

CURRENT STATUS, TRENDS & PROSPECTS OF FINTECH IN INDIA

Pawan Kumar Bhura

Research Scholar (Commerce)
Maharaja Ganga Singh University, Bikaner (Raj.)

Dr. Sanjeev Kumar Bansal

Associate Professor and Head
Department of A.B.S.T. (Commerce)
Govt. N.M.P.G. College, Hanumangarh (Raj.)

Abstract

As the world moves toward a digital age, finance has become a part of the new world. Due to the combination of technology and finance, which is referred to as fintech, the sector has moved beyond its traditional boundaries. Through the use of technology, people can now do transactions such as buying and selling financial products through a single click. Financial technology (fintech) is a new concept in the financial sector, which provides alternative banking and finance services. It is safer than traditional methods. The advantages of fintech services include operating expense reductions and amicable users. This study aims to explore the country's journey toward becoming a fintech hub. The rapid emergence and growth of fintech services in India has created a huge opportunity for the country's financial sector. This study aims to analyze the various aspects of the country's financial industry and how it will change as a result of the new technology.

Keywords: *Fintech, digitalization, digitization, banking*

INTRODUCTION

The evolution of the global identity ecosystem is examined in detail in this study, which explores the various stages of the financial technology (fintech) phenomenon. Although it may seem like a new innovation, it has been around for a while. For instance, during the 1950s, credit cards were the first products that were made available to the public that were designed to eliminate the need for people to carry cash. Online stock trading platforms and banks have started incorporating mainframes as a result of the development of fintech. One of the first companies to operate solely online was PayPal, which was founded in 1998. Since then, various technological advancements have changed the way this invention has been developed. Due to the rise of fintech, we're seeing an increasing number of people using mobile payment apps, blockchain networks, and social media-based payment platforms. Fintech refers to the use of technology to provide financial services and goods.

In 2018, Shin and Lee noted that the rise of AI, social media, and data analytics has led to the evolution of financial technology (fintech) into a new paradigm. The concept of the financial technology (fintech) ecosystem is a combination of various elements that help boost the economy and improve the customer experience. Some of these include start-ups, financial institutions, and governments. India has quickly adopted this technology environment. Around 20% of all FinTech companies in the country operate in the payments sector, and policymakers and businesses are paying close attention to this area, according to a study by Statista in 2022. Technological innovations that foster innovation have significantly impacted the sector.

There is a lack of comprehensive knowledge about the Fintech sector in the literature. Researchers are mainly focused on the mature players in this field instead of the emerging ones from India and other countries. This paper aims to fill this gap by reviewing the current literature and summarize its knowledge. The first section of this study covers a review of the literature about fintech, followed by a discussion about the ecosystem and development of

the industry in India. After that, we explore the various aspects of the sector's growth before concluding the study by drawing a conclusion about the unknowns and knowledge about its evolution. The scope of research article can help establish the direction for future studies.

LITERATURE REVIEW

Finance evolves over time. Traditional banks, for example, are being supplanted by online banking, mobile banking, and peer-to-peer payments, which allow anyone to move funds between them (Muthukannan et al., 2020). This is due to digitization and digitalization. Digitization is paperless work nowadays, followed in any bank or industry. The stability of established financial ecosystems is decreased as a result of the digitalization of financial services, which diverts financial information flows away from established conventional financial infrastructures and traditional financial institutions (Gozman et al. 2018).

The emergence of Fintech, which altered the financial distribution method, caused upheaval in the current system (Hedman and Henningson 2012). A financial ecosystem consists of interconnected technologies that are continually growing in order to increase product, managerial performance, and process performance (Clemons and Weber, 1998). Within this financial ecosystem, new technologies are constantly replacing old ones, and failing or failed technologies are made useless (Adomavicius et al. 2008). Now we are working on new technology and dismantling the old and impaired.

According to Gomber et al. (2017), the reorganisation of financial information flows has made online banking more widely used. Additionally, new financial information flow channels have been established thanks to networks, message protocols, and standards. With their mobile customer-centric approach, challenger banks have gained a large number of consumers. Application programming interfaces (APIs) enable the creation of personalised client experiences and the development of "banking as a platform." (Zachariadis and Ozcan, 2016).

Financial information flows are being reorganised as a result of the institutionalised paradigms being disrupted by the Fintech revolution. This is made possible by cutting-edge financial technical advancements that permit reintermediation, or the introduction of new money markets (Sen and King 2003). India's growth surge may not yet be comparable to that of its international counterparts, but it is still strong and wellpositioned, in large part because of a strong talent pipeline of easily accessible and reasonably priced tech workers (Vijai, 2019). The current article attempts to look at every Indian Fintech-related issue

EVOLUTION OF FINTECH IN INDIA

The rapid emergence and evolution of financial technology (fintech) has created a new marriage between the financial services industry and technology. In India, the Jan Dhan Yojna's sudden rise led to a surge in bank accounts and the linking of Aadhar card with banks, which paved the way for the country's fintech industry to flourish. By acquiring every individual a mobile phone, Covid was able to dramatically expand the market. The internet has made it easy for consumers to conduct transactions such as buying and selling financial products online. All banks are now moving toward a paperless and cashless operation. Fintech, which refers to the technology utilized by financial institutions' back-end systems, emerged during the twenty-first century.

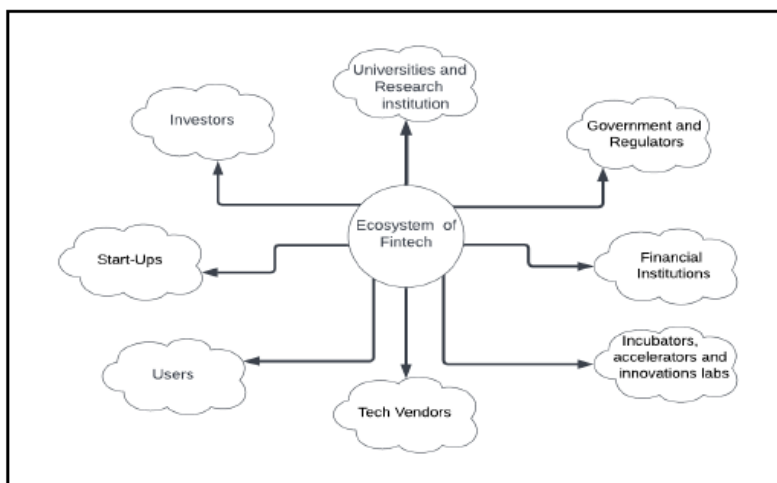
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|----------------------------|--|
| Fintech 1.0 (1950 onwards) | * Many of the country's British Raj banks were nationalized after India became an independent country. During this time, the country's economy started to grow. |
| Fintech 2.0 (1980- 2000) | * Online banking was first introduced during the 1980s. During the 1990s, it became more popular and banks were able to successfully implement it. * In India, the country's first online bank was established by ICICI Bank. It only offered basic services, such as access to internal transactions and account information. * In 1987, HSBC opened the first cash withdrawal machine in Mumbai. * The Central Bank of India issued the country's first credit card in 1980. * In October 1994, the Stanford Federal credit union became the first organization to provide its members with online banking services. * Payment methods were then developed as a result of the internet's growth. One of these was Paypal, which was launched in 1998. |
| Fintech 3.0 (2000 onwards) | * The 2008 financial crisis was instrumental in the growth of the financial technology sector. |

- * In India, the rise of digital currencies such as Bitcoin, Apple Pay, and Google Wallet have helped drive the country's fintech industry.
- * The demonetization of 2016 had a notable impact on financial technology.
- * Since conventional banks have trouble integrating their financial services with the SWIFT system, fintech startups have started to cooperate to share the market.
- * Several Indian startups, such as Freecharge, Paytm, Mobikwik, and Phonepe, were established in just a couple of years due to the rapid adoption of fintech in the country.
- * This guaranteed that smartphone use will increase and become the primary method by which people handle their finances in the future.
- * There are over 2,000 financial technology (fintech) businesses operating in India. The number of start-ups also increased significantly over the past few years.
- * Due to the increasing number of tech-savvy customers, banks have started to rethink their strategies and incorporate more financial technology into their offerings.
- * Traditional banks have started adopting BaaS, which enables third-party service providers to access their clients' financial data.
- * Neo banks and digital banks were aided in entering the Indian market via BaaS.
- * The financial services industry has been significantly disrupted by the rise of fintech innovations, which include online lenders, crowdfunding platforms, and mobile payments.

The table above shows the various changes that have occurred in the field of financial technology (fintech) in India. While it mainly focuses on the BFSI industry, it has also expanded to other sectors such as education, retail banking, and investment management. Due to the emergence of new start-ups, the market for financial technology has witnessed unprecedented innovation.

ECOSYSTEM OF FINTECH

A fintech hub enables participants to interact and share ideas across various networks and communities. This is where financial services opportunities are most likely to be found. Since technology is driving the industry, market players cannot function alone.

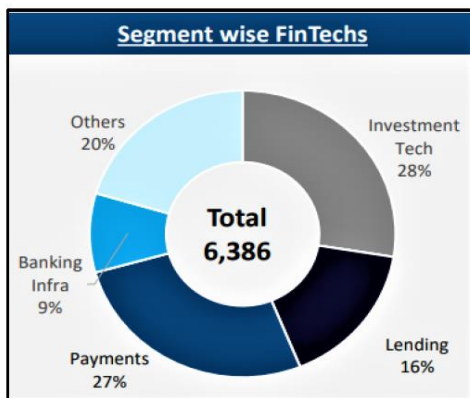


Support organizations help the financial technology (fintech) sector by providing mentorship and training to early-stage companies and creating a skilled workforce. The government also offers incentives to encourage the growth of this industry. Due to the potential profitability of this sector, venture capitalists, private equity firms, and angels are starting to consider investing in it. As financial institutions look to capitalize on the potential of fintech businesses, they are also exploring the various ways they can help these companies grow. Through incubators, large enterprises can become involved in the development of new businesses. Various organizations, such as retail customers and corporations, are exploring the use of fintech to enhance their services and experiences. Creative startups are also making it possible to provide various conventional banking services.

FINTECH INDUSTRY IN INDIA

In 2022, the value of digital payments in India is expected to reach over \$133 billion. This is regarded as the largest category within the country's fintech industry, which has been established already. According to estimates by Statista, the average transaction value of users in the alternative financing market is expected to reach \$4,602.00 in 2022.

There are 187 unicorns in the financial services industry, and 21 of them are based in India. Some of these include BillDesk, Chargebee, Acko, Paytm, PhonePe, CRED, Zerodha, and Razorpay. In 2022, two new members joined the club: Open and Oxyzo. These two companies are focused on providing small and medium-sized enterprises (SMEs) with a variety of financial services.



According to the survey, about 28% of the 6,386 FinTechs are involved in some form of technology. They also make up 27% of the payments industry, 16% of the lending sector, and 9% of the banking infrastructure.

VARIOUS FINTECH MARKETS IN INDIA

In India, there is a growing number of FinTech businesses that provide various services, such as instant payments, insurance advice, and faster loan sanction. These services were previously provided by individuals, but are now being digitized. Currently, this industry is mainly focused on traditional financial services like gold lending and insurance.

Pay Tech: Services that are consumer-centric include bill payment, point-of-sale (POS), payment aggregator, and a variety of prepaid card and wallet options. Business-focused services, such as invoice payments and corporate cards, are commonly utilized by fintech firms. These services are built using various payment networks, software development tools, and security measures.

Lend Tech: Some of the consumer-focused services that are available in this area include buy now pay later loans, personal loans and vehicle loans. Business-focused services include corporate cards, trade financing and fixed-term loans. Some of the fintech services that are used in this market include loan management systems, credit bureau collections, and alternative credit scoring. Some of the leading platforms that provide lending services to both businesses and individuals include M-Swipe, Razor Pay, and Google Pay.

Digital Banking: Digital banking has completely changed the way the financial system functions. Since paper work has been phased out, the bank is now expanding its digital transformation by launching new business units, such as digital and subsidiaries, retail neobanks, and SMEs. Examples of digital banking include platforms that provide account aggregation, banking as a service, and banks with open APIs. Some of the prominent companies that focus on this area include Kahatabook, Yono, and Crazybee.

WealthTech: Various platforms such as discount brokers, investment firms, and robo advisors can be utilized to provide services related to expense and wealth management. Fintech services such as CapTable management and portfolio management suites can also be utilized to address this market. Some of the prominent companies in this space include Zerodha and Smallcase.

Finance Tech: Finance Fintech is a type of financial technology that enables individuals and companies to manage their financial transactions through a variety of services. These include accounting and tax, as well as quote to cash.

Regulation Tech: Various financial institutions, such as banks, use financial technology to support various functions, such as Know Your Customer (KOC), onboarding, and fraud detection. They also use the technology to

comply with AML and other regulations.

This is a long-term plan to establish India as a leading player in the fintech industry. It is the culmination of a lot of hard work and dedication. The following are the main components for this recipe:

Jan Dhan Yojana: In 2014, the Narendra Modi government launched the Jan Dhan scheme, which gave financial rewards to hundreds of millions of individuals. Through this program, people were able to easily manage their bank accounts and financial transactions. It also helped in establishing India's financial technology industry.

Technology: As India's economy continues to develop, the country's mobile usage continues to increase. In 2020, it had the second-largest number of internet users in the world. According to estimates by Basuroy, by 2040, the number of people who access the internet will reach 1.5 billion. This shows how technology has opened up new avenues for finance.

E-Rupi: The use of e-rupi, which is a non-contact type of money, has become a boom because of its potential to improve the health of people. This is also a contributing factor to the rapid emergence and growth of Fintech in India. The COVID-19 pandemic has highlighted the need for more effective and efficient digital payment solutions.

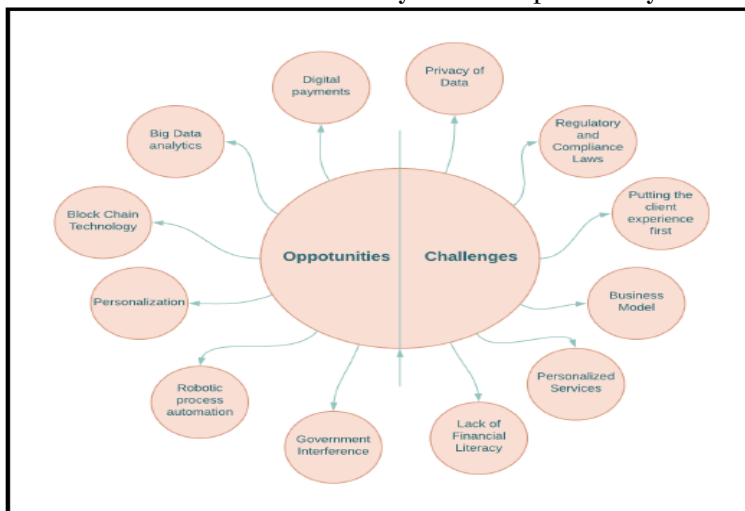
India Stack: The India Stack is a set of APIs that help businesses and developers solve the country's most challenging issues related to providing financial services without requiring a physical presence. This platform accelerates the evolution of the Fintech industry. One of the most significant initiatives in the history of digital technology is the creation of a public digital platform that supports both private and public initiatives. Through open APIs, it has greatly impacted the development of India's infrastructure.

Financial Literacy: Having a good understanding of financial literacy is very important to ensure that people can make informed decisions when it comes to using financial apps and financial transactions. Since fintech has become more prevalent, it has also helped victims of fraud and phishing. The government has taken various steps to improve the financial literacy of its citizens. One of these is the establishment of a national financial education center.

OPPORTUNITIES AND CHALLENGES

There are many advantages and disadvantages of fintech, similar to that of a coin. India's fintech industry is booming due to the country's rapid technological development and the people's capacity to handle it. However, there are still a few obstacles that prevent it from becoming a mainstream industry. The digital world is constantly changing, and India is falling behind in the competition. Despite the progress that has been made in technology, there are still a few obstacles that prevent us from becoming a leader in the fintech industry.

In India, digital payments have become ubiquitous, allowing people to make purchases using their mobile wallets or credit cards. Transactions involving cash require fewer storage spaces, making it an ideal alternative. In 2022, over 71 billion digital payments had been made in the country. According to a study conducted by Statista Research, the number of people using digital money has increased significantly over the past three years. It eliminates the need for people to queue up in front of a bank and allows them to make transactions all around the world. Many of the innovations that have occurred in the financial industry over the past few years are a gift to everyone.



Big Data analytics: Digitization is the new buzzword in banking, as banks move toward a paperless society. Over the past decade, the rise of big data and analytics has made organizations more reliant on them. These tools are being used to create more individualized and focused experiences for their users. Being competitive is all about being able to use data and analytics to improve the operations of your company. They can help you anticipate the needs of your customers and develop effective marketing strategies. This is a must-have for businesses as they can never be without massive amounts of data. Due to the rapid pace at which the banking industry is adopting data-driven strategies, businesses must be careful with their plans. Utilizing the information collected from their customers can help them generate effective results.

Block Chain Technology: The decentralized database known as blockchain makes it easier for companies to manage their assets and transactions. It is an innovative technology that has disrupted the corporate world. It is composed of a set of dynamic records that can be linked back to one another using encryption. The goal of blockchain data is to provide a secure and immutable record of transactions. Although it can be hard to understand, everyone can see how it is becoming more prevalent. This technology can be used to manage and record transactions between companies. Private and public ledgers can be used to improve the efficiency and visibility of transactions by implementing blockchain technology. This could help organizations manage the COVID-19 epidemic. According to a survey conducted in India, 60% of respondents said that using blockchain payments is convenient. Only a small percentage of the respondents had a different opinion about cryptocurrencies. In spite of their non-recognition, the number of people using them in India has increased significantly.

Personalization: Indian banks have a distinct advantage over other financial institutions due to their ability to quickly conduct transactions. This digital change can help boost sales as it provides customers with greater satisfaction and contentment. Due to the increasing number of individuals who aspire to excel in various ways, the concept of personalization has become more prevalent in the banking industry. This is beneficial for both the customer and the company. Personalization allows financial institutions to provide a customized service to their customers. Due to the pandemic, many financial institutions have started to prioritize the necessities over the luxuries. A customized relationship can also help build trust.

Robotic process automation: One of the most important innovations in fintech is robotic process automation, as it enables individuals to collect and analyze data in order to make informed decisions. People are always looking for ways to make their investments more profitable. Due to the increasing popularity of robotic process automation (RPA), businesses are now able to offer various banking and financial services to their customers. These include the ability to open accounts, manage their finances, and provide customer support. The affordability of the technology and the ability to provide a top-quality experience are some of the factors that have contributed to the growth of this industry.

Government Interference: The government has been instrumental in the development of Fintech by launching various programs. Several countries have seen the success of start-ups and digital financial firms. The Reserve Bank of India also provides financial assistance to startups. Customers have started accepting cryptocurrencies for business and private transactions.

CHALLENGES

Privacy of Data: Due to the nature of trade, it is important that the information that is collected and stored in financial services is protected from unauthorized access and use. This is especially true for the sensitive data that is collected and stored in mobile and internet-based platforms. It is important that organizations protect their information in order to avoid getting hit by phishing attempts and fraud. Technological advancements have made it easier to access essential IT systems, but there are still issues with physical checks on devices that transport data.

Regulatory and Compliance Laws: Getting the necessary government permission to operate as a financial technology company can be very challenging. This is due to various factors, such as data theft and fraud. Besides these, other regulations also make it difficult for start-ups to operate in the Indian market. To avoid fraud, financial firms should follow a strict compliance framework.

Putting the client experience first: Getting the proper financial advice is typically not easy for most people. Due to the complexity of the financial sector, it is often difficult for people to make informed decisions. With the rise of fintech, it is now possible to make financial decisions easier for people. However, there is still a lot of work to be done to make the process more accessible and user-friendly. The process of opening an account with one of the banks has become easier, as they now disclose all the fees and charges upfront. Also, the jargon of finance has been

simplified by platforms such as Robinhood.

Business Model: As financial technology companies expand and adapt to new business models and revenue sources, they need to rethink their expense and resource allocation strategies. To deal with the current economic crisis, many companies have started implementing cost-cutting measures. If a company's revenue grows, numerous adjustments have to be made inside the business. These include changes in revenue sources, business dependencies, and other operating procedures. As a result, your business models will undergo changes. For instance, financial technology companies that focus on the payment processing industry are taking advantage of their resources to handle increased transactions.

Personalized Services: It is very challenging for businesses to provide the personalized services that they need. Despite the importance of this component of their operations, they still find it hard to deliver it. Personalization is a process that enables them to interact with their customers in the present. When it comes to addressing the needs of customers, you have to provide a customized solution. This is very important, as customers are not prepared to accept a settlement without a personalized service.

Lack of Financial Literacy: In 2015, a survey revealed that 24% of adult Indian adults are not knowledgeable about financial matters. This figure is largely due to the many mistakes they make when it comes to making decisions. They often avoid investing because they don't want their money to lose. Despite the transformation that fintech has brought to the industry, many people are still not able to fully realize their full potential.

Customers are open to the idea of using financial technology as a wellness advisor. There are a lot of settings that people can choose from, but effective personalization ensures that they only see the ones that are relevant to them.

CONCLUSION

The rapid growth of the financial technology industry can be attributed to various factors such as the establishment of new technology, the changing cultural norms, and the favorable regulatory environment. In the future, technological advancements are expected to drive the industry's continued expansion.

Despite the progress that FinTech has made in India, it is still not enough to catch up with the rest of the world. There are still many challenges that need to be overcome in order for it to flourish. This paper aims to provide a comprehensive view of how the industry can flourish in the country. It also aims to identify the key factors that will help improve the efficiency of the financial services industry.

SCOPE

The goal of this paper is to provide a comprehensive analysis of the various facets of Fintech in India, focusing on its evolution, challenges, and opportunities. It can help academics, managers, and researchers think about new ways to make the industry more effective and efficient.

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