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FinTech: An Evolving Realm Of Indian Financial Landscape

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Abstract: Indian financial sector is witnessing a faster digital transformation significantly after 2016 Demonetization policy. Indian Govt. is trying to decrease the amount of paper currency by making new regulations and implementing policies to ensure data protection and smooth on-line financial transactions. The main purpose of these policies was to induce access of banking services for the unbanked and under banked population of the country. Fintech Adoption in country is driven by digital increased financial awareness and literacy. The Indian Fintech Market is expected to attain revenue of $200 billion by 2030. India has the highest Fintech adoption rate globally at eighty seven percent. With increasing customer base these ventures starts providing new financial services beyond transactions and lending business such as Insuretech, lendingtech, Neo-banking, crowd funding, Robo advisory etc. These businesses are using new technologies like, Block chain, Artificial intelligence and Aadhaar enabled service for e- signing, instant robotic response to provide more personalized services to users at cheaper costs for faster transactions. Data security and lack of tech expertise are the biggest challenges faced by Fintech Ventures in India. To grow in Indian economy, Fintech companies have to play the collaborating role in the industry rather than disrupting the traditional financial institutions at least for some years due to difficulties faced by Fintech ventures in raising funds, finding new customer base, lack of awareness among under banked population and fear of unauthorized data sharing.

Keywords: Fintech, Financial inclusion, Neo- Banking, Artificial intelligence.

Introduction: India is witnessing a great digital transformation which leads to new innovative products and services, process and practices in every sector of Economy. Being the most populated country in the world India has tremendous growth opportunities for E-businesses. Indian Financial sector has also shifted its core from physical banking operations to on-line financial transactions and services. Indian Govt. has launched many programs to increase financial inclusion and awareness during last fifteen years. The main purpose of these initiatives was to induce access of banking services for the unbanked and under banked population of the country. Major challenge faced by the Govt. was to aware people about formal lending and credit system and to encourage them to opt digital platforms for banking and financial services by ensuring safe and verified transactions with globally set benchmarks at affordable service charges.

Siddhant (2018) in his research paper discuss the main reasons of crisis faced by traditional Indian banks such as increased bad loans, growing losses, and dissatisfaction among the customers regarding banking and financial services provided by these banks. Fintech has emerged as a potential disrupter in the financial sector with offering products and services using latest technology. Being a nascent player in financial sector, the Fintech companies can collaborate with ailing traditional financial institutions to provide easy access, faster services, and cheaper services to customers. This paper focuses on the role Fintech could play in helping the traditional banking industry to regain its lost footing in a highly volatile industry.

Sumeet, Adarsh (2021) discussed that collaborative approach of operations will be beneficial for both Fintech and financial institutions because in some service areas Financial institutions have core competencies over Fintech and vice versa. The study strongly suggests that financial institutions must apply 'Digital Darwinism' theory of change. Highly skilled and expertise enriched professionals can change the operations of Fintech companies by continuously mitigating the negative connotations such as cyber threats, unauthorized data sharing etc.

Disha, Sweta (2021) studied the main drivers of Fintech in India. The analysis was based on primary data collected from a total of 150 respondents. The study concludes that customers are interested in using new innovative services like Robo advisors and online lending. Fast services, easy accessibility and low cost of services were some major factors to attract customers. Major concern for using Fintech is cyber-attacks.

Neeta (2022) recognized that Fintech has gained popularity among young generation customers who are more techno –savvy in India. The main push factors for young generation to shift towards Fintech are speedy transactions, transparency, and extensive customer support but, security, trust and confidentiality of data remain big concerns for the customers. This study summarize that Fintech companies can meet and exceed the customer expectations through awareness, training and meticulous planning.

Aditee, Battula, Kurada,A.D.(2022) in their research paper argued that use of Fintech also lead to increase in the risk factors of the users. New technologies like Crypto currency (e.g., Bitcoin) have alarmed the regulatory institutions like Central Bank, regarding the challenges these institutions have to face to control and regulate the transactions through digital currency. To ensure the financial stability the disruptive technologies have to be tested, verified and standardized by globally accepted norms.

Some of the major steps taken towards Financial Inclusion by Govt. are:

RTGS payment System: The payment system in India had been gradually modernized through RTGS (Real time Gross settlement) system in 2004 and by regulatory reforms of 2007. Previously payment trough Cheques and withdrawals through ATMs are popularly used modes of financial transaction in Indian Economy. This was the first payment system which allows to processes the instructions individually at the time they are received from one bank to any other bank and settlement of funds also occurs individually. This Payment system has gained a massive popularity among bank customers due to speedy and convenient transactions.

In 2010, Govt. of India launched digital Identity infrastructure called "Aadhaar Digital Id", it enables every resident of India to have a unique identification number which is linked with their biometric identifiers and demographic data. Main purpose of Govt. of building this database was to digitally authenticate individuals across the country at any location for offering a variety of public and private services and to provide the benefit of social welfare schemes to beneficiaries after proper authentication. The data collected through Aadhaar enrollment is stored on Central Identity Repository by Unique Identification Authority of India (UIDAI).In 2013; RBI enabled electronic verification of bank account holder's trough UIDAI. It was electronic substitutes for Know Your customer (KYC) procedure of banks as it provides both biometric identifiers and demographic data to banks.

In 2013, National payments Corporation of India, a non-profit registered company under section 8 of the companies Act was set up with the support and guidance of reserve bank of India. NPCI works as a regulator of National payment system and processed electronic payment transaction (e.g. Immediate Payment service) and card –based payments with banks and RBI authorized PPIs in India. The main difficulty faced by the users under these payment systems is that these payment systems were not interoperable outside the banks and authorized PPIs.

To further increase financial access among unbanked informal sector population a large scale financial development program called Pradhan Mantri Jan Dhan Yojana was launched by Govt. in 2014. This scheme facilitate unbanked household to open Zero balance Saving account with Debit card, mobile banking and a provision of Basic life insurance to the account holder. Within a year of inception of the scheme 166 million accounts were opened.

Table No. 1 (No. of Jhan Dhan Accounts and beneficiaries)

Year	Jhan Dhan Account total balance (in Rupees)	Total no. of beneficiaries
Dec 2021	1.50 lakh crore	44 crore
Dec 2022	1.80 lakh crore	47.84 crore

(As per the report of The Economics Times)

Majority of these accounts are with rural and semi-urban bank branches. Despite increases to banking services, the usage of financial services has not shown the same increasing trend through these accounts. The main reason could be lower digital and financial literacy.

To provide an easy to use product over the existing IMPS, the National payments Corporation of India introduced Unified payments Interface (UPI) as a standard protocol within the payment infrastructure in 2016. UPI was the first interoperable payment system of India which enables banks and non- banks to operate with each other. A user of UPI Architecture can use any application to send or receive money directly from their bank accounts and are not limited to interface provided by their banking service providers.

Evolution of Fintech in India: Business that uses latest technology to provide, enhance and automates financial services for other businesses and consumers are called Fintech Business. Fintech is a new realm in the field of traditional financial system. These ventures offer a vast variety of financial products and services such as digital transactions, lending, insurance schemes, financial advice, wealth management using mobile applications and digital platforms with high transparency and extensive customer support at very low service charges and product costs.

Fintech Adoption in country is driven by digital increased financial awareness and literacy. In India, Fintech ventures gain popularity around 2015 when Paytm became India's first Fintech unicorns, Paytm was the first Indian Fintech business that gains huge popularity due to the Demonetization policy, 2016. In coming three four years Fintech startup ecosystem produce new ventures like PolicyBazaar, PhonePe, Billdesk. Most of these ventures were digital payment and lending focused ventures.

Indian economy had been witnessing a pre- pandemic slowdown since fourth quarter of financial year 2017-2018 due to the after-effects of demonetization, GST -rollout, and big scams in banking sectors, crisis in the non-banking financial companies. India's growth rate was on a constant decline as 8% in Fourth quarter of financial year 2018 to 4.5% in second quarter in 2020 and 3.1% in fourth quarter in financial year 2020. COVID pandemic leaves strong economic disruptive impacts on every sector of Indian economy such as decelerating GDP growth rate, significant decrease in industrial output, fall in tax revenues, massive reduction in power demand and huge amount of jobs losses. Indian Financial sector also faced disruption due to bad loans of banks, dissatisfaction among customer regarding financial products and services and loss of confidence among public with an imminent fear of financial crisis.

The increasing internet user's base (700 million active users as of December 2022 according to Nielsen's India Internet Report 2023) provides great customer base to FinTech Ventures also. The active internet user base aged 12 years and older has grown more than 20% in 2022 and reached 595 million. Rural India has 425 million registered internet users, which was almost 44% higher than in urban area (295 million active internet users). Increased internet base in rural areas specially, provides great opportunities for E-Businesses to spread their distribution network in rural India as it resides around 64% population of the country.

The digital Economy is the new realm to convert and reshape India into a digitally aware and knowledgeable society. Indian Govt. is trying to decrease the amount of paper currency since 2017 by making new regulations and implementing policies to ensure data protection and smooth on-line financial transactions.

On the occasion of 'Azadi ka Amrit Mahotsav' 2022, Prime Minister of India dedicated 75 Digital banking units in 75 districts of the country as a joint initiative of Govt., RBI, Indian Banking association and participating commercial banks. The main aim of establishing these Digital Banking units was to provide maximum services with minimum infrastructure through a robust and secure banking system. By 2022, 99 percent of Indian villages have a bank branch, banking outlet or "Banking Mitra" with in 5kms radius. These initiatives by the Govt. are encouraging the poor to opt organized banking sector services by offering affordable service charges and empowering the middle class to convert their savings into investments through digitalization and ease to use the technology.

As most of sectors are back to normalization after pandemic, the exponential growth rate in digital payments proves that financial services and Fintech industry adapted quickly to the changing scenario and offer services as per the need of customers. India has emerged as one of the fastest growing Fintech markets in the world with a market size estimated at $ 150 billion by 2025(as per the report of Hindustan Times). As per RBI's 'Payment vision 2025', the central bank aims to increase the digital payment transactions by more than three times by 2025.

Table No 2. (Number of FinTech firms operating)

Rank	Country	No. of Fintech Firms
1st	US	31950
2nd	UK	12787
3rd	India	9646

(As per the data released by IIFL Fintech in its report 2022)

India is ranked third on number of Fintech firms operating in a country list. US is on top of this list followed by UK. Global Economic slowdown and the war Between Russia and Ukraine impacted Fintech funding adversely in 2022 and lead to 40 percent decline in total funding still it amount $39 billion in 2022. The Indian Fintech Market is expected to attain revenue of $200 billion by 2030.

With increasing customer base these ventures staring providing new financial services beyond transactions and lending business such as Insuretech, lendingtech, Neo-banking, crowd funding, Robo advisory etc. These businesses are using new technologies such as Block chain and Artificial intelligence, Aadhaar enabled service for e- signing, instant robotic response to prove more personalized services to users at cheaper costs for faster and secure transactions.

The key pillars of Fintech Ecosystem are:

Paymentech: One of the core functions of Fintech Payment companies is to handle the logistics of accepting cashless payments for product and services on behalf of the seller. PayPal, Stripe, FundThrough are some of the common Fintech payment companies these days. These companies allow businesses to accept payments from customers through them. These companies provide financial services such as credit card payments, debit card payments, digital wallets, bill payments and other similar banking services. Customers don't need to login into their bank account in order to send electronic payment for goods and services. One major concern of businesses while collaborating with these companies is that, they charge higher than traditional banks for their services. Today, most of the on-line retailing businesses such as Amazon, Flipkart are collaborating with these payment companies to provide their customers seamless payment experience.

M-Wallets: Mobile wallet is type of Payment service provided through an application designed for the mobile devices. These are virtual wallet, which can be preloaded with your preferred amount of money from your bank account, credit or debit card and can be used to make payment of bills online. Apple Pay, Google Pay, PayPal, Paytm, PhonePe are some of the popular mobile wallets. With increasing internet users this method of payment has seen an exponential growth due to ease to use, secure payments and faster services.

Crowd funding: it is a mechanism trough which funds are raised in order to finance projects, ventures, expenses and products through small financial contributions from persons who may numbers in hundreds and thousands. This is a new form of crowd sourcing and alternative finance for new business ventures. It provides a forum to anyone with an idea to pitch it in front of waiting investor. These companies charge commission (platform success fee and payment gateway fees) on the funds to be raises as revenue. Ketto, ImpactGuru , WISHBERRY, Donatekart are some of the key platforms available in India for crowd funding and sourcing. SEBI issued guidelines for crowd funding by publishing SEBI Consultant Paper on Crowd funding in 2014.

On-line wealth management services: Fintech companies are now developing applications using technologies like Artificial intelligence and machine learning to assist the clients for organizing their financial needs. Data analysis techniques are adopted to track the activities of clients in real time process and provide alternate options accordingly. Speeny, wealthy, FundsIndia are some of the leading online investment and wealth management platforms. These platforms provides solutions and personalized guidance to users as per their investment needs such as portfolio management, investment options in mutual funds, stocks, National Pension Scheme , fixed deposits and saving accounts etc..

Neo Banking: Fintech companies provide services through 100% on-line mode by collaborating with traditional banks or an NBFC as RBI does not grant virtual banking license. These companies provide banking services (such as extension of credit, small loans) and financial services (advisory, investment schemes etc.) but these companies cannot provide the following services:

- Manage or have any involvement in investment portfolio
- Overdraft services
- Offer lending products on their own books
- Collect large value deposits

These banks fill the void between the services provided by traditional banking, financial institutions and the changing expectations of customers in digital era. Freo, Fi, Jupiter, instantpay, fampay, mahila money are some of the neobanks which are excelling in terms of their 24*7 on-line services and safety they provide to their customers.

Insuretech: Insuretech companies in India are revolutionizing the traditional insurance industry. These companies have developed a new ecosystem for insurers using data analytics, Artificial intelligence and blockchain to deliver insurance solutions in more affordable manner. They provide a variety of insurance plans like health insurance, life insurance, vehicle insurance, term insurance plans etc. PolicyBazaar, Acko, Paytm, RenewBuy, Digit insurance are some of the popular insuretech companies working in India.

Digital revolution lead to exponential growth of Fintech firms in last few years. These firms are providing a vast variety of services by collaborating with tradition banking and financial institutions. Fintech institutions act as a stimulator for providing the market facilitation mechanism and customer base. This growth has also brought new challenges for these businesses also such as

- Data security and cyber attacks
- lack of mobile and Tech expertise
- technology advancements e.g., Big data and Artificial intelligence integration, Block chain integration
- Service personalization
- User retention
- Funding and investment

Increase in currency in circulation (CIC) is another major concern for the vision of cashless economy. As per the Statement given by Smt. Nirmala Sitharaman in lok sabha in March, 2023, “CIC has gone up to Rs. 31.33 lakh crore in March 2022 from 13 lakh crore in 2014”. India’s CIC to GDP ratio has averaged approx. 12.4 per cent which is higher than the ten year average of 11.8 per cent as per data published by “CMS India Cash Vibrancy Report 2023”.

Conclusion: Fintech is creating a business model capable of managing the risk, ensuring the control and meeting the global standards. The majority of Indian population resides in rural and semi- urban areas that still prefer cash as a medium of exchange and mode of payment or visit banks and ATMs for financial transactions. According to CMS report, the ATM cash withdrawals rise 235% since demonetization in 2016. Increase in currency in circulation (CIC) is another major concern for the vision of cashless economy. Data security and lack of tech expertise are the biggest challenges faced by Fintech Ventures in India. The world’s number one populated country has lots of opportunities for technology based businesses. Fintech companies have to play the collaborating role in the industry rather than disrupting the traditional financial institutions at least for some years due to difficulties faced by Fintech ventures in raising funds, finding new customer base, lack of awareness among under banked population and fear of unauthorized data sharing. New technologies like block- chain, artificial intelligence and robot advisors can reshape Fintech businesses by creating high-level security solutions and service personalization in coming years.

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