

# The Future of Fintech in India

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## Abstract

*Fintech (Financial Technology) is a phrase used to describe any technology used in the financial services industry, which carry out their services through mobile banking, online services and payment apps. In this era of digitalization, financial institutions see Fintech as a vital segment of the digital future. Fintech is growing rapidly with the help of government policies and regulations, innovative start-ups and a huge market base. As of march 2023, nearly 436 billion USD was raised by Indian Fintechs and it is predicted that the Fintech market will cross 6,207 billion INR by 2025. FinTech creates diverse, stable and safer financial services.*

**Keywords:** Financial services, Fintech, Technology, Digital apps, financial innovations, online services.

## 1. Introduction

FinTech is defined as any organization or business that utilizes the internet, mobile devices, cloud technology and services to perform and interact with financial services. In simple terms FinTech means using technology to deliver financial solutions. The term FinTech was first developed by citicorp in 1993<sup>1</sup>. We have seen reasonable growth in FinTech during the pandemic period. When the banks were closed, people relied heavily on virtual financial services. Over the past two years adoption of FinTech tools across the region has skyrocketed among consumers and small businesses, particularly in China, India and the financial hubs<sup>2</sup>. The FinTech adoption index is growing faster than expected, (i.e.) in 2021 the FinTech adoption index is 87%, as against the global average of 64%. The following are the recent trends in FinTech: cloud technology, robotic process automation, process and service externalization, advanced analytics, block chain, digital transformation, artificial intelligence, smart contracts and internet of things. There are two other trends that stand out in fintech development, i.e. change in technology and new entrants into financial sector, which is growing day by day. Fintech adoption in India is extremely high.

### 1.1 Characteristics of FinTech (EY's classic model)<sup>3</sup>

1. Customer-centric(C)
2. Legacy-free(L)
3. Asset light(A)
4. Scalable(S)
5. Simple(S)
6. Innovative(I)
7. Compliance light(C)

### 1.2 Segments and Elements of Fintech:

There are many elements in fintech segments, which according to Dortfleitner et al (2017: 34-36) can be categorised into financing, asset management, payments, and other fintechs.

- Financing - crowdfunding and credit and factoring
- Asset Management - Social trading, Robo advice, personal finance management and investment and banking
- Payments - Blockchain and cryptocurrencies, alternate payment methods
- other fintechs - Insurance, technology and IT and Infrastructure

### 1.3 Four Phases of Individual Payments:

- Barter
- Commodity money
- Coinage
- Dematerialized payments

## 2. Evolution of Fintech:

1946: credit cards

1950: cheques

1980: ATM

1990: EMV standards

2000: Mobile money, E-wallets, virtual cards

2009: bitcoin

2010: contactless cards

2015: population of wearable devices, mobile wallets, cryptocurrency

## 3. Fintech in India:

Digital payments in India have witnessed a steep curve in past few years. More than 75% digital transactions were recorded in 2023 despite the covid 19 pandemic and its effect on economy<sup>4</sup>. Indian fintech industry had developed unique and innovative models, and fintech solutions have transformed the traditional financial infrastructure. It has reformed many sectors especially banking, trading, risk management and insurance industries.

A Fintech company include start-ups, technology companies and established financial institutions, and also utilizes emerging technologies such as big data, artificial intelligence, block chain and edge computing to make financial services more accessible and more efficient<sup>5</sup>.

According to recent report by Indian venture capital and Bain & company 2021, fintech continues to grow with 75% of VC investments. Fintech investment grew slightly from \$1.1 billion in 2019 to \$1.2 billion in 2020. Indian start-up financing remains strong despite the situation prevailing in the country. There are schemes like Prime Minister Jan Dhan Yojana (PMJDY) and Skymet new geospatial avatar (SKI.AI.GEO), which fills the gap between the bank and the customer. PMJDY is a financial inclusion program whereas SKI.AI.GEO is a digital lending solution, which helps farmers in financial activity.

Another recent trends in Indian fintech are Paas and Baas, Paas (Platform as a service), which is used to provide credit risk management services and payment processing services, whereas Baas (blockchain as a service) which is used to manage cloud based networks for the companies.

### 3.1 Types of Fintech Providers:

1. **Start-Ups:** start-ups are early stage companies, disguised by small number of highly motivated employees. They are often funded by venture capital.
2. **Bigtech and Techfin:** Bigtech refers to existing technology and e-commerce companies, they are also known as tech giants, such as amazon, google, apple, facebook and Microsoft. These companies play key role in providing technology and cloud services. Techfins are the firm that delivers the technology solutions by collecting data from customers and then add financial services, for example. Social networks, telecommunication and entertainment.

3. **Financial institutions:** Financial institutions can use fintech to provide convenient, client oriented and cheaper technological services.
4. **Regtech/Suptech:** Regtech (regulatory technology) are group of companies, which uses cloud computing technology through software as a service to help business to obey the rules and regulations efficiently. Suptech (supervisory technology), which uses innovative technology to help financial institutions digitise reporting and regulatory processes.

### 3.2 Top Fintech Start-ups in India:

#### 1. Lendingkart

Lendingkart is an online financing company, which offers working capital loans and company loans to SMEs.

#### 2. Moneytap

Moneytap is an app based credit line; it offers cash loans, mobile credit, flexible EMIs.

#### 3. Instamojo

Instamojo is an online selling platform. They help MSMEs, start-ups and independent business in online payment services and also in running business successfully.

#### 4. Razorpay

Razorpay is a popular payment gateway in India; they support modes such as airtel money, jio money, mobikwik etc., and include all debit/credit cards, UPIs and netbanking.

#### 5. Paytm

Pay through mobile (paytm), specialized in digital payment system, e-commerce and finance.

#### 6. Policy bazaar

Policy bazaar is an India's largest insurance aggregator and top fintech player.

#### 7. Shiksha finance

They offer loans to educational institutions to develop buildings, buy properties and working capital.

#### 8. Pine labs

Pine labs provides financing and digital payments. It is a widely used technological service in India.

#### 9. Zestmoney

Zestmoney combines mobile technology, artificial intelligence and digital banking for easy accessible to customers.

#### 10. E-pay later

E-pay later is a digital payment solution, which allows "buy now, pay later" option for regular online purchases.

### 3.3 Future of Fintech in India:

With one of the fastest growing economies in the world, India is arguably the best fintech hotspot in recent years. Concepts like mobile banking, mobile wallets, paperless lending and secure payment gateways are being adopted into daily life. Fintech provides best features and solutions to banking platforms through application program interfaces. They are swiftly changing the face of banking sector, as of now several banks are moving towards digitization and paperless transactions.

Over the last two years, there has been a massive adoption of digital payment system in India, making it a lot more convenient to go about with basic financial services. This growth and expansion of fintech in India is aided by number of factors such as availability of smartphone, growing internet access and high speed connectivity. According to Boston consulting group and FICCI, India is well-positioned to achieve a fintech sector valuation of USD 150-160 billion by 2025<sup>6</sup>. The new payment mechanism and interfaces such as Immediate Payments Service (IMPS), Unified Payments Interface (UPI), and Bharat Interface

for Money (BHIM) has seen considerable improvements. Other government projects like “make in India” and “digital India” have played an important role in advancing the adoption of fintech.

As stated in PWC India report “start-up perspectives- Q3CY21”, investment worth \$2.4 billion were recorded. Top fintech investment include pine labs \$600 million, bharatpe \$370 million, ofbusiness \$207 million, digital insurance \$217 million, khatabook \$100 million and billdesk \$4.7 billion. In the first three quarters of 2021, 29 Indian start-ups attained unicorn status, majorly across Saas, fintech and edtech sectors<sup>7</sup>. Indian fintech might reach a new level of \$500 billion by 2025. Researchers also predicted that digital transactions might increase triple times by 2026.

Government of India provided a new framework for offline digital payments, customers can make payments even without internet connectivity.

- E-rupi: Government app which permits offline transactions shared through SMS or QR code.
- Offline chip based card: Yes bank and Axis bank introduced this chip based transaction; users can transact using chip based visa cards and prepaid cards even with low or no internet connectivity.
- Sound medium: ToneTag is an offline feature payment solution, it establishes peer- to-merchant transactions over sound medium by reaching a secure channel for data transfer over interactive voice response.
- Near field communication: Payse is an offline digital cash product which proposes to help in digitisation of payment in rural areas.

### 3.4 Challenges faced by fintech sectors:

- Data security and privacy risk
- Varied adoption
- Rapidly changing regulations
- Lack of financial literacy and awareness
- Regulatory and compliance laws

### 4. Conclusion:

Fintech has the positive effect in the economy and they help in reshaping the financial services and financial inclusion landscape in India. And also fintech helps in reducing the cost and improves the quality of financial services. By managing the risks and improving technology, fintech can help in creating a new financial system. The outcome of digital innovative solutions is reliable and hassle free. India is emerging as one of the fastest growing fintech market globally.

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<sup>5</sup><https://www.uschamber.com/co/run/business-financing/what-is-fintech>

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