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Study of FinTech environment and Challenges in India

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Abstract

Fintech businesses are transforming the lending or financing process. No longer are people required to borrow money from banks. Loans are now being made straight to customers by many fin tech companies. They can apply for loans online and immediately have them approved. Businesses evaluate the creditworthiness of the borrowers and swiftly automate the underwriting procedure. India has the fastest-growing fintech business in the world. Fintech industry change for the financial services in India. According to NASSCOM, the Indian fintech software market is expected to grow from its current USD 1.2 billion to USD 2.4 billion by 2020. The historically cash-based Indian economy has reacted favourably to the fintech possibility, which was primarily brought on by an increase in e-commerce and widespread smartphone use. A five-year CAGR of 22% is expected to increase the transaction value for the Indian fintech sector from an estimated USD 33 billion in 2016 to USD 73 billion in 2020. The fintech industry is a focus for the Indian government, which also supports it and promotes new concepts and inventions. In the financial sector, fintech is a new idea. Fintech services in India are more safe and user-friendly, giving the Indian economy a greater advantage. The fintech services lower their financial services costs.

Keywords : *Fintech, Challenges , Segments of FINTECH Companies*

Introduction

India has led this change from the front. With an adoption rate of 52%, India comes in second globally in terms of the use of fintech. According to reports, India is home to up to 1,218 FinTech businesses that have supported a significant number of jobs. Additionally, they are creating a strong desire to invest. To create a "less-cash" society, the Reserve Bank has over the years promoted the usage of electronic payments. By utilising technology solutions that enable quicker processing, the goal has been to offer a payment system that combines the qualities of safety, security, greater convenience, and accessibility. Other areas of interest include affordability, interoperability, and customer awareness and protection. The conventional entry point for payment services has been banks. However, because to the rapid speed of technology advancement, banks no longer have a monopoly over this industry. Non-bank organisations collaborate and compete with banks, either by offering direct retail electronic payment services or by serving as technological service providers to banks. The regulatory environment has also promoted this increased involvement of non-bank organisations in the payments sector.

Fintech businesses are transforming the lending or financing process. No longer are people required to borrow money from banks. Loans are now being made straight to customers by many fin tech companies. They can apply for loans online and immediately have them approved. Businesses evaluate the creditworthiness of the borrowers and swiftly automate the underwriting procedure. The term "fintech" refers to a new area of financial services in the twenty-first century. The word was initially used to describe technologies used in the back end of well-known consumer and commercial financial institutions. Since the end of the first decade of the twenty-first century, the phrase has come to refer to any technology advancement in the financial industry, including those in retail banking, investment, financial literacy and education, and even the development of crypto currencies like bitcoin. The objectives of the paper are to know about Fintech environment, to be familiar with Indian Fintech industry segments, to understand the difficulties facing Indian Fintech firms

Review of Literature

Shaktikanta Das (2019), indicates that FinTech has the ability to fundamentally alter the financial services and financial inclusion environment in India. It can lower expenses while enhancing the availability and calibre of financial services. We need to find a delicate balance between utilising FinTech successfully and reducing its systemic effects. We can contribute to the development of a new financial system that is more inclusive, efficient, and robust by using enabling technology and controlling risks. **K. Anusha and P. Krishna Priya (2019),** found that there are numerous Fin Techs rising in India across all financial services areas. It is evident from the rapid development of fin technologies that India has tremendous entrepreneurial potential. Nearly half of the 1500 Fin Tech startup companies currently active in India were founded in the previous two years. Fintech companies require excellent technological and financial grooming. There are many successful companies in the payments sector, and it is anticipated that this trend will continue in other industries. Additionally financial segments. The government and other regulatory agencies need to take additional steps to support the fin tech industry. **C. Vijai, M.D. (2019),** explained that India has the fastest-growing fintech business in the world. Fintech industry change for the financial services in India. According to NASSCOM, the Indian fintech software market is expected to grow from its current USD 1.2 billion to USD 2.4 billion by 2020. The historically cash-based Indian economy has reacted favourably to the fintech possibility, which was primarily brought on by an increase in e-commerce and widespread smartphone use. A five-year CAGR of 22% is expected to increase the transaction value for the Indian fintech sector from an estimated USD 33 billion in 2016 to USD 73 billion in 2020. The fintech industry is a focus for the Indian government, which also supports it and promotes new concepts and inventions. In the financial sector, fintech is a new idea. Fintech services in India are more safe and user-friendly, giving the Indian economy a greater advantage. The fintech services lower their financial services costs.

Jain2020),Fintech businesses support the budgetary administration sector by supporting administration, financing, and instalment businesses that are promoted by banks.With the knowledge and encounter of great banks and installment structures, the adaptability advertised by fintechs can provide support to clients associated with fintech suppliers.

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Xavier Vives2019) fintech has a large and potentially welfare-enhancing disruptive capability. However, for new technology to benefit consumers and firms without jeopardizing financial stability, regulation needs to be challenged.

Thomas Philippon2016) This paper assesses the potential impact of FinTech on the finance industry, focusing on financial stability and access to services. financial services remain surprisingly expensive, which explains the emergence of new entrants. The existing regulatory approach, I would contend, is subject to high political economy and coordination costs and is therefore unlikely to produce any structural change. On the other side, FinTech has the potential to bring about profound changes but is likely to create significant regulatory challenges.

C.vijayi 2019) states that Fintech is financial technology; Fintech provides alternative solutions for banking services and non-banking financial services. Fintech is an emerging concept in the industry of finance. The main purpose of this paper accesses the opportunity and challenges in the fintech industry. It explains the evolution of the fintech industry and present financial technology (fintech) in the Indian finance sector. The fintech provide digitalized transaction and more security for the user. The fintech services are reducing operation costs and are user friendly. The fintech services are rapidly growing on world basis. The fintech services are going to change the habits and behavior of the Indian finance sector.

(Legowo,Steph Subanidja 2019) uses a descriptive analysis research method and qualitative method approaches. By critically analysing a number of pertinent scientific journals, information about the Indian FinTech phenomena, and supporting documents from banking institutions, this descriptive analysis is carried out. The findings of this investigation show what has happened to banks and fintechs in the past, present, and further forward.This study's contributions can offer deeper understanding and insight into banks and FinTech in the past, present, and future.

Segments of Indian fintech Industry

The development of cutting-edge national payment infrastructure and technology platforms, including Immediate Payments Service (IMPS), Unified Payments Interface (UPI), Bharat Interface for Money (BHIM), Bharat Bill Pay System (BBPS), and Aadhaar-enabled

Payment System, has received considerable attention in recent years (AePS). The country's retail payment environment has transformed as a result. Over the past five years, the total amount of retail electronic payments has increased by roughly nine times. Currently, the Indian Fintech sector is focusing on lending to both consumers and MSMEs. In addition, this sector now offers more conventional financial services including gold loan and personal financing. Let's examine a few FinTech India market segments.

PayTech: Through services like payment gateways, card networks, application programming interfaces (API), and payment security, fintech companies in India can access this market. Among the consumer-focused services accessible are third-party application providers (TPAP), prepaid card/Wallet, bill payment, QR code payment, payment aggregator, and point of sale (POS). Business-centric services include corporate cards, B2B payments, and invoice payments, for instance. The largest players in this market are Google Pay, Paytm, PhonePe, and MobikWik.

LendTech: Lenders and providers of Buy Now Pay Later (BNPL) services, Al and anti-fraud technology, data interchanges, marketing, and insurance services, including peer-to-peer lending, personal loans, salary loans, gold loans, vehicle loans, school loans, and other types of loans, are all included in the field of lendtech. Customers and retailers are preparing themselves to use Google Pay, M-Swipe, and Razor Pay as their preferred payment options.

InsurTech: Insurtech is the application of technological breakthroughs to the current insurance industry paradigm in order to achieve savings and efficiency. It provides more than just digital communications, too. It enables carriers, even those with mixed workforces made up of direct-hire personnel and third-party contracts, to manage schedules and boost the output and efficacy of their adjusters. Claims processing, a sales platform, underwriting risk management, insurance infrastructure APIs, and a policy administration system are just a few of the services that fintech in insurtech may offer. Market leader in this niche is Policy Bazaar.

WealthTech: Money and technology are combined by WealthTech to produce digital solutions that improve portfolio management, investment, and personal wealth management. The development of a fully automated asset management system has been made possible by the expansion of digital payment methods, e-KYC via Aadhar, online money transfers, and online investment reporting. Examples of developments include the analysis of investment options, portfolio improvement, and risk management using Big Data, AI, and deep learning. Two well-known firms in the FinTech field for WealthTech are Zerodha and Small Case.

RegTech: Regtech manages regulatory procedures in the financial sector through technology. Monitoring, reporting, and compliance with regulations are among its main responsibilities. The increased usage of digital products has led to an increase in money laundering, cyber attacks, data breaches, and other illicit activities. By delivering real-time data on money laundering operations carried out online, it lowers the risk to the compliance department by utilising big data and machine learning technologies.

Electronic payments: Currently, 98.5 percent of all non-cash payments are made through digital transactions. In June 2021, 2.8 billion digital payment transactions totalling more than five trillion Indian rupees were reported by UPI suppliers in India, according to Statista. Neo banks provide a variety of banking solutions simpler and quicker, including payment gateways, payment processing, cash delivery, internet payments, and many others. API providers and aggregators, banks with open APIs, banking as a service, and core banking are a few examples of Fintech services used in digital banking. The top fintech companies in India in the area of digital payments are Paytm, PhonePe, RazorPay, etc.

Challenges with FINTEC in India

The digital and technological revolution transformed business operations across all industries, and the financial and banking sector are no exceptions. What heartening is that the Indian government and regulatory bodies have in fact encouraged an entrepreneurial environment for Fintech in India rather than one that is restrictive. However, policies and governance will need to match the speed of innovation in this sector, particularly to ensure secure and transparent growth

1. In an economy like India's, where micro, small, and medium-sized firms (MSMEs) predominate, going digital for payments might be challenging as they cannot aford the fees.
2. Fintech adoption is lopsided in India, however larger payment gateways mainly focus on a small number of major shops due to lower transaction margins.

3. MSMEs account for only approximately 5% of $12-14 billion spent.
4. One of the issues is coming up with viable business strategies that don't tax consumers with excessive fees.
5. Both customers and providers of fintech services are finding it challenging to operate in the fintech industry due to regulatory uncertainties.
6. Another significant issue is the lack of understanding and legalities around KYCs among fintech companies.
7. The larger Indian cities are the only places where these digital payment services are known, while rural India struggles to get by. People's current capacity, desire, and need for fintech services are insufficient.
8. Filling up the gap and making the ends meet is a problem for fintech product providers.
9. Threats to cyber security and a lack of legal framework pose a serious obstacle to the spread of services.
10. The banking sector's laws continue to apply to the fintech industry. Although the RBI has permitted small banks and payment banks, many obstacles still stand in the way of forward-thinking fintech businesses. It would be like to asking them to operate with one hand restrained.
11. An additional disadvantage is the infrastructure's relative lack of development, which includes payment systems, consumer credit data, power, and Internet access. Small markets, low revenue potential, a lack of qualified tech/finance entrepreneurs, and underdeveloped venture capital ecosystems are some of the other main hurdles.
12. Another barrier is the predominance of cash in transactions, informal loans and savings, and a lack of digital literacy.
13. Due to the stringent regulatory environment created to guard against fraud, performing on the Indian market is not very simple.
14. It serves as a significant barrier for new entrants.
15. They must complete a number of requirements before beginning operations.
16. It is exceedingly challenging to alter the conservative mindset of business owners and customers who do regular cash transactions.

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17. Since the majority of elderly people have long done these transactions in cash, it might be challenging to suddenly change their customs and introduce them to new opportunities when they are older.

Conclusion

There are numerous Fin Techs rising in India across all financial services areas. It is evident from the rapid development of fin technologies that India has tremendous entrepreneurial potential. Nearly half of the 1500 Fin Tech startup companies currently active in India were founded in the previous two years. Fintech companies require excellent technological and financial grooming. The majority of profitable startups can be found in the payments industry, and it is anticipated that this trend will extend to other financial sectors as well. The government and other regulatory agencies need to take additional steps to support the fin tech industry.

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