

# **EVOLUTION AND CHALLENGES OF FINTECH-AN INDIAN PERSPECTIVE**

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## *Abstract*

Financial technology has seen a significant growth for providing financial services. This study gives an idea about evolution, growth and challenges of Fin-Tech in Indian perspective. A conceptual study has been carried out by getting insights from various literatures. Since the diverse and comprehensive Indian financial services industry is growing, there is lot of scope for the Fintech industry to speed up the process and contribution towards financial inclusion by reducing cost etc. this cost effectiveness can be transferred to the public as a whole. The challenges to the Fintech adoption also brought in. The study includes the Government initiatives to support the development of Fintech Industry in India. The major concern is to bring in a strong Regulatory mechanism for monitoring, to build trust among the users and the consumers

*Keywords: Financial Technology, Growth in India, Government initiatives, Fintech Challenges*

## **INTRODUCTION**

Fintech has been emerging as a big opportunity in India among the global counterparts. Traditional way of carrying out the Financial services by every player had to get changed to the newer version of Fintech using digital transformation. India is witnessing very quick adoption to Fintech Revolution as cited by the RBI Governor in his speech in the Fintech conclave (2019). All the Financial institutions have to get themselves adopted to the newer technology to be competitive and for sustainability. By means of getting adopted to Fintech the Financial institutions can get more efficient outcomes. Adopting to Fintech aids in Financial inclusion also which is an important aim of the Indian Economy. This can be achieved through reduced operational cost. Fintech is an integration of financial process , services and technology .With the development of fintech as an industry it is the responsibility of Regulatory and Supervising powers of Banks and financial Institutions to have vigilance over the operations of Fintech companies. In India Banks are encouraged to partner with private fintech players to achieve the expected result of complete adaptation to fintech.

## **LITERATURE REVIEW**

After the arrival of fintech Banking operations are becoming easier, and the technology is being adopted by all the banks and India is one of the fastest growing Fintech markets <sup>1</sup>. In recent years, a focused effort has been made to develop a state of the art national payments infrastructure and technology platforms, be it Immediate Payments Service (IMPS), Unified Payments Interface (UPI), Bharat Interface for Money (BHIM), Bharat Bill Pay System (BBPS), or Aadhaar-enabled Payment System (AePS). This has changed the retail payments scenario of the country. The total volume of retail electronic payments witnessed about nine-fold increase over the last five years<sup>2</sup>.

FinTech adoption in India has increased significantly over the last two years and according to EY's FinTech Adoption Index 2017, India has progressed to become the market with the second-highest FinTech adoption rate (52%) across 20 markets globally <sup>3</sup>. The Indian Government is the one majorly provides the infrastructure for the growth of FinTech in India with the help of Regulatory bodies. In India, RBI has been instrumental in enabling the development of fintech sector and taking utmost care with a cautious approach in addressing concerns around consumer protection and law enforcement. Fintech enablement in India has been seen primarily across payments, lending, security/biometrics and wealth management <sup>4</sup>.

## **OBJECTIVE**

- To identify the fintech Evolution and growth in India
- To analyze the challenges of Fintech implementation

## **Fintech Evolution in India -A paradigm shift**

Many analysts believe that FinTech has become a challenge that can be turned into an opportunity as it provides more flexibility, better functionality in some areas, and aggregation of services <sup>5</sup>. Innovation and upgradation of financial services through technology is known as Fintech. 21<sup>st</sup> Century has witnessed the development of Fintech in India which is a combination of Finance and Technology. Financial services in Indian markets includes a variety of list. India's diverse and comprehensive financial services industry is growing rapidly. Financial services include many facets: Banking ,Professional Advisory ,Wealth Management, Mutual Funds, Insurance , Stock Market, Treasury/Debt Instruments, Tax/Audit Consulting, Capital Restructuring, Portfolio Management <sup>8</sup>.

### 1. Banking

The banking industry is the backbone of India's financial services industry. The country has several public sector (27), private sector (21), foreign (49), regional rural (56) and urban/rural cooperative (95,000+) banks. The financial services offered in this segment include:

Individual Banking (checking accounts, savings accounts, debit/credit cards, etc.), Business Banking (merchant services, checking accounts and savings accounts for businesses, treasury services, etc.), Loans (business loans, personal loans, home loans, automobile loans, working-capital loans, etc.)

The banking sector is regulated by the Reserve Bank of India (RBI), which monitors and maintains the segment's liquidity, capitalization, and financial health.

### 2. Professional Advisory

India has a strong presence of professional financial advisory service providers, which offer individuals and businesses a wide portfolio of services, including investment due diligence, M&A advisory, valuation, real-estate consulting, risk consulting, taxation consulting. These offerings are made by a range of providers, including individual domestic consultants to large multi-national organizations.

### 3. Wealth Management

Financial services offered within this segment include managing and investing customers' wealth across various financial instruments- including debt, equity, mutual funds, insurance products, derivatives, structured products, commodities, and real estate, based on the clients' financial goals, risk profile and time horizons.

### 4. Mutual Funds

Mutual fund service providers offer professional investment services across funds that are composed of different asset classes, primarily debt and equity-linked assets. The buy-in for mutual fund solutions is generally lower compared to the stock market and debt products. These products

are very popular in India as they generally have lower risks, tax benefits, stable returns and properties of diversification. The mutual funds segment has witnessed double-digit growth in assets under management over the last five years, owing to its popularity as a low-risk wealth multiplier.

### 5. Insurance

Financial services offerings in this segment are primarily offered across two categories:

General Insurance (automotive, home, medical, fire, travel, etc.)

Life Insurance (term-life, money-back, unit-linked, pension plans, etc.)

Insurance solutions enable individuals and organizations to safeguard against unforeseen circumstances and accidents. Payouts for these products vary across the nature of the product, time horizons, customer risk assessment, premiums, and several other key qualitative and quantitative aspects. In India, there is a strong presence of insurance providers across life insurance (24) and general insurance (39) categories. The insurance market is regulated by the Insurance Regulatory and Development Authority of India (IRDAI).

### 6. Stock Market

The stock market segment includes investment solutions for customers in Indian stock markets (National Stock Exchange and Bombay Stock Exchange), across various equity-linked products. The returns for customers are based on capital appreciation – growth in the value of the equity solution and/or dividends – and payouts made by companies to its investors.

### 7. Treasury/Debt Instruments

Services offered in this segment include investments into government and private organization bonds (debt). The issuer of the bonds (borrower) offers fixed payments (interest) and principal repayment to the investor at the end of the investment period. The types of instruments in this segment include listed bonds, non-convertible debentures, capital-gain bonds, GoI savings bonds, tax-free bonds, etc.

### 8. Tax/Audit Consulting

This segment includes a large portfolio of financial services within the tax and auditing domain. This services domain can be segmented based on individual and business clients. They include:

Tax – Individual (determining tax liability, filing tax-returns, tax-savings advisory, etc.)

Tax – Business (determining tax liability, transfer pricing analysis and structuring, GST registrations, tax compliance advisory, etc.)

In the auditing segment, service providers offer solutions including statutory audits, internal audits, service tax audits, tax audits, process/transaction audits, risk audits, stock audits, etc. These

services are essential to ensure the smooth operation of business entities from a qualitative and quantitative perspective, as well as to mitigate risk. You can read more about taxation in India.

### 9. Capital Restructuring

These services are offered primarily to organizations and involve the restructuring of capital structure (debt and equity) to bolster profitability or respond to crises such as bankruptcy, volatile markets, liquidity crunch or hostile takeovers. The types of financial solutions in this segment typically include structured transactions, lender negotiations, accelerated M&A and capital raising.

### 10. Portfolio Management

This segment includes a highly specialized and customized range of solutions that enables clients to reach their financial goals through portfolio managers who analyze and optimize investments for clients across a wide range of assets (debt, equity, insurance, real estate, etc.). These services are broadly targeted at HNIs and are discretionary (investment only at the discretion of fund manager with no client intervention) and non-discretionary (decisions made with client intervention).

## **Growth of Fintech being driven by Government initiatives in India**

### Jan Dhan Yojana:

The world's largest financial inclusion initiative, "Jan Dhan Yojna", has helped in new bank account enrolment of over 450 Mn beneficiaries for direct benefits transfer and accessibility to a host of financial services applications such as remittances, credit, insurance, and pensions.

This has enabled FinTech players to build technology products to penetrate the large consumer-base in India.

### India Stack:

India Stack is a set of APIs that allows governments, businesses, startups and developers to utilise a unique digital Infrastructure to solve India's hard problems towards presence-less, paperless, and cashless service delivery.

The India Stack has been the driving force behind the accelerated evolution of FinTech.

### UPI (Unified Payments Interface):

It is an advanced mobile app-based payment system to transfer funds between bank accounts developed by the National Payments Corporation of India in 2016, is the multiplier force behind the Fintech revolution in India.

UPI, with over 338 banks registered under the platform, recorded more than 6.28 billion transactions in July 2022 worth 10.62 lakh crore.

#### Digital Rupee:

India launched its Central Bank Digital Currency (CBDC) or digital rupee or e-rupee recently. It is an electronic version of cash and will primarily accelerate the growth of the FinTech market in India.

As per EY report , India is leading the FinTech adoption race with an adoption rate of 87%, substantially higher than the world average of 64%.

Growth of Fintech industry contributes towards the Economic Development in the following ways:  
Promoting Financial Inclusion in India: A large number of Indians remain outside the formal financial system, and the use of financial technologies can help close the gap left by traditional banking and finance models.

Finance for Micro, Small and Medium Enterprises (MSME) : One of the biggest threats to MSME existence is a lack of capital. According to the IFC Report, the MSME credit gap is estimated at USD 400 billion, which is where FinTech can play a key role, and solve the issue of credit availability.

With several FinTech start-ups offering easier and quicker access to loans, MSMEs are no longer required to go through the tedious process of documentation, paperwork and multiple visits to a bank.

Improved Customer Experience: FinTech start-ups provide convenience, personalisation, transparency, accessibility, and ease-of-use to their customers, empowering them to a high degree.

Developing credit scores and underwriting credit for customers with limited credit histories will improve financial services penetration in India by leveraging big data, machine learning, and alternative data.

Table 1 : The Evolution of FINTECH Industry

1950	Credit card Introduced
1960	Screen Based stock market quotes
1966	Telex replaced telegram
1967	ATM by Barclays
1971	IPO ( NASDAQ established)
1982-82	E-Commerce and online Banking
1998	PayPal ( Payment platform)
2009	Release of Bitcoin (Primary digital money)
2011	Google Wallet
2017	Alibaba
Future Digital connection	Metaverse

**Source:** www.getsmarter.com

### Fintech Industry - Growth in India

A NASSCOM report says that the fintech programming and administration advertising in India was around \$8 billion in 2016; it was expected to develop 1.7 times by the end of 2020. The report includes that the exchange an incentive for the Indian fintech division was around \$33 billion in 2016 and was scheduled to reach \$73 billion in 2021 at a five-year compound yearly development rate (CAGR) of 22%.

The Indian FinTech scene is divided as follows: 34% in installment handling, trailed by 32% in banking, and 12% in the exchanging, open and private markets. Visakhapatnam is being created as FinTech valley and the nearby administration of Andhra Pradesh opened Fintech Valley to advance the interests in this area.



*Fintech Industry Growth*

Fig 1 : FinTech Industry Growth in India

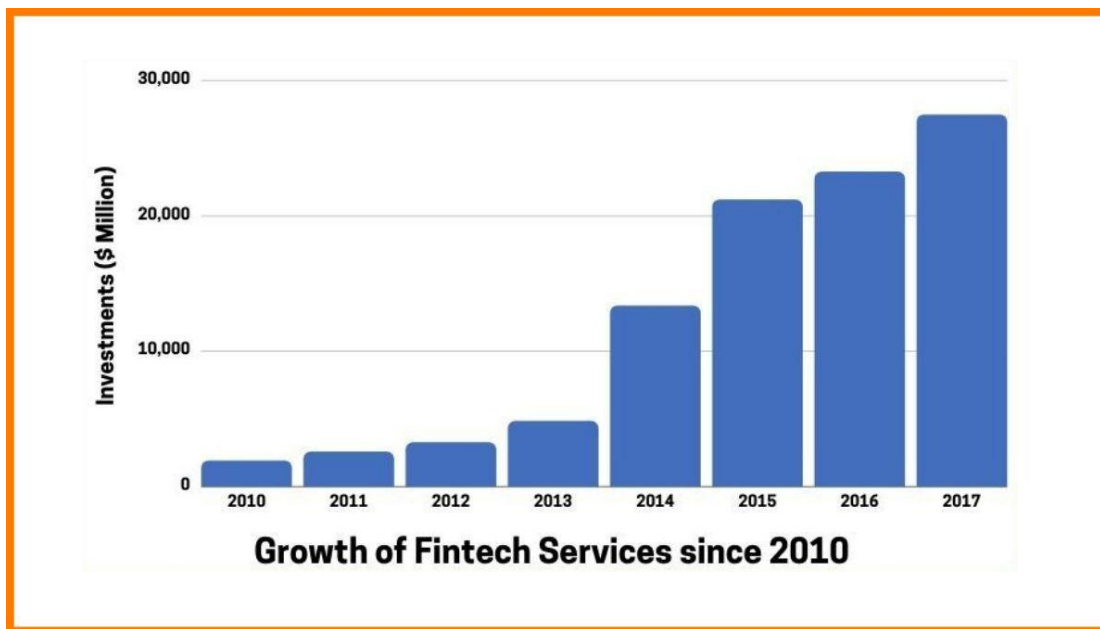


Fig 2: Growth of FinTech Services in India



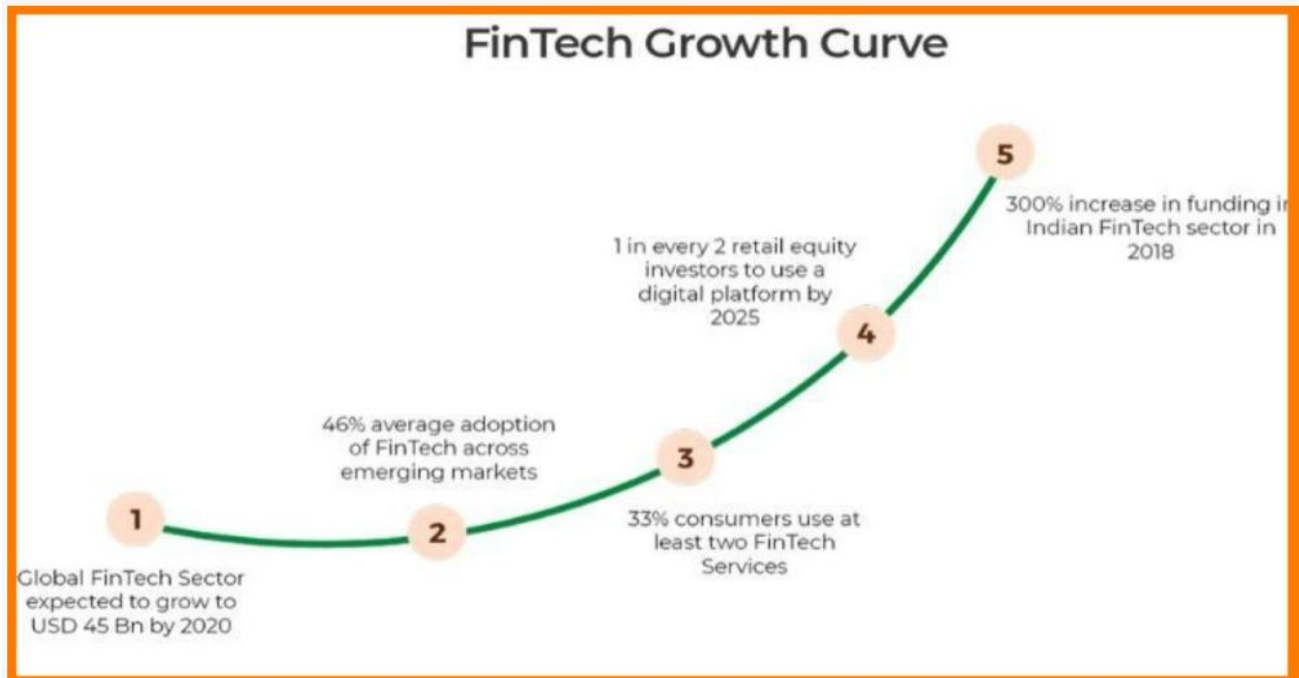


Fig 3: Future of Fin Tech in India

## Challenges of FinTech Adaptation in India

**Cyber-Attacks:** Fintech systems are vulnerable to hackers because of automation of processes and digitization of data. Recent hacks by debit card companies and banks demonstrate the ease with which hackers can gain access to systems and damage them irreparably.

**Regulatory Challenges:** Regulation is also a problem in the emerging world of FinTech, especially cryptocurrencies. The Indian government is following a wait and watch policy towards cryptocurrencies. Absence of regulatory authority has led to increased chances of fraud threat to investor protection and movement of money in the economy.

Due to the diversity of offerings in FinTech, it is difficult to formulate a single and comprehensive approach to these problems.

**Financial Illiteracy:** The lack of financial literacy is also a problem. Only 27% of Indian adults – and 24% of women meet the minimum level of financial literacy as defined by the Reserve Bank of India.

**Illegal Digital Lending:** During the pandemic, digital lending through mobile apps became

popular, but many problems accompanied it.

It was found that more than half of these digital loan providers were operating illegally. Many apps used tactics to exploit the widespread lack of financial literacy, charging interest rates up to 500%.

## **Fintech Industry - Future in India**

### **Future scope**

**Consumer Awareness:** In addition to establishing technological safeguards, educating and training customers will also help in democratizing fintech and guarding against cyberattacks.

**Effective Regulatory Framework:** Transparency and sound regulation will strengthen the fintech sector over time and facilitate the Indian economy's growth at its potential rate by fueling the engine of economic growth.

There is a need for a more constructive approach towards recognizing the role FinTech play in India's financial inclusion agenda and setting up financial targets that removes current ambiguities while allowing FinTech sufficient flexibility to come up with new propositions.

**Maintaining Data Privacy:** The regulatory framework for Fintech companies to manage their data can be framed through joint collaboration between Ministries of Corporate Affairs and Electronics and Information technology.

The government should require Fintech companies to ensure that the data harvested from consumers will not be used for any purpose other than serving the consumer's interest.

### **Conclusion**

Fintech is an emerging technological field in India. Though it is fast growing in other parts of the world, we are also in par with others. India has witnessed growth of Fintech industry from the year 2005, which is accelerated by many government initiatives. The growth is also attributable to Block Chain technology. There are very few companies in India operating with Block chain technology. Through the growth of any Technological industry comes the challenges also. The challenges include cyberattack, regulatory challenges, financial illiteracy etc. There are lot of scope for the industry which requires creating awareness among consumers, developing a strong regulatory mechanism.

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