

## **Fintech Adoption in India -Issues and Challenge**

**Neerudi Ravi** Research Scholar,

Dr. G. Naresh Reddy Sir, Guide

Department of Commerce, Osmania University, Hyderabad.

**Abstract:** *Fintech is popular word in the space of finance globally. Fintech is applied of innovative technological tools into financial services which is rapidly change the traditional financial system. India has huge population of nearly 1.3 billion, great scope for fintech industry here. The adoption rate of fintech in financial sector India is very high and it may grow in nearest future. At this outset the article focuses on to give conceptual idea about fintech, to know about fintech in Indian financial sector and the growing drivers and challenges of fintech in India.*

*Keywords: Fintech, Innovative, Technology, Finance.*

### **1.Introduction**

Innovative technology is rapidly transforming financial sector. The growth and development of economy depends on the financial sector of the country. Financial sector applied innovative technology into financial services for better service. The financial sector tries to give quick and optimum services. Fintech is a solution to the financial services to the consumers and companies with the help of innovative technology, AI, Machine learning, Data analytics, Cryptocurrency, Blockchain, Bigdata, Robotics are the top innovative technologies for financial services. Fintech treated as the marriage between Financial services and Innovative technology for efficient and optimum services.

“Technologically enabled financial innovation that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provisions of financial services” by the Financial Stability Board.

### **2.Objective of the Study**

- 1.To give a conceptual idea about Fintech services
- 2.To provide the information regarding to the Fintech adoption in Indian financial sector
- 3.To focus on motivational drivers and issues and challenges for adopting fintech in India

### **3.Fintech Services**

Fintech industry is growing stage in India, the usage of mobiles and data is very high. Who use the technology they adopt fintech into their financial activities and the Government encourages them through the policies and regulation, Major segments of fintech in India are digital payments, digital lending, BankTech, InsurTech, and WealthTech. The important terms used in the fintech services is presented as follow

**3.1 Payments:** Traditional banking system not happened in the fintech payment system. In the system of fintech payments are done through the use of technology to peer-to-peer payments, third

party payment companies are involved for quick and quality service with the cost of data only. Payments under fintech are discussed as follow:

**Alternative Payments:** In alternative payments system fintech companies provides different payments channels instead of traditional bank payments at bank. In the alternative payment systems customer need not go to bank branch.

**Block-chain and Crypto Currency:** block chain and cryptocurrencies are advances payment transfer methods, in these systems no intermediary banks while doing payments. Its high security payment method. Indian central bank is also focusing on this area at present.

Digital payments have played a vital role in the Indian fintech space. In 2010 the Indian government launched a first real time payment system that is “IMPS (Immediate Payment Service)” and in 2016 introduced “UPI (Unified Payment Interface)”.

In India 375 payment startups are there, Mobile/digital wallets, gateways, bill payments and direct money transfers, software/while label/APIs, POS/mobile POS and P2P payments.

Online transactions grew by 80% in India as compare to 2019 in 2020. India will contribute 2.2% to the world digital payments market by 2023, and the value of such transaction is expected to reach \$12.4 Trillion globally by 2025.

### **3.2 Invest-tech**

Investment is one of the aspects of financial services and important one. Investment activities are done with the help of innovative technology instead of traditional investment system, investors are using technology while doing the investment. In fintech investment system the investor done his/her investment activities for share, debentures, bond, mutual funds and venture capital etc. fintech investments firms are grew in India is very high. In the country investment activities are regulated by the SEBI (Securities and Exchange Board of India). The first screen-based stock exchange system started by the NSE. NSE and BSE are maintaining fund for investor education that's is use for aware of new innovations in the investment patterns.

### **3.3 Advisory**

Investors might be depending on advisories from experts in finance and concern firms reports and their own analysis regarding to investment like fundamental analysis, technical analysis and all. In the case of fintech the advisory system virtual, it may be chat boxes, robotic real time analysis, AI, Machine learning. The advisory regarding to which is optimum and the portfolio selection, evaluation, reconstruction of portfolio is also done with help of virtual financial advisory. The important types of advisory service are presented as follow

**Robo Advice:** Robo advice to help in managing your finance for optimum investment activities for this a new kind of technology has been emerged. Robo advice is a automated financial advice based on algorithm

**Personal Financial Management:** managing the personal finance with help of technology like software. It helps to individuals for their income and expenditure controlling.

### **3.4 Insuretech**

Insurtech is new kid of fintech, which is adopted innovative technology into insurance. The present insurance penetration is that is 2.76% in life insurance and 0.93% in non- life insurance comes to global average is 6.5%. India has very low penetration in insurtech compare to globally. Lack of customer trust is the one of challenge facing insurtech in India. At present insurtech few insurers are dominated in the area of insurtech in India are Toffee, Digit and Acko. In the space of insurtech preventive insurance models are founded with the help of AI/ML, predictive etc. new age of digital insurance has started for adoption offering insurance policies during the customers purchase of product/service. In the platform of insurtech, digital insurance advisors are there for giving advises to the consumers regarding to the policies and issues. Insurtech is regulated by the IRDAI (Insurance Regulatory and Development Authority of India).

### **3.5 Big Data**

Big data is word that describe the large volume of data, its has structured and unstructured that inundates a business on a day-to-day basis. The amount of data is not important, it is what business firms do with the data that's matter. big data can analyze for makes better decision to the business. Sources of big data is very complex in fintech segment compared to traditional data source. The big data has been driven by AI (artificial intelligence), social media, mobile devices and the internet of things (IoT).

### **3.6 Financing**

Finance is compulsory for every business entity for smooth and good running of business, Financing is a providing funds to companies and firms to run the business activities, Financing and lending are the changing by the fintech companies. People need not to go for borrowing to banks and financial institution. Many fintech companies are proving or lending loans to the customers directly with using of network. The customers can borrow money through online.

#### **Credit and factoring:**

Financial institutions and banks are play a vital role to providing funds to the business entities it may be credit and factoring, factoring is also moving towards applied innovative technology for providing finance instead of traditional system of factoring as well as credit.

**Crowd funding:** crowd funding is a fund which is collection of small amounts from the huge people for venture through online. Crowd funding is an alternative finance source. Different kinds of crowd funds are there like donation-based crowd funding, reward-based crowd funding and crowd investing etc.

**3.7 Wealth Tech:** Managing the wealth of firms and organizations and individuals are managed through technology by wealth management companies.it is a branch of fintech.

**4.Fintech in Indian Financial Services Sector** Fintech market has good scope to exposure in India financial sector, because the population is very high and unbanked peoples are there in the village level but the usage of smart mobiles are increases, in this circumstances fintech market has boom stage in financial system of the country. The fintech industry in India is categorized into four major segments i.e., Payments, Lending, WealthTech and InsurTech.

**Table1:**

**Comparison of Digitally Active Consumers**

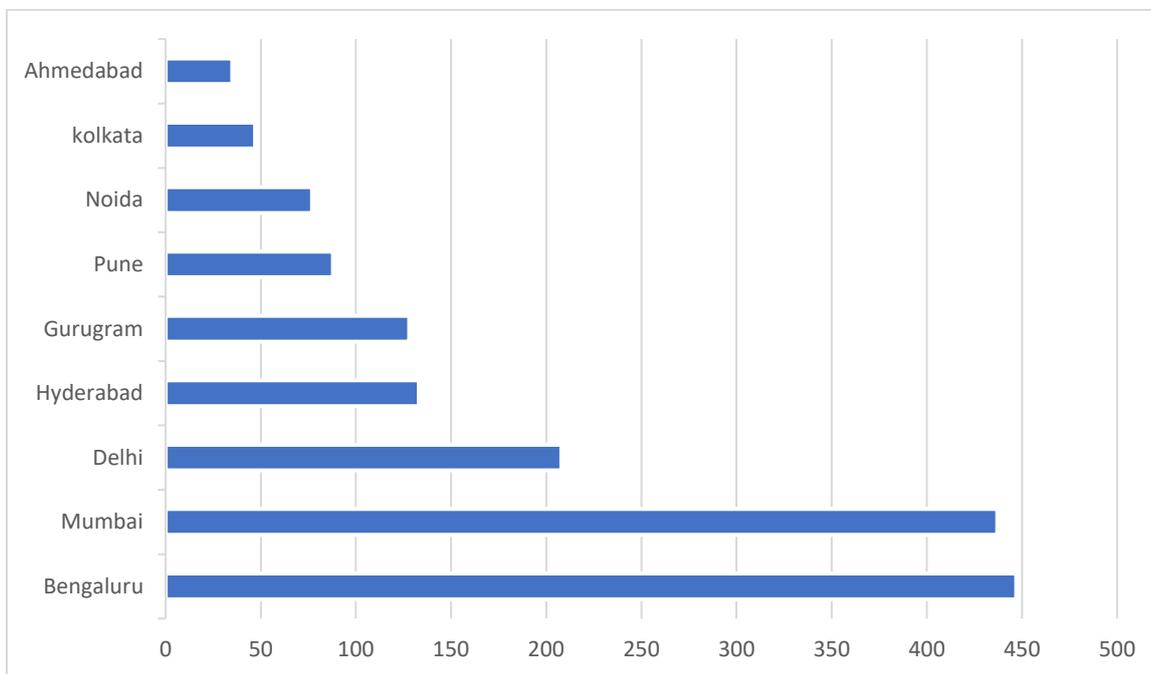
	Money transfer and payments	Financial planning	Saving and investments	Borrowing	Insurance
INDIA	72%	20%	39%	20%	47%
GLOBAL	50%	10%	20%	10%	24%

Source: EY Fintech Adoption Index 2017 Country Dashboard.

The table-1 indicate that fintech adoption in the money transfer and payments is 72% in India which is higher than the global adoption, Financial planning is 20% and 10% India and Global respectively which indicates India has more applied the fintech in the financial planning compare to Global, In the segment of saving and investments is also greater adoption in the Indian population which is 39% in India and 20% in the globally, borrowings and Insurance are also higher adoption rate is there in Indian population compare to global population. It emphasizes that India has a great scope to the fintech industry.

The research done by the EY fintech adoption index 2017 it indicates that India got second place in the adoption of fintech in area of financial service and china is got first place. In the India the rate of fintech adoption is growing more and fast with the help of more innovative technology introduced in the space of fintech are UPI, BHIM and other payment platforms.

Fig-1: City-Wise Break -up of Fintech Startups



Source: MEDICI INDIAN FINTECH REPORT 2020,

The bar chart represents Fintech startups of top 10 cities in India. Bengaluru and Mumbai have taken a huge space for fintech startups and the Ahmedabad and Kolkata are less fintech startups. Finally, the huge space is there in the Indian financial sector to adopt the fintech startups and growth in the near future.

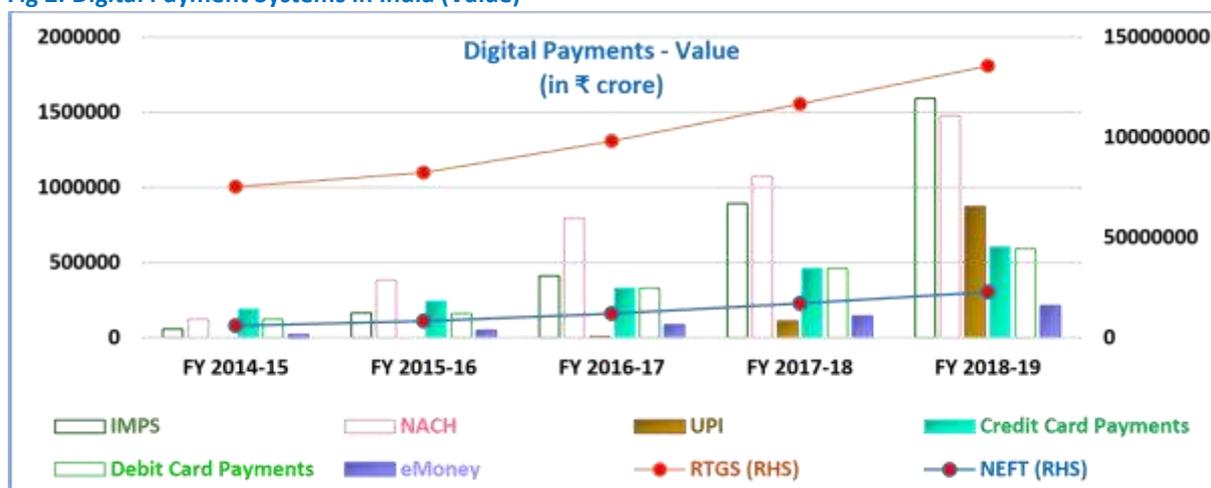
**4.1 Digital Payments:** Digital payment system shown big impact on Indian financial system. Digital payments in number of POS (Point of sale) terminals in India 1.5 million on October 2016 and that increase 5.08 million on April 2020.

Digital payments funding breakdown of \$2467 million like Mobile/digital wallets is 78.68 %, SME/merchant payment is 12.10%, Payments gateway 08.63%, Software/white label/APIs is 0.41% and proximity payment is 0.17%.

Top digital payment startups in India are Paytm, Phonepe, Bharat pe, Razorpay, Khatabook and Bill desk.

RBI new proposal for India retail payments is new pan-India Umbrella Entity (NUE), it will be the game changer for Indian retail payment system.

**Fig 2: Digital Payment Systems in India (Value)**



Source: RBI Data

**4.2 Digital Lending:** Digital lending is a lending to the required entities through digital instead of traditionally by the financial institutions.

The traditional way of banks and financial institutions approve only 25% to 40% loan applications. In India 338 lending startups are there currently. Digital lending funds of \$1673 is breakdown like Digital consumer finance is 53.32%, SME Financing is 22.33%, others 24.27% and P2P lending is 0.06% currently.

Some of the popular digital lending firms in India are FAIRCENT.com, CAPITAL FLOAT, LENDINGKART, InCred, zest, LoanTap, emudhra, Whatsloan, and RangDe

**4.3 WealthTech:** Wealth management is a managing the wealth, wealth conscious is increase from last five year in the country, wealthtech is giving the wealth and personal financial management by wealthtech companies. Robo -advisory is also part of wealthtech, few of the financial advisory companies in India are Birla, Bajajcapital, ICICI securities etc. 440 weathtech for wealth management startups are there in India currently.

Top funded wealthtech startups in India are Bankbazaar.com, INDwealth, ZERODHA, upstock, ETMONEY, FINCASH, Groww, walnut etc.

**4.4 InsurTech:** Insurtech is low penetrating stage in India compare to the world, but in near future it has good acceleration. Breakdown of \$445 million Insurtech fund like aggregator/policy

management is 48.50%, online first insurance is 41.50%, Preventive insurance/Telematics is 9.60% and software/white label APIs. Top Insurtech startups in India are Policybazaar, acko,digit and coverfox.

**REGTECH IN INDIA:** The RegTech is a word which is regulate the fintech sector in the financial system. Reserve Bank of India set a Sandbox system to the control on the new fintech products/service, at the point of innovative technology increase trends most of challenge is regulate the fintech industry in effective manners, if it is framing a complicated legal requirement no one new companies are entered in the fintech sector, therefore the restriction and rules will be framed like encourage the entrepreneurs. Sandbox system is a system to regulate the fintech companies like.

- Sandbox is the accept the applications from fintech companies.
- Observe the new products/ services of fintech companies.
- Scrutinize the product/services of fintech companies, if the product is useful to the Indian financial sector that fintech product is approved.
- The new fintech products are not useful Indian society, sandbox not allow the product into fintech market like cryptocurrency and bitcoins.

It encourages the fintech sector through the development the innovative products to the Indian financial society

Finally, regulatory sandbox is protecting the Indian fintech system with the restricted rules and regulations but not cost of protect the consumers and encourage the entrepreneurs in the Indian fintech sector.

## **5.Motivational Drivers of Fintech in India**

Some of important motivational factors are accelerate the fintech sector in India are

Unbanked to banking of the population is done by the government with the Pradhan Mantri Jan Dhan Yojan. The banking population is increase with this scheme from 2011 to 80% by 2017

Effective service provided by the fintech firms

GST and MAKE IN INDIA are motivational factors to the people are converting into fintech system from the traditional system

Good quality and wide variety products and services are available when compare to the traditional system

24/7/365 accessibility there in the fintech sector that is not possible in the traditional usage of smart mobiles and data are high in the country, it leads to adopt the fintech services in India

Financial inclusions are played good driver to accelerate the fintech services in India

Government policies towards tele communication increasing the connectivity of population leads to the fintech service Transformation of people into digital

**6. Challenges of Fintech Service in India** Fintech provides huge and better opportunities for the people but it has tough and difficult area, without having proper knowledge regarding to the fintech space it leads to problematic to the population.

**6.1 Regulatory Issues:** In India the market for fintech is regulated by the few regulatory bodies it is not that much easy to enter the fintech market and perform well in restrictive regulatory framework. The rules and restrictions are demotivational factor to invest in Indian fintech sector.

**6.2 Structure of Indian Population:** In India huge population live in rural areas they don't know how to adopt the technology to their financial activities and most of them are illiterates. Urbanization people are adoption of technology in their financial activities because they are almost educated, comes to the village population most of them are not aware of new technology

**6.3 Financial Illiterates:** Unbanked population is also there in the India. They are not aware of the financial literacy and management of finance it is too difficult to bring them into banked population and most of the population lives rural areas in India they basically illiterates. This is another challenge for fintech adoption in financial system.

**6.4 Habitual of Traditional System:** Actually, the people are in India habitual to the traditional financial activities, merchants and consumers are not to accept at immediate of the innovative technology changes in the Indian financial system.

**6.5 Government Policies, Privacy and Security:** The government encouragement towards fintech entrepreneur is not that much, they were not given proper guidelines and support to startup in the field of fintech sector in India. People doesn't trust the technology because the frauds and misleading the data is there in the modern fintech system. Cryptocurrency and block chain are the reduces the power of the central banks control over the transactions, intermediary activities of the banks and financial institutions were gone in the case of digital currencies. There is high chance to hacking the financial activities over there in the fintech. People are must updates towards innovative technology and financial areas, but only concerned experts are aware, comes to normal population is very low in the fintech sector. Insured population is less compare to banked population, at present not that much active Insurtech in the Indian population.

**7. Conclusion** India is great market to the fintech industry at currently compared the world. India having huge population and increasing trend in the usage of smart mobiles and network.it indicate that fintech industry is growing in the country. fintech services are compulsory for developing countries like India to accelerate the growth and development of the economy. fintech sector having challenges, when will overcome the challenges by the RegTech and SupTech of the country, it will be giving a fruitful results and changes are happening in the Indian financial sector.

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