



IMPACT OF FINTECH ON FINANCIAL SERVICES INDUSTRY IN INDIA

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Abstract: *Fintech, the integration of technology in the provision of financial services, has experienced rapid growth in India. With the second-largest population of internet users globally, India quickly embraced financial technology, emerging as one of the fastest-growing fintech markets worldwide. Fintech offers a promising path for India's evolving economy, enabling the benefits of digital technology and helping to bridge the gap between developed and developing nations. Across the globe, no financial service remains untouched by the wave of new technologies such as artificial intelligence, machine learning, blockchain, and data analytics. These innovations have significantly impacted various areas of financial services, including deposits, transactions, remittances, billing, lending (both B2B and P2P), insurance, and underwriting. Fintech is also a key driver in advancing the Indian government's initiatives of financial inclusion, Digital India, and expanding banking access to the unbanked population. This paper explores the structure of the Indian fintech industry, examines the impact of fintech on the financial services sector, and provides insight into the current and future landscape of fintech in India. Fintech companies are fostering greater financial inclusion, improving quality of life, and enabling better decision-making.*

KEY WORDS: FINTECH, FINANCIAL SERVICES, DIGITAL TECHNOLOGY

Introduction

Fintech, the fusion of finance and technology, has become a prominent term in the business world, although its roots can be traced back several decades in the banking and finance sectors. Early adopters of technologies such as internet banking, ATMs, electronic banking, and core banking systems have mainly been from the retail and finance industries. Fintech innovations enhance customer experiences and streamline the operations of financial institutions. Companies like Paytm, which offer mobile payment solutions, are striving to become comprehensive platforms that cater to the everyday needs of the average consumer. Moreover, fintech plays a crucial role in supporting the Indian government's initiatives such as financial inclusion, Digital India, and providing banking access to underserved populations.

India embarked on its path to globalization and liberalization in 1993, leading to the entry of several private sector banks. Fintech began to play an important role by offering consumers access to financial services through mobile applications, a

capability that traditional banks could only envision. Numerous startups, backed by venture capital and supportive government policies, have emerged to seize new opportunities in the financial sector, especially in banking.

Objectives of the Paper

- To examine the structure of the fintech industry in India, focusing on how technological advancements are transforming the financial sector for consumers, financial institutions, businesses, and society.
- To highlight the impact of fintech on the financial services industry.
- To explore the current state of fintech in India.
- To identify the untapped potential of fintech driven by emerging technologies in the future.

Managerial Implications

This paper will be valuable for entrepreneurs, strategic advisors, investors, researchers, academics, and large corporations, offering insights that will help them make informed decisions. It provides an understanding of the Indian fintech space and the future opportunities yet to be explored.

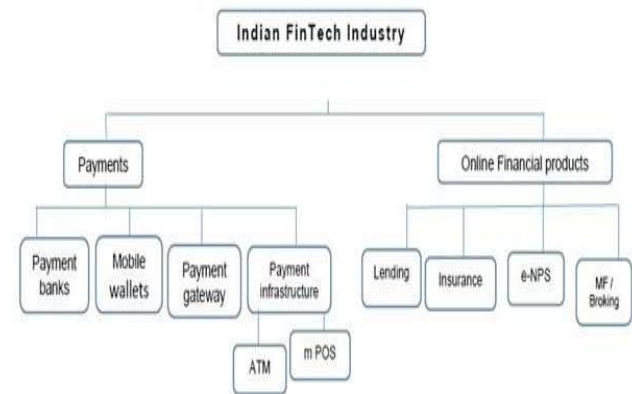
Fin-tech in India

India’s fintech sector ranks among the top five globally in terms of capital funding and investments, securing nearly \$270 million in 2016. The country is one of the largest markets where key factors for the establishment and growth of fintech have aligned at an ideal moment. A combination of steady economic growth, low financial services penetration, and essential infrastructure such as internet access, widespread smartphone usage, and utility tools like Aadhaar-based authentication and India Stack are propelling the sector forward. Indian fintech companies are setting new standards in financial services, supported by government initiatives such as Jan Dhan Yojana, Aadhaar, and the Unified Payments Interface (UPI), which collectively enhance financial inclusion across the country (Financial Express).

In terms of demographics, fintech adoption rates in India are notably high, with 88% of males and 84% of females using fintech applications. The highest adoption rate, around 94%, is seen among people aged 25 to 44, compared to the global average of 73% in this age group (BFSI Economic Times). India is also one of the fastest-growing fintech markets worldwide, sharing the highest fintech adoption rate globally with China. The value of digital payments in India, which was \$65 billion in 2019, is projected to grow at a compound annual

growth rate (CAGR) of 20% until 2023 (Invest India).

While markets around the world have unique characteristics, the Indian fintech sector stands out, especially in the payments segment, due to its distinct challenges and opportunities.



Source: <https://www.rbi.org.in/>

Government Support

To foster the development of a cashless digital economy and strengthen India's fintech ecosystem, the Government of India (GOI) has implemented a robust and proactive approach, focusing on both policy-making and funding initiatives. Alongside key regulatory bodies such as the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI), the government has taken several significant measures to drive this transformation



Source: Telesivory's Research

Fintech: Impact on Indian Financial Services Industry

With customized solutions and significant advancements in sectors like education, insurance, and credit management, fintech has steadily yet profoundly transformed the financial services and payments landscape. As highlighted in Deloitte and CII's *Vision 2020* report, India is rapidly becoming a digital economy with over a billion mobile phones, 330 million internet users (94% of whom are on mobile devices), and 240 million smartphones. This has fostered a dynamic environment where fintech start-ups have the potential to scale into billion-dollar unicorns.

Fintech companies in India pursue diverse goals, ranging from entering new sectors to expanding into global markets. The growth trajectory of the Indian fintech industry has been exponential in recent years. According to NASSCOM, the Indian fintech software market is projected to grow from its current value of USD 1.2 billion to USD 2.4 billion by 2025. These companies are addressing critical issues in India's financial services, such as expanding outreach, enhancing customer experience, reducing operational inefficiencies, and driving the adoption of digital channels. The key segments of India's fintech sector include digital lending, digital payments, insurtech, wealth tech, and blockchain, among others.

Traditional banks, with their legacy systems and higher fixed costs, face competition from these agile and innovative fintech firms. These new businesses are expected to reshape the market by influencing customer behaviors and driving long-term transformations in the financial sector. Indian fintech firms are reshaping the financial services industry in three key ways:

Innovative Risk Assessment: By leveraging big data, deep learning, and alternative data, fintech can create advanced risk assessment models to ensure credit accessibility and build credit scores for individuals with poor credit histories, thereby increasing financial inclusion in India.

Cost Efficiency: Fintech companies are expected to reduce operational costs and improve the efficiency of financial services. Their leaner business models can offer cost advantages to customers, as they are not burdened by legacy

operations, outdated IT systems, or costly physical infrastructure.

Enhanced Financial Ecosystem: Fintech firms offer a more dynamic, secure, and efficient financial services ecosystem. They are more flexible than traditional banks and are creating new learning platforms to enhance skills and foster a culture of innovation.

Current Scenario of Fintech in India

India's fintech market is projected to reach USD 111.14 billion by 2024 and grow to USD 421.48 billion by 2029, with a compound annual growth rate (CAGR) of 30.55%. The fintech sector in India has seen remarkable growth over the past few years, with the country emerging as a hub for fintech start-ups. Major players include Paytm, Pine Labs, PayU, and Faircent. SoftBank has also invested heavily in several promising fintech ventures. Government efforts to promote the digitization of financial systems and encourage a cashless economy have significantly contributed to shifting consumer preferences toward digital financial services.

Domestic and international investment has further fueled growth in digital payments. The rise of digital commerce, advancements in payment technologies such as AI and blockchain, the Internet of Things (IoT), and innovations like mobile point-of-sale (POS) devices have also played a key role. Around 80% of banking operations in leading Indian banks are now conducted through digital channels. Additionally, remittance services, including platforms like FXNetworks, InstaReM, and Remitly, have seen rapid growth. Many fintech companies have partnered with banks and other institutions to create innovation labs for developing and testing new products, often with financial support from the Reserve Bank of India and government-backed loans.

Fintech has prompted a re-evaluation of traditional financial service models, with many established firms rethinking their approach in light of the sector's accelerated growth, largely driven by government pro-digitization policies. Over the next two decades, the fintech sector is expected to continue its rapid growth, fueled by India's expanding young population and rising literacy

rates. However, the balance between demand and supply will remain a challenge. Fintech firms must excel in meeting the needs of a larger population, while niche products will need to carefully consider market readiness and price sensitivity to avoid early market failure.

A mobile-first strategy will likely be critical to the success of fintech products, as mobile platforms are increasingly the primary access point for financial services.

Future Trends in Fintech

New trends in financial services technology are expected to emerge in 2020 and beyond. The growth of fintech companies will increasingly be driven by their ability to harness the sharing economy, improve customer intelligence, and leverage advancements in technologies such as blockchain, robotics, and artificial intelligence (AI).

Artificial Intelligence in Fintech

AI has had a transformative impact on the finance industry (Hill, K., 2020). Before the rise of AI and fintech, only a few industry leaders had the capacity to handle the quantitative complexities of our increasingly technology-driven world. The use of AI has revolutionized fintech, enabling companies and financial institutions to enhance efficiency and provide consumers with more personalized, affordable, and intuitive financial products and services to meet their banking needs.

Blockchain in Fintech

Blockchain technology is revolutionizing the fintech sector by offering numerous advantages, including the elimination of intermediaries, reduction of operational costs and time, and improved identity verification processes. According to a report by India's Ministry of Finance's steering committee on fintech issues, blockchain's impact on the industry is notable, with a focus on four key applications in this space (Shah, 2019). This technology offers fintech companies a competitive edge as it continues to disrupt traditional financial systems

Cloud Computing in Fintech

Cloud infrastructure empowers fintech companies to scale their operations flexibly, allowing for seamless adjustments while adhering to regulatory requirements. The significant and consistent growth of fintech has been largely driven by cloud technology, which reduces both capital expenditures (CAPEX) and operational expenditures (OPEX). Additionally, cloud solutions expand the service offerings of fintech companies and enhance the overall user experience.

NLP-Based Chatbots

According to PwC India, the fintech sector is set to revolutionize mobile banking through the use of natural language processing (NLP)-based chatbots and innovative conversational user interfaces (CUI). These chatbots will be able to interact with customers, addressing their issues and offering real-time solutions, which will greatly enhance the customer experience.

Conclusion

Fintech represents a new era in financial services, where technology and innovation are applied to deliver financial products and services through digital applications, processes, and business models. The advancements in fintech have disrupted traditional paradigms, prompting established financial institutions to rethink their business strategies. Over time, fintech's influence on the financial sector has been both measurable and beneficial. While fintech experienced gradual growth in its early stages, recent years have seen rapid acceleration, largely due to the Indian government's initiatives promoting digital transformation. Over the next two decades, fintech is expected to continue growing at a fast pace, driven by India's expanding population and increasing literacy rates.

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