



OPPORTUNITIES AND CHALLENGES OF FINTECH IN INDIA- A QUALITATIVE STUDY

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Abstract: *Innovation and technology have brought a radical change in traditional financial services. Rural India need more support from financial technologies for providing cost effective financial services and implementation of financial inclusion in the Indian financial system. In India the main demand for financial technology innovations comes from banks and financial institutions that strive to optimize the time, cost, increase financial inclusion as well as the products and services that they offer. The present study mainly focuses to issues and challenges of Fintech in Indian economy. The research is purely based on descriptive and contributes to the emerging literature on financial innovations and develops knowledge on financial technology opportunities in particular.*

Keywords: *Financial Technology, Financial Inclusion, Financial Services, Financial System, Financial Institutions..*

Introduction

Technology plays a most important role in the financial system. Today everything traditional gradually became everything digital in the business-to-consumer and the business-to-business space, this revolution called FinTech. Financial technology or Fintech involves the design and delivery of financial products and services through technology (Carmen Leong et al.2007). The year 2015 was a formative year for the Indian Fintech sector, which saw the emergence of numerous Fintech start-ups, incubators and investments from public and private investors.

Spreading internet connection, increasing speed of innovation as well as active usage of mobile devices in everyday life leads to the use of financial technologies (Mori, 2016). In the starting stage of the Fintech it is used in the banks for the purpose of easy working of end functions with the help of technology (Neenu Joseph and Hemalatha N, 2016). Now it is changed into any technological innovations in the financial sector including innovations in financial literacy, cash management, data analysis systems, retail banking, investments, insurance, automated online trading and financial inclusion (Desai, 2015) Fintech innovations play a role of a catalyst for financial system development

especially in the emerging markets which improve overall economic growth (Beck et al. 2016)

Globally Fintech software and services sector is expected to boom as a USD 45 billion opportunity by 2020, growing at a compound annual growth rate of 7.1 percent as per NASSCOM(Business Standard, 2016). In India Fintech market is forecasted to touch USD 2.4 billion by 2020 from a current USD 1.2 billion as per NASSCOM (Business Standard, 2016).

Objectives of the study

1. To provide a conceptual summary of the Indian financial technology industry.
2. To study the growth and progress of digital transactions and financial technology.
3. To investigate the opportunities and challenges for adopting financial technologies.

Methodology of the study

The present study namely “Issues and Challenges of Fintech in India - A Qualitative Study” based on secondary data; the data required for the study has been collected from journals, magazines, previous research works and annual reports of Reserve Bank of India and various websites.

Limitations of the Study

- The present study is based on mainly secondary sources of data collection.
- The opportunities, challenges and recommendations are confined to only financial technology sector in the context of Indian economy.

The Indian Fintech industry grew 282% between 2013 and 2014, and reached USD 450 million 2015. Investment in FinTech is expected to grow 170% by 2020. Even the Indian FinTech software market is forecasted to touch USD 2.4 billion by 2020 from USD 1.2 in 2013-14 as per NASSCOM. The transaction values for the Indian FinTech sector is estimated to be approximately USD 33 billion in 2016 and is forecasted to reach USD 73 billion in 2020. Indian FinTech industry offers wide range of products and services as given under:

Analysis and Discussion

Figure 1: Indian FinTech Industry

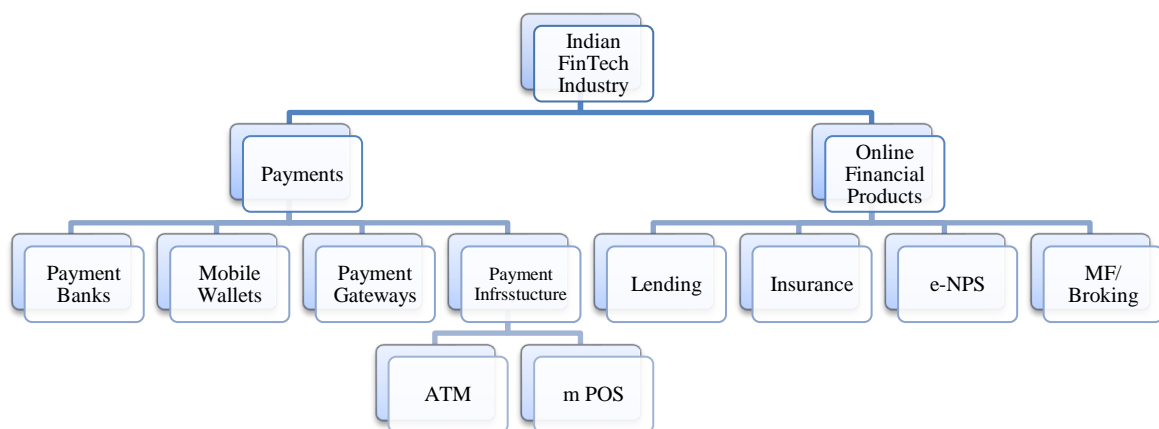
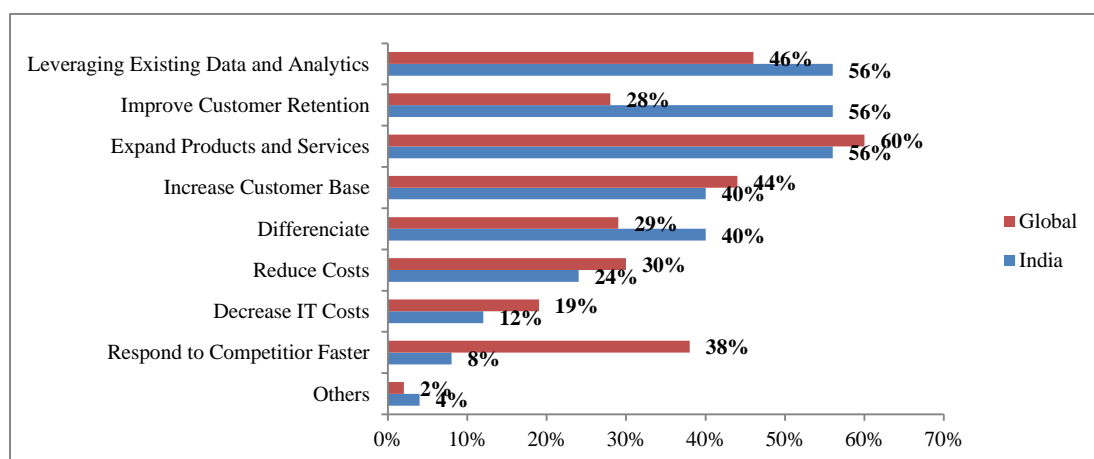


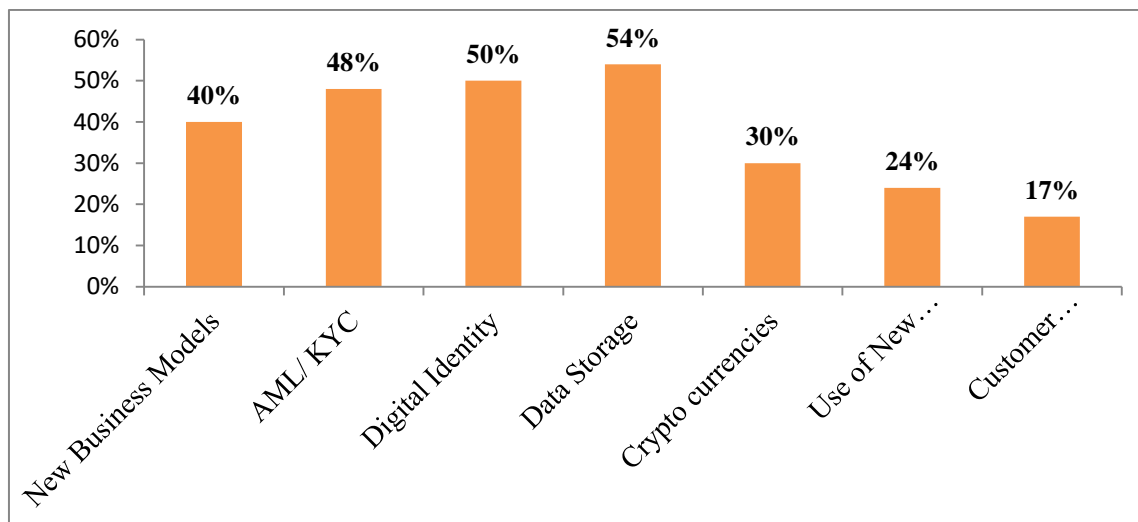
Figure 2: Most Promising FinTech opportunities in and Global India



Source: Fintech trends report, India, 2017

The above Figure 2 depicts the most promising financial Technology opportunities in India and world across. It can leverage more opportunities from existing data and analytics, improve customer

retention, add more products and services, differentiate and serve better than global FinTech players.

Figure 3: Regulatory Barriers for Financial Technology Innovation in India

Source: FinTech trends reports, India, 2017

The above figure 3 portrays the regulatory barriers for financial technology innovations. Data storage, Digital Identity, KYC, new business model pose difficulty for the FinTech players in India. Crypto currency, use of new technology and customer communication is also a regulatory barrier.

Opportunities and Challenges of FinTech in India

Over the last few years financial technology has made a significant impact on the financial services sector, not only redefining the development of financial services products but also creating alternate channels of delivery, and providing the opportunity to significantly expand the reach and scope of financial services. The transaction value for the Indian financial technology sector is forecasted to reach USD 2.4 billion in 2020 growing at a five year Compound Annual Growth Rate of 22 Percent.

India has been at the forefront of this revolution. A recent global survey ranks India second in terms of FinTech adoption, with an adoption rate of 52 percent. It is reported that there are as many as 1218 FinTech firms operating in India which have created a large number of jobs. They are also generating a healthy appetite for investment.

The Reserve Bank of India has over the years encouraged greater use of electronic payments so as to achieve a less-cash society. The objective has been to provide a payment system that combines the attributes of safety, security, enhanced convenience and accessibility, interoperability, and customer awareness and protection have also been other focus areas.

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). This has changed the retail payments scenario of the country. The total volume of digital transactions grown exponentially from 9,780 million in 2017 to 23,373 million in 2019.

Seven payment banks have commenced operations. These technology-led banks use FinTech, both while on boarding customers as well as while carrying out operations. Invoice trading is another nascent area of FinTech application in India. It assists Micro Small and Medium Enterprises which often have working capital and cash flow problems due to delayed payments. The Reserve Bank of India has set up the Trade Receivables Discounting System (TReDs), which is an innovative financing arrangement where technology is leveraged for discounting bills and invoices.

On the growth continuum, Fintech in India has on one side has positive development and opportunities on the other and most important side it has challenges too. Innovation is the Hallmark of FinTech in India but may be thwarted because of regulation. Balancing regulation and innovation requires a long term vision from the regulators to gain customer trust and attract more capital. In banking service, customer acceptance and trust is inevitable. A typical Indian consumer would like to have a traditional way of financial transactions coupled with limited knowledge of banking services. Gaining trust in alternative financial services becomes much more challenging.

Fintech in India faces the challenge of building data and infrastructure to create customer value. Companies need to gather lot of data, as only a small portion of customer information is available with banks and credit bureaus. At present the focus of merchants is very less on acquiring digital infrastructure. Government should take initiative and encourage merchants to focus on equipping more digital infrastructure. Data privacy and customer protection is challenging for Indian Fintech companies. More number of companies entering entering the market require more interface with banks and other information sources. As many players are entering the FinTech space and existing companies are expanding, they must establish interface with banks and other information sources. Integration of systems poses challenges of Cyber vulnerability.

Conclusion

Lean culture adopted by FinTech companies in India reduces cost and improves quality of financial services. It can cater to the diverse needs of Indian customers by integrating technology with financial services in a robust model avoiding expensive physical networks, legacy operations. These fruits of reduced cost can be transferred to the consumer. Technological innovation in FinTech bring into play Big data, Machine learning and alternative sources of data. It helps the companies in developing and delivering unique products suitable to customer requirements. Through the technological innovations, FinTech companies can easily penetrate into markets and better serve the untapped market segment.

Customization is the hallmark of FinTech companies. With strong vision of Government and Regulatory bodies, FinTech companies can develop more secured, diverse and stable services compared to their traditional counterparts, who offer more standardized services. FinTech companies can learn and adopt themselves quickly to the best practices of leveraging risk, excellence in operations, compliance and governance and employee engagement.

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