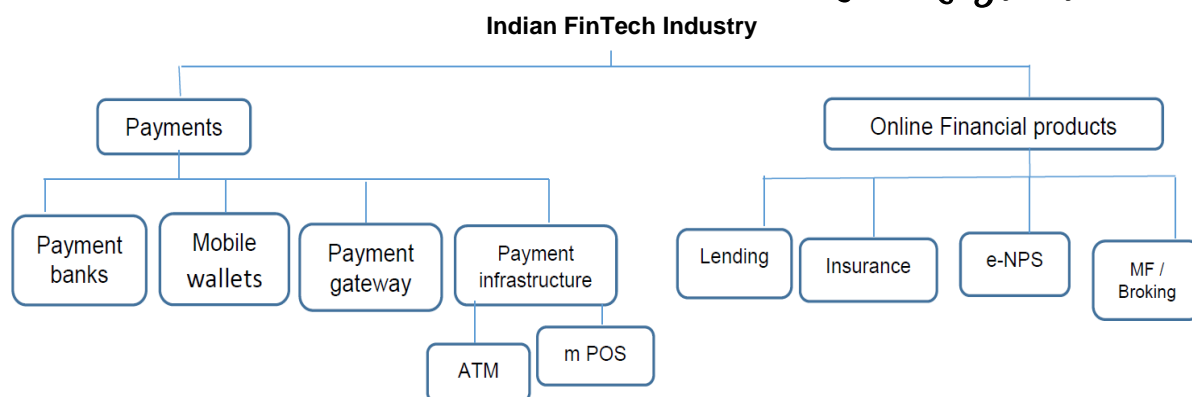
Equipped with advanced database, analytical capabilities, less asset requirements and almost nil processing costs, FinTech companies are complementing, and in some cases challenging the traditional banking and financial services institutions. The huge potential and future of the sector is clearly reflected in the global FinTech funding scenario. With more than \$17 Bn funding and over 1400 deals in 2016, Fintech is one of the most promising sectors globally. With nearly \$270 Mn funding in 2016, India is ranked amongst the top ten FinTech markets globally.

**Fintech Services in India**

FinTech sector in India is novice but it is growing very fast because of huge market base, friendly government policies and regulations and startup governed by innovations. Traditional financial sector in India is facing some core problems like less reach in interior areas and villages, limited credit history and 80% of economy is cash driven. FinTech sector can provide solutions to all these problems.

There could be drastic change in Indian financial sectors if all the participants of value chain ranging from stakeholders to ultimate customers can be linked up. The way bank and customers are carrying out their day to day transactions can be redefined by FinTech service firms.

The Indian FinTech industry grew 282% between 2013 and 2014, and reached USD 450 million in 2015. At present around 400 FinTech companies are operating in India and their investments are expected to grow by 170% by 2020<sup>2</sup>. The Indian FinTech software market is forecasted to touch USD 2.4 billion by 2020 from a current USD 1.2 billion<sup>3</sup>, as per NASSCOM. The transaction value for the Indian FinTech sector is estimated to be approximately USD 33 billion in 2016 and is forecasted to reach USD 73 billion<sup>4</sup> in 2020. The broad FinTech products/services offered in Indian financial markets are as under



Source: Working Group Report of RBI, November 2017<sup>2</sup>

**Developments in Landing landscape in India**

**Peer-to-Peer (P2P) Lending Services**

P2P landing is a form of crowd funding, where loans are raised and later paid back with interest. It provides tech-enabled platform which matches the need of lender and borrower through unsecured loans. Examples are Lendbox, Faircent, i2iFunding, Chillr, Shiksha Financial, Gyan Dhan, and Market Finance<sup>2</sup>.

**Crowd Funding**

This funding in is very novice in India. In crowd funding, external finance is raised through crowd funding platform from large group of investors. Investors can also view the ideas and plans of investee on the same platform.

**Personal Finance**

Fintech companies also provide customized financial information and services to individuals, related to, how to save, manage, and invest one's personal finances based on one's specific needs. Examples are FundsIndia.com, Scripbox, Policy Bazaar, and Bank Bazaar<sup>2</sup>.

**Direct Landing**

These platforms have valid landing licence. NBFCs offer finance to MSMEs through this platform, they provide good offers, easy processing and less processing time. These features give and edge to NBFCs over banks.

**Invoice Trading**

In addition to direct landing, the other service provided to MSMEs by FinTech companies are invoice trading. It is for the MSME struggling with working capital and cashflows due to delayed payments from the customers.

**Software Services**

FinTech companies are expanding their scope at both macro and micro level through providing online accounting software to creating specialized digital platforms connecting buyers and sellers in specific industries. Examples include Catalyst Labs in the agriculture sector, AirtimeUp which provides village retailers the ability to perform mobile top ups<sup>2</sup>.

**Equity Funding Services**

These services include crowd funding platforms for providing venture capital to early stage business operations. Examples include Ketto, Wishberry, and Start51<sup>2</sup>.

**Crypto currency**

India being a more conservative market where cash transactions still dominate, usage of digital financial currency such as 'bitcoin' has not seen much traction when compared to other international markets. There are, however, a few bitcoin exchange startups present in India – Unocoin, Coinsecure, and Zebpay.

**Block Chain**

Block chain, has recently caught the attention of a number of Indian firms. The underlying architecture of block chain is Distributed Ledger Technology (DLT). Blockchain based systems offer vastly improved trust and transparency, and due to its native regulatory advantages, the adoption of DLT in the Indian banking sector is also finding support from regulators.

**Next Generation Payments in India**

**Innovations in Branch Banking through Intelligent Robotic Assistant**

To provide consumer service and support the Intelligent Robotic Assistant (IRA), robotics is used these days. This service will provide guidance to the customers to carry out their banking transaction especially in big branches where footfall is high. Day by day it is becoming an integral part of the banking system, functions, processes and customer interactions. Both Robotics and AI will help banks manage both internal and external customers much more effectively and help reduce operational costs exponentially in the future.

**Real Time Payments**

This is revolutionizing the retail funds transfer by providing electronic cash to anyone in the span of a few minutes. Peer to Peer money transfers have been an area which has witnessed high growth and attention in the last few years.

**Key Challenges for Indian Fintech Services**

The Indian FinTech Service sector is facing many structural challenges belongs to macro and micro environment of the country.

**Regulatory Framework of the Country**

Regulatory clarity is very important for long term strength and survival of the company and also for gaining the trust of the consumers and getting capital. However it should not hamper the innovations, which is the crux of the whole story. As FinTech companies, scale-up, they are likely to face more scrutiny from regulators. The regulatory framework

includes Bharat Bill Payment System (BBPS), Payments Bank Licenses, Unified Payment Interface (UPI) etc.

The main challenge for the regulatory authorities is to create the environment that motivates the innovation, while assuring adequate customer protection, security of the data and privacy.

#### **Spreading Awareness and Gaining Trust through Financial Literacy**

The Indian customers are conservative and they are habituated with physical transactions since years. Although the percentage of population using banking services and opening banking accounts is increasing day by day, especially in rural areas after JanDhan Yojana of the government, the awareness and knowledge about the banking services is still less. Therefore it is core challenges for the FinTech Service providers to spread awareness and gain their trust by providing them financial literacy and attaining their quarries related to that.

#### **Financial Infrastructure and Utilities**

Another major challenge for the FinTech service sector is to build data, infrastructure and facilities, which are not easily available in India. Further, most of the companies are focused on customers with less emphasis on acquiring infrastructure by broader base of merchants. Non-availability of digital infrastructure at merchants is a major challenge. There is an urgent need to expand digital infrastructure at merchants. The Government, in the last three years, has taken major steps to expand digital infrastructure, such as internet penetration, and Merchant QR code in the country.

#### **Cyber and Data security**

As finance and money is involve the FinTech companies have to be ultra carefull about establishing the interface between banks and other information sources such as the UID database. These Interfaces could be exposed to cyber vulnerabilities, and data security issues. The other issues are related to privacy of data and protection of customer as they are dealing mainly with banking transactions. Developing strong defense mechanisms and procedures to address these concerns will be an imperative for the FinTech sector, just the way it is for incumbent banks and financial institutions.

#### **Conclusion**

India is very attractive destination for FinTech service providers. The enormous Indian market, more than 50% of the population is young, diverse segments due to different culture of various states provide lucrative opportunities for the companies. The range of the customer is very vast from rural customers which are financially illiterate to the metro investor who are sophisticated. Many of them having access to latest technology and some are having simple phones with limited access of internet. The robust ecosystem of technology, underlying platforms, skilled people and conducive regulatory framework has provided enormous opportunity for the FinTech companies. The various initiatives from governments will also boost their growth. This adoption will be driven by large increase in insurance, savings & investment and borrowings, though payment will be the leading area of usage. There will be increase in usage of digital financial services by young adults; the old generations should also open up for adoption of these services.

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