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FINTECH

“FinTech is not only an enabler, but the driving engine”

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Meaning:

The term Fintech (**Financial Technology**) refers to software and other modern technologies used by businesses that provide automated and improved financial services. Fin Tech refers to the synergy between finance and technology, which is used to enhance business operations and the delivery of financial services. Fintech can take the form of software, a service, or a business that provides technologically advanced ways to make financial processes more efficient by disrupting traditional methods.

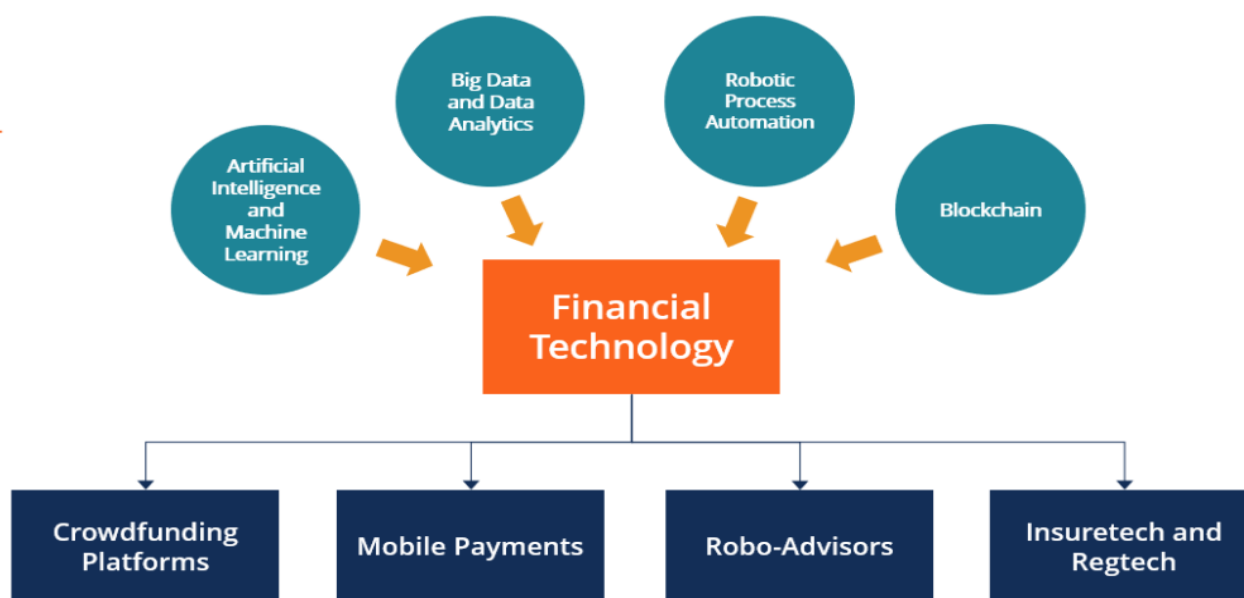
Financial technology, Fintech for short, was originally a term “given to technology applied to the back-end software of established financial institutions.”

Categories of Fintech companies

Various types of fintech companies exist today are mostly categorized based on the industry their clients belong to.

- **Lending:** Fintech companies in the lending industry simplified the way by which people borrow money. Many fintech companies offer consumer loans by merely going online to apply. Since these organizations’ processes and systems are automated, approval happens quickly. Companies under lending use advanced software to assess borrowers’ creditworthiness.
- **Payments:** Fintech companies specializing in payments let people send money to others without passing through banks. As such, they no longer need to pay exorbitant bank fees for simple peer-to-peer transfers.
- **Crowdfunding Platforms:** Crowdfunding platforms allow entrepreneurs and early-stage businesses to raise funds from all over the world, allowing them to bypass geographical boundaries and international markets.
- **Personal Finance:** Traditionally, people need to talk to financial advisors in banks to get personal finance advice. Today, many commercially available apps can offer advice and help with budgeting. Some organizations even provide retirement or investment advice.

- **Equity Financing:** Fintech companies in this sector make it easy for business owners to raise money. Some of them connect accredited investors with vetted startups. Others use crowdfunding models and allow anyone to invest in new businesses.
- **Consumer Banking:** In the consumer banking space, fintech companies provide consumers better options to banks, which usually charge high fees. People who can't get approved for credit cards or don't want one can get debit cards instead.
- **Insurance:** Fintech companies' use apps to reach customers that don't have insurance coverage. Since insurance is a highly regulated sector, organizations in this category typically partner with traditional insurance companies.
- **Robo-Advisors:** Robo-advisors are online investment management services that use algorithms to allocate assets and generate portfolios for customers optimally. They allow users of all age groups to engage in investment activities at low fees with minimal manual effort.
- **Regtech:** Regtech (regulatory technology) focuses on the automation of compliance processes for financial institutions. It offers fast and cost-effective management of large amounts of data, including transaction records and compliance documents, such as corporate tax returns.



FINTECH IN INDIA

India's fintech market is the world's fastest growing – 67 percent of the more than 2,100 fintech entities in operation have been set up in the last five years. Bengaluru and Mumbai are where most fintech companies have their India headquartered – as they are the country's technology and financial hubs. Last year, 33 new fintech investment deals worth US\$647.5 million were closed in the Indian market in the quarter ending June 2020, compared to China's US\$284.9 million. India's fintech market is now valued at US\$31 billion, projected to grow to US\$84 billion by 2025. The fintech transaction value size is projected to grow to US\$138 billion by 2023 from US\$66 billion in 2019.

Industry scenario

Hailed as the third largest fintech ecosystem globally, India's successes lie not only in the establishment of 2,100 new firms, the bulk of which were set up in the last five years. Total valuation of the industry is estimated at US\$50-60 billion. According to a Boston Consulting Group report released March 2021, Indian fintech companies will reach a valuation of US\$150-160 billion by 2025, becoming three times more valuable in five years. India has the highest FinTech adoption rate globally of 87% which is significantly higher than the global average rate of 64%. A research report by RBSA Advisors stated: "Amid COVID-19, India has seen a 60% increase in fintech investments to US\$ 1467 million in H1 2020 compared to the US\$ 919 million for the same period last year." India's fintech industry remained attractive despite the pandemic, with the emergence of three new unicorns and five new 'soonicorn' (US\$500 million+ valuation) since January 2020. Paytm, a fintech company, is India's highest valued unicorn at US\$ 16 billion and out of 21 unicorns in the country – about one-third are fintech companies. Since 2016, the fintech industry has seen cumulative investments into domestic fintech entities worth more than US\$10 billion.

Growth trends in the fintech industry

As other sectors reported losses in 2020, growth in fintech continued, attributed to the increased requirement of accessing financial services digitally due to the government-imposed restriction on physical movement and by extension, a push towards less physical commodity transactions through cash. In 2021, the consumer demand for digital-based services will thrive, especially as outbreaks of the pandemic continue to get forecast.

Major trends of fintech in banking industry include:

- **Digital banking**

The service platform 'Banking as a service' (BaaS) connects fintech enablers to banks so that the latter can offer financial services to its customers through a network of fintech developers.

- **Open banking**

Open banking refers to the practice of banks electronically sharing financial information to third parties by the use of APIs, in an effort to improve services and their security. This process is done with the knowledge and approval of customers. In 2020, the open banking ecosystem began to incorporate non-banking financial companies as well. With the adoption of open banking by banks, such as Kotak Bank and Yes Bank, and increase in the demand for digital financial services, this trend is expected to be popular.

- **Neo banking**

Neo banks traditionally refer to digital banks that have no physical presence, offering digital bank-like services. There are three known types of neo banks – digital only banks, over the top neo banks, and digital-only brands. Digital only banks require a fully operational banking license, over the top neo banks are standalone digital platforms that offer a variety of products, in partnership with banks and fintech companies, and digital-only brands are banks that have been created by traditional banks for the purpose of focusing on India's young millennials. India's central bank, the Reserve Bank of India (RBI), does not allow digital only banks, but has allowed companies to test any innovations that they may have regarding it. India's

predominant neo banks include YONO (by State Bank of India), Digibank (by DBS Bank), and Kotak 811 (by Kotak Bank).

- **Aggregators**

While ‘fintech enablers’ provide software solutions to incumbents, ‘distributors’ are fintech firms that dispense specific financial products while ‘full carries’ both develop and distribute their own financial products. In the InsurTech segment, India has over 100+ players across ‘aggregators (distributors)’ (Policybazaar, PolicyBachat, PolicyBoss, Policy Planner, PlanCover, Coverfox etc.); ‘online first insurance’ (Acko, Digit); ‘APIs’ (Stickynotes, Finmantra, Riskcovry etc.); claim management (Vitraya, VahanCheck, SureClaim etc.) and internet of things (IOT) (CariQ, Trak N tell etc.). The InsurTech aggregators in particular are enhancing customer digital experience by providing a single platform for the comparison of various products based on cost, features, and needs. Under the WealthTech space, India has 480+ start-ups segmented in ‘personal financial management’ (Paisabazar, Tarraki, Fintoo, etc.); ‘investment platforms’ (Zerodha, Upwardly, FundsIndia etc); ‘robo-advisors’ (Goalwise, Scripbox, Robocapital etc.); and others (like Screener, Streak, Capitalmind etc.). This industry is also poised for phenomenal growth owing to both rise in high-net income groups looking for specialized advice and on other high middle-income groups looking for low-cost but effective advisory to manage their funds.

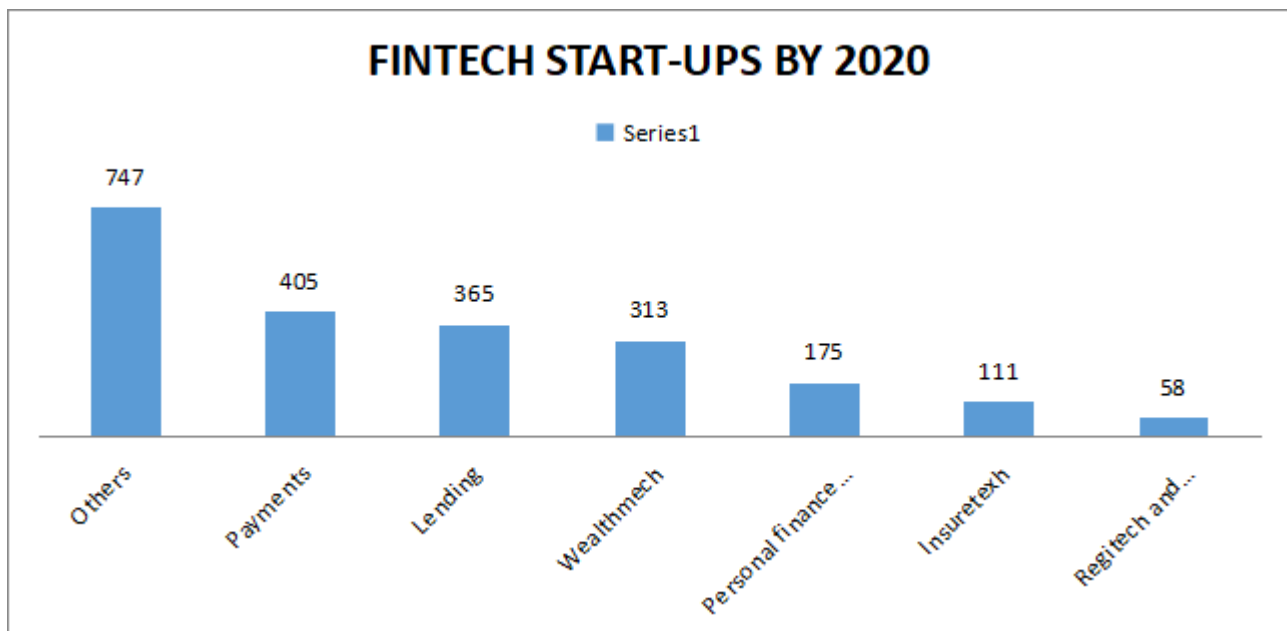
- **Autonomous finance**

Autonomous finance is a method of automating financial decisions, such as paying utility bills, cable subscriptions, and insurance, with the help of new age technologies like artificial intelligence (AI) and machine learning. It is a new fintech solution, expected to be adopted in 2021.

Fintech start-ups in India

Fintech start-ups are the reason behind India winning over China and taking second place globally in fintech market. In recent years, man fintech start-ups have emerged from the Indian ecosystem by disrupting the banking, financial services and insurance (BFSI) sector. They have brought the concept of paperless lending, mobile-first banking, secure payment gateway, mobile wallets, etc. Despite directly impacting BFSI, the fintech start-ups are also targeting the wealth management, regulation and insurance industry.

Number of fintech startups across India as of 2020 by segment:



Challenges for fintech sector:

- ❖ Absence of fintech regulations and regulators: RBI and SEBI are yet to come with comprehensive and separate guidelines for the fintech sector and it continues to be governed by banking and securities regulations. The accelerated rate of innovation in the fintech sector at times led the regulators to play catch up and have a knee jerk responses to certain market activities.
- ❖ Systematic risk: Traditional banks give advances sourced from deposits whereas fintech start ups lend from debt funds/equity investments. Thus the risk can permeate to various categories of people including inventors, consumers and enables.
- ❖ Data Security and privacy risk: The fintech industry's biggest issue is the industry's hidden cyber security risks which include data breaches, third party security threats, reasonware, application security threats, cloudbased security threats and digital identity risks. To safeguard the interests of the users, as per Srikrishna committee's recommendations, the Personal Data Protection Bill 2019 was introduced in Lok Sabha to make data localization mandatory for all sensitive personal data (PDPB).

Scaling up of fintech startups: **Outlook for the next few years**

- ❖ Financial institutions will look acquire or invest in fintech in corresponding segments for their technology and customer access.
- ❖ Larger and more successful fintechs will acquire smaller players across segments to bring widths to their business, for access to larger customer base and higher customer engagement.
- ❖ Few of the larger fintechs as well as large tech companies and large Indian conglomerates are looking at an ecosystem orchestrator approach that has been observed in the success of Chinese fintechs.
- ❖ International expansion is another route that the fintech startups will look to adopt to pursue scale. This encourages for international startups foraying into India and Indian startups going overseas.

- ❖ The continuously increasing collaboration between traditional financial institutions and fintech startups in the form of supplementary offerings, partnerships, distributions, acquisitions, incubations and investment will remain to be one of the key drivers of India's fintech growth as well.

Developing a FinTech ecosystem

Starting from tapping new segments to exploring foreign markets, Fintech ecosystem in India is pursuing multiple aspirations. Government acts as a prima facie catalyst between people and fintech in India. The government of India along with regulators like SEBI and RBI are standing by the Indian fintech companies to bring a fully cashless economy through government programs.

Tech vendors are the backbone of fintech ecosystem in India. They support the Indian fintech companies to disrupt traditional functions, infrastructure and skills. Meanwhile, banking, one of the major contributors to the Indian economy is merging with Fintech start-ups to incubate and create alliances on a variety of platforms such as wallets, investment intermediation, online client acquisitions, etc. Banks are trying to cope up with Fintech to upgrade their existing systems and enable smoother operations to deliver a better experience for consumers. With the merger of banks and fintech institutions, the duo can provide collaborative financial services in an open architecture. Some of the trends and factors that are anticipated to drive fintech in India in 2020 are listed below,

Reliance on tech firms- The younger population is totally changing to an online mode of payments over the physical way of visiting banks or dealing with money. Henceforth, FinTech institutions are increasingly relying on tech firms to find disruptive trends.

Cloud banking- After banks moved to cloud computing, the cost spent on maintenance and services has drastically reduced. Besides, cloud also adapts to the changing demands and provides resilience to serve the shifting needs of customers.

The comeback of neobanks- Neobanks are increasingly seen as the future of banking system. As more people apply for banking licenses and institutional banks looking to expand their digital offerings, neobanks will get streamlined in future.

Conclusion:

The FinTech revolution is gathering speed, and it will lead us to a more open, connected form of banking where one can see and manage all their finances digitally, as well as accessing personalised advice and products all from the comfort of their sofa. It is expected that the Indian FinTech market, currently valued at \$31 Bn, will grow to \$84 Bn by 2025, at a CAGR of 22%. In this primarily digital landscape, financial services firms who cannot deliver an exceptional level of service to customers – be it consumers or business – risk losing them to those who can. Now is the time for the sector to embrace FinTech to its fullest and build systems that are not just adapted to the new normal, but actually help to shape it. Over the past years, banks and governments along with the residents of India, are becoming more and more accepting of the rise of FinTech. It has not only made it easy to conduct business but has brought a dramatic shift to the environment by changing the dynamics of law and education. In the coming years, we would no more be dealing with bank executives, but with robots made out of AI.

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