



ISSUES AND CHALLENGES TO FINTECH INDUSTRY IN INDIA

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ABSTRACT

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India is a growing market for fintech. India is an exciting country since a significant portion of the population lacks access to banking services.

Fintech is viewed as a paradigm shifter and disruptive innovation that has the power to upend the established financial markets. In India, fintech has expanded quickly over the previous years and is anticipated to do so in the near future. The study begins by concentrating on the fundamental categories of financial technologies and their roles. It then goes on to analyse the issues and challenges these technologies present in the Indian Financial System.

KEY WORDS: Financial Technology, Fintech, Financial Services, Indian Financial System, Business Finance

JEL Code: G1, G2

INTRODUCTION

Fintech, the abbreviation for financial technology, refers to a sector made up of businesses that supply financial services effectively through the use of technology. In the twenty-first century, it is an emerging sort of service. By implementing technology in the financial sectors for mobile payments, loans, money transfers, and even asset management, new start-up businesses are attempting to replace the conventional transaction system with modern, efficient techniques.

Peer-to-peer lending, peer-to-peer payment technologies, digital wallets, blockchain, and mobile banking are a few further examples of how technology is being used in financial transactions. These seek to expand the benefits and achieve high financial transaction efficiency.

Additionally, they assist in lowering customer expenses.

FINTECH IN INDIA

With an ever-increasing reliance on information technology, the word "fintech" is used to characterise new technological breakthroughs in the financial services industry. Originally used to describe the back-end technology employed by major financial institutions, the phrase has come to refer to all technological advancements in the financial industry, such as those in financial literacy and education, retail banking, investing, etc.

One of the most significant trends expected to have an immediate impact on the global financial sector is technological innovation. The business models and

strategies of financial institutions are challenged by innovations in payments, lending, asset management, and insurance, but these innovations also present opportunities for both established market players and newcomers. Innovation can also increase risks for specific financial institutions, customers of those institutions, and the entire financial system.

Despite its youth, India's FinTech industry is expanding quickly because to a sizable market, a startup ecosystem that values innovation, and benevolent government policies and regulations. This young and vibrant industry is populated by a number of startups, however non-banking financial organisations (NBFCs) and conventional banking institutions are catching up. There have been numerous effects of this recent disruption in the banking and financial services industry.

FinTech in India has the ability to offer practical answers to issues faced by traditional financial institutions, such as poor penetration, a dearth of credit history, and a transaction economy based on cash. The Indian banking and financial services industry could undergo significant change if regulators, market participants, and investors can work together. Currently, FinTech service providers are altering how businesses and consumers deal on a regular basis.

Since it picked up steam following the introduction of internet services in the country, the fintech sector has experienced significant growth in India during the past ten years. India is one of the fastest-growing fintech marketplaces in the world, with a fintech adoption rate of 87% compared to the global average of 64%. In India, there were more than 6,636 fintech businesses, which resulted in a \$50 billion market in 2021; by 2025, it is predicted to grow to \$150 billion.

India's fintech industry is anticipated to expand at a CAGR of 20% to reach a transaction value of \$138 billion in 2023 with the introduction of creative reforms and technology developments in the digital payment landscape.

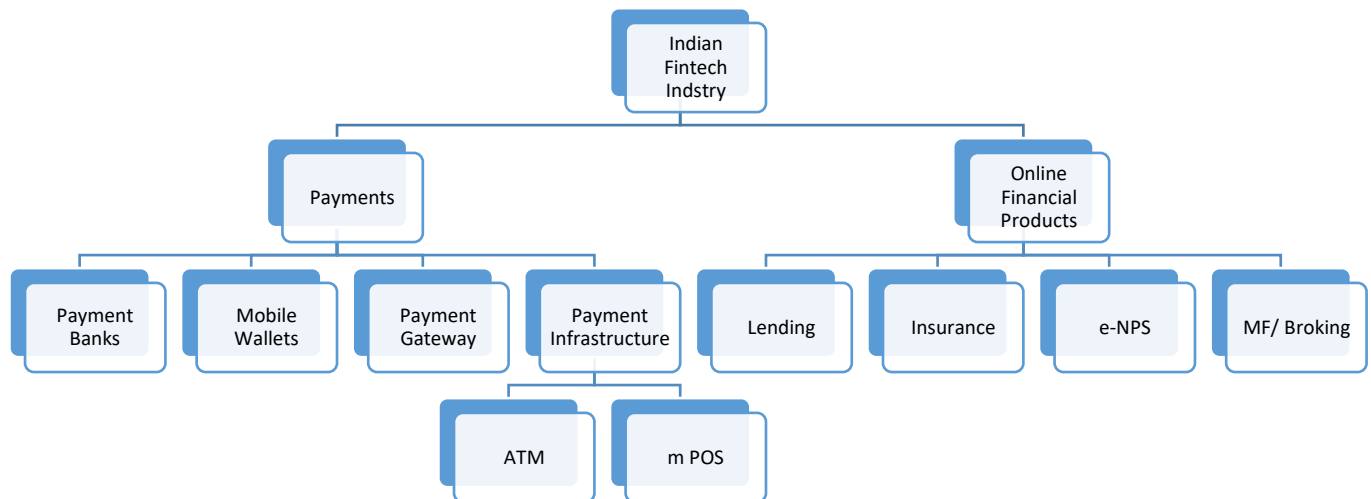
The National Payments Corporation of India established UPI (Unified Payments Interface) in 2016, a cutting-edge mobile app-based payment system to move money between bank accounts, and it is the driving force behind the Fintech revolution in India. More than 338 banks are registered with UPI, and in July 2022, there were more than 6.28 billion transactions totaling 10.62 lakh crore.

The broad FinTech products/services offered in Indian financial markets are as under

Peer-to-Peer (P2P) Lending Services

Individuals (borrowers) can obtain loans directly from other individuals (investors) through peer-to-peer lending, eliminating the need for a middleman (financial institution). Crowdlending and social lending are other names for peer-to-peer lending. Due to its ability to expand financial inclusion globally, P2P lending platforms are currently being used more frequently as alternative financing methods. Since approximately 70% of Indians live in rural regions without access to organised banking services, financial inclusion has long been a problem. Additionally, it can be extremely challenging for people with bad credit, low incomes, and small/micro companies to obtain loans through conventional finance channels. P2P finance is quite accessible to these underbanked/unbanked individuals and organisations. Examples are Lendbox, Faircent, i2iFunding, Chillr, Shiksha Financial, Gyan Dhan, and Market Finance.

Figure 1 Fintech in India



Personal Finance or Retail Investment Services

Fintech companies are also growing around the need to provide customized financial information and services to individuals, that is, how to save, manage, and invest one’s personal finances based on one’s specific needs. Examples are FundsIndia.com, Scripbox, Policy Bazaar, and Bank Bazaar.

Software Services

A variety of cloud computing and technology solutions are being provided by businesses, and these solutions promote efficiency in daily corporate operations by facilitating better access to financial goods. At both the macro and micro levels, the scope of fintech is constantly expanding, ranging from offering online accounting software to developing specialised digital marketplaces that link buyers and sellers in particular industries. Examples include ftcash, which enables SMEs to offer payments and promotions to customers through a mobile-based platform, Profitbooks (online accounting software designed for non-accountants), StoreKey, and HummingBill. In the agricultural sector, examples include Catalyst Labs, AirtimeUp, and HummingBill.

Crypto Currency

India being a more conservative market where cash transactions still dominate, usage of digital financial currency such as ‘bitcoin’ has not seen much traction when compared to international markets. There

are, however, a few bitcoin exchange startups present in India – Unocoin, Coinsecure, and Zebpay.

E-Payments

The main areas of fintech enablement in India include payments, lending, security/biometrics, and wealth management. India's payment methods have advanced from cash to other payment methods, achieving tremendous growth. The advancements have occurred across all fields, with the most recent being the Unified Payments Interface, which allows for common USSD channel access through NUUP and Immediate Payment Service (IMPS) to initiate transactions (UPI). Here are some of the recent advancements in this area.

E-Wallets

Cheques, electronic payment methods like NEFT, RTGS, etc., and card (debit and credit) payments are some of the traditional ways to make payments. Prepaid payment instruments in the form of physical cards or electronic wallets were deemed necessary in order to allow non-bank clients the ability to use electronic modes of payment and to provide current bank customers with a safety precaution that limits their exposure. The landscape of payments in India has transformed as a result of the emergence of bank (State Bank Buddy, Citi MasterPass, ICICI Pockets) and non-bank (PayTM, Mobikwik, Oxigen, Citrus Pay, etc.) payment wallets. To make mobile money transfers easier, many start-ups have joined the market. One such application is Chillr, which offers peer-to-peer money

transfers without the use of bank account information. Several prestigious banks have introduced their own digital wallets using the IMPS platform from NPCI. Social media capabilities are also implemented into these digital wallets. To enable digital payments at nearby stores, digital innovators are also promoting the Online to Offline (O2O) paradigm.

OBJECTIVES OF THE STUDY

- To know about the current status of fintech industry in India
- To identify the major issues in fintech industry in India.
- To make suggestions based on the study.

CHALLENGES TO FINTECH INDUSTRY IN INDIA

India, home to more than 23 fintech unicorns, has quickly become a powerful global fintech hub. However, the industry has experienced a number of risks and regularity issues as a result of the fintech sector's rapid growth. The federal financial regulatory authority's top concerns are the rise in privacy violations, cyberattacks, and cross-border legal and regulatory issues brought on by the financial services industry's rapid digitization. Other significant issues the fintech sector faces include data confidentiality and customer protection. Following are the main challenges to Fintech in India.

Emotional attachment to cash: In a nation where people adore cash, the fintech sector is working to establish a cashless economy. In India, utilising money is associated with religion, culture, and emotional attachment. The first challenge the fintech sector is attempting to overcome is this addiction to cash. Here, the difficulty is in gaining reputation over money. Credibility is a concern for any innovation in its early stages, and the fintech industry is no exception.

The fact that our fintech business sector is in transition and we have not fully embraced digital solutions for our financial needs or fully rejected the traditional banking system is another significant factor contributing to these obstacles. Since we are dealing with money, most individuals are still hesitant to fully trust fintech. Therefore, it will require time and effort to win people over and earn their trust in a still-new product. One of the key answers to the credibility issue for fintech firms is educating the consumer about the products and services. With its demonetization programme and the Digital India Campaign, the Indian

government is assisting India in moving past the use of currency.

Banking regulations: The banking industry is very regulated, has significant operational and transaction costs, and uses very consistent business models. Indian fintech companies require comprehensive regulatory frameworks that can manage risks. Policies must be created in order to reduce potential dangers. Numerous rules unavoidably hold down the growth of Fintech start-ups in the Indian financial sector. In addition to being difficult to comply with, these rules also make it difficult for Fintech companies to join the Indian markets. The new Fintech enterprises are occasionally faced with significant obstacles due to unclear and restrictive legal frameworks. Due to their sophisticated working models, fintech companies may appear to be constrained by the strict regulatory requirements.

Problems with the internet: Fast internet is the foundation of finance. Indian internet service providers are still vying for customers by offering better bandwidth and quicker speeds for safe and secure data transport. India's diversified topography, enormous population, and stark division between the city and the village are all very important considerations. The nation must address the aforementioned issues if it is to construct a compelling fintech narrative and emerge as a digital superpower. The infrastructural difficulties experienced by the fintech companies in India should be lessened by a number of government digitization initiatives, including the Digital India campaign and the installation of optical fibres throughout Indian communities.

Cybersecurity: Traditional financial institutions now offer better products and services thanks to fintech. The hidden dangers of cybersecurity, which primarily comprise data breaches, third-party security threats, malware risk, application security risk, cloud-based security threats, as well as digital identity risks, are the industry's core issue. A well-balanced innovation is required to address the cyber threat, stop hackers before they can access crucial data, and reduce the hidden hazards associated with financial services.

Financial Inclusion and Fintech in India

The Government of India and the Reserve Bank are actively promoting financial inclusion with schemes like Jan Dhan Yojana, Aadhaar enrolment and licensing of Payment Banks /Small Finance Banks, to name just a few. The FinTech companies across the nation are taking the advantage of these initiatives for expanding financial inclusion in the following areas by leveraging technology.

S. No.	Area of Financial Inclusion	Use of FinTech
1	Augment the government social cash transfer in order to increase the personal disposable income of the poor. It would put the economy on a medium-term sustainable inclusion path.	Easy cash transfer App
2	Banks should make special efforts to step up account opening for females belonging to lower income group under this scheme for social cash transfer as a welfare measure (Sukanya Shiksha Scheme).	Modification to existing Bank FinTech App.
3	Aadhaar should be linked to each individual credit account as a unique biometric identifier which can be shared with Credit information bureau to enhance the stability of the credit system and improve access.	Integration of Aadhaar Infrastructure
4	Bank's traditional business model should be changed with greater reliance on mobile technology to improve 'last mile' service delivery.	Enhanced Mobile Banking
5	Increase the formal credit supply to all agrarian segments through Aadhaar-linked mechanism for Credit Eligibility Certificates (CEC).	Digitisation of land records
6	Corporates should be encouraged to nurture Self Help Groups (SHGs) as part of Corporate Social Responsibility (CSR) initiative.	Loan / Payment App.
7	Replacement of Government's current agricultural input subsidies on fertilizers, irrigation and power by a direct income transfer scheme as a part of second generation reforms.	Direct Account Transfer App with the help of Aadhaar Infrastructure
8	Introducing universal crop insurance scheme by Government covering all crops starting with small and marginal farmers with monetary ceiling of Rs. 2 lakhs.	Crop Insurance App
9	To provide credit guarantees in niche areas for micro and small enterprises (MSEs). It would also explore possibilities for counter guarantee and re-insurance.	Multiple Guarantee App for agencies
10	Introduction of UID for all MSME borrowers and information from it should be shared with credit bureaus.	UID for MSME App.

Source : Reserve Bank of India, Report on Fintech

Scope for Growth of FinTech

Fintech, often known as financial technology, is expanding rapidly on a global scale. The finest fintech companies are driving this growth by offering outstanding services. The market is expanding in various ways, and businesses within it are taking steps to innovate and offer solutions to people's everyday difficulties. One of the fastest-growing industries in India is fintech, and over the next few years, it will continue to expand and develop. Business owners, no matter how big or little, face numerous financial difficulties and difficulties. There is a lot to manage, including tax management, bookkeeping, loans, payments, and marketing. Fintech has developed into a crucial component of every firm and has aided in corporate expansion.

Recent global regulatory Initiatives on FinTech

Digital innovations, sometimes known as fintech, have become a potentially disruptive force in the financial industry. Some of the potential advantages of FinTech, such as increased efficiency, risk reduction, and financial inclusion, were recently highlighted in an FSB research. The report also noted some of the major difficulties in regulating an emerging technology with several potential applications, keeping track of activity outside of the regulated area, and recognising and monitoring new dangers brought on by the technology. For a number of reasons, the advancements in banking's rising digitization pose regulatory and supervisory issues. First, financial technology is expanding the sources of funding, including banks and non-banks (e.g. platform-based lending). Second, technology advancement is changing how banks conduct business, which could jeopardise their long-term business plans.

Third, the development of FinTech may result in significantly different bank risk profiles. Best practises and guidelines for the management and oversight of risks resulting from financial technology are urgently required in this area.

Regulators are paying close attention to financial innovation, and some countries have chosen to take a more active role in promoting this innovation. To achieve this, a range of regulatory and oversight measures, including regulatory sandboxes, innovation hubs or teams, innovation incubators or accelerators, etc., have been put in place.

The development of FinTech could be hampered by regulatory ambiguity. As a result, international standard-setting organisations including the BCBS, FSB, CPMI, WBG, and regulatory agencies from various countries are taking steps to actively monitor FinTech advances on a national and worldwide level. Following are some recent developments in this area:

Basel Committee on Banking Supervision (BCBS):

A Task Force on FinTech (TFFT) has been established by BCBS to identify and evaluate the risks associated with the digitalization of finance, with a particular focus on how financial technology will affect banks' business models, how they provide financing, how they manage systemic risk, and how they deal with related supervisory issues. The Task Force's mandate is to look into how FinTech affects banks and what it means for banking regulation and supervision. In order to get a general grasp of the key developments and how banks are implementing new technology, the TFFT's activities will initially comprise mapping the FinTech industry and technologies. A scenario analysis of the potential effects of FinTech on the banking sector as well as "deep dive" case studies of particular technologies and their financial applications will be part of the second phase. The third stage will evaluate the risks to banks and potential consequences for supervision with the goal of advising the Committee on how to move forward in light of the data gathered.

Financial Stability Board (FSB)

For the purpose of evaluating FinTech, the FSB has established a task force called the Financial Innovations Network (FIN). Among its recommendations is that innovations be viewed through the prism of the authorities' and Secretarial Standards Board's (SSB) obligations. In order to better understand the FinTech-related activities of its members, including the usage of innovation centres and regulatory sandboxes, BCBS and the FSB undertook a joint poll.

In order to identify the most important problems that market participants and policymakers need to address, the FSB has thought about the financial stability

implications of distributed ledger technology and is continuing to work in this area with the Committee on Payments and Market Infrastructures (CPMI). Together with the Committee on the Global Financial System of the BIS, the FSB is conducting a thorough investigation of the effects of peer-to-peer lending on financial stability.

The Financial Stability Board (FSB) is now doing research on the fundamental concepts underpinning the wide range of FinTech breakthroughs and analysing the consequences of such concepts for financial stability. Three fundamental "promises" shared by a wide range of FinTech innovations have been identified in that research¹⁴: (i) greater access to and convenience with regard to financial services; (ii) increased efficiency with regard to financial services; and (iii) a push for a more decentralised financial system, in which FinTech firms may be disintermediating traditional financial institutions.

Committee on Payments and Market Infrastructures (CPMI)

The ramifications of "FinTech" and digital advancements for market and payment infrastructures are also being examined by CPMI. The CPMI is still keeping an eye on the advancements and changes made to digital currency schemes, as well as their broader effects. To concentrate its efforts, the CPMI created a special Working Group to examine the effects of technological advancements and their implications for payment services and systems, paying special attention to the technical and infrastructure facets of goods and services based on cutting-edge technologies like block chain and distributed ledgers.

World Bank Group

The World Bank actively participates in SSB FinTech work streams. As a technical, policy, or funding partner, the WBG collaborates with national authorities to establish enabling frameworks for technology adoption, market entry/level playing fields, and expansion of financial access. IFC: investments, risk-sharing, and discussion with stakeholders in the private sector, such as through the SME Finance Forum

CONCLUSION

India is one of the largest and fastest growing FinTech ecosystems of the world. There are many advantages of fintech adoption and country like India which is having second largest population in the world, can take benefit from it to tackle many financial problems. But it is in initial phase and some issues are still needs to solve to make fintech more beneficial for indian economy. As the fintech adoption rate increased, cyber fraud has also increased in India. Other issues like

internet speed, digital literacy and health hazards arising from electronic gadgets like smartphone and computer/laptop etc. are also big hurdles in the way of fintech. So it is very important to tackle these kind of problems. Government and other regulatory authorities should focus on these issues and should try to improve the fintech ecosystem.

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