QUALITATIVE STUDY ON GROWTH, OPPORTUNITIES AND CHALLENGES OF FINTECH IN INDIA

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ABSTRACT

Nowadays innovation and technology have brought a radical change in traditional financial services. Rural India need more support from financial innovations 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 that strive to optimize the time, cost, increase financial inclusion as well as the products and services that they offer. The present research mainly focuses to describe the growth, opportunities and challenges of Financial Technology in Indian economy. This research is purely based on descriptive and contributes to the emerging literature on financial innovations and develops knowledge on Financial Technology opportunities in particular.

KEY WORDS: Financial Technology, Financial inclusion, Financial system, Start-ups.

INTRODUCTION

Technology plays a major role in the financial sector. Nowadays everything traditional slowly 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\(^1\) (Carmen Leong \textit{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 development as well as active usage of mobile devices in everyday life leads to the era of financial technologies\(^2\) (Mori \textit{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\(^3\) (Neenu Joseph and Hemalatha N, \textit{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, automated online trading and financial inclusion\(^4\) (Desai, \textit{2015}). FinTech innovations play a role of a catalyst for financial system development especially in the emerging markets which improve overall economic growth\(^5\) (Beck \textit{et al.} \textit{2016}).

Globally, Investment in FinTech has grown exponentially from $1.8 billion in 2010 to $19 billion in 2015\(^6\) (Citi Group, \textit{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\(^7\) (Business Standard, \textit{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\(^8\) (Business Standard, \textit{2016}).

**OBJECTIVES OF THE STUDY**

- To provide a comprehensive overview of the Financial Technology.
- To study the growth and development of Financial Technology in India.
- To investigate the opportunities and challenges for Financial Technology in Indian economy.

**RESEARCH METHODOLOGY**

**Tools for data collection**

This study is completely based on secondary data. The data required for the study has been collected from journals, magazines, previous research works and annual reports and various websites.

**Limitations of the study**

- This study based on secondary sources of data.
- The recommendations are confined to only Financial Technology in Indian economy.
ANALYSIS AND RESULT

Figure 1: Showing financial inclusion status for population above 15 years: global comparison in percent


Figure 2: showing Funding Trends in Financial Technology, 2016

Source: Fintech trends report, India, 2017
Figure 3: showing Expected Annual ROI on Financial Technology Investments

Source: FinTech trends report, India, 2017

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Figure 4: Most Promising Financial Technology Opportunities in India

Source: Fintech trends report, India, 2017
Figure 5: showing Regulatory Barriers for Financial Technology Innovation in India

FINDINGS

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 was estimated to be approximately USD 1.2 billion in 2016 and is forecast to reach USD 2.4 billion in 2020 growing at a five year CAGR of 22%.

As per a research report by McKinsey Global Institute, widespread adoption and use of digital finance could increase the GDP of all emerging economies by 6 percent, or a total of $3.7 trillion, by 2025. This is the equivalent of adding to the world an economy of the size of Germany, or one that’s larger than all the economies of Africa. This additional GDP could create up to 95 million new jobs across all sectors of the economy.

Financial Technology also has the potential to impact governance in several ways. First, Financial Technology has the potential to increase transparency as it reduces the need for cash and more payments are made through digital means that can be better monitored. Secondly the rise in economic activity could reduce the size of the informal sector if governments stimulate and facilitate business to formalize. Thirdly, increased business activities and an improved labor market increase the government’s tax base to increase expenditure.
According to research from McKinsey Global Institute many as 300 million Indians could again access to banking services and raise their income by 5 to 30 percent. These Financial Technology induced increases in national income could raise producer and consumer confidence which will trigger new rounds of investment and consumption. If the ecosystem is supportive, Financial Technology could boost the cycle of economic development. Overall, India offers the highest expected return on investment on Financial Technology projects at 29% versus a global average of 20%. (Financial Technology trends report, India, 2017)

With all these positive developments in Financial Technology, India needs to address some important challenges. Firstly, the absence of broad-based financial transaction infrastructure which has been a major challenge as several Indians in rural of India do not have bank accounts, credit score and home ownership details. Secondly, as the native digital and financial literate population is low, the current set of financial products and services do not cater to the vast majority of Indians and are only designed for the top 40 millions of the population. Finally, fraud and security are a major focus area for banks as well as Financial Technology startups, especially in transaction and payment services.

DISCUSSION

For the success of the Financial Technology eco system, it is imperative that the digital infrastructure of the country be adoptable and supportive. India should work towards higher penetration of mobile, internet and IOT infrastructure so that communication and connection is smooth across all channels.

Developed countries like U.K. and U.S have taken leaps in terms of Financial Technology development in the last few years. Many of their successful start-ups are expanding geographically. India needs to aid them with an effective policy so that these start-ups can build infrastructure in the country. These aids include easy business set-up processes and special work visa for foreign start-up entrepreneurs and technology experts.

India needs to adopt a cautious approach towards the migration of its young and working population to foreign lands. This requires conscious effort on the part of the education system of the country to impart adequate technical and entrepreneurial skills. Academic bodies should be encouraged to act as catalysts towards building an innovative mindset of technological advancement and proto-typing from the very beginning.

The Indian government is working passionately towards the development of a robust-Financial Technology ecosystem in the country through the digital India and Start-up India initiatives. The state governments should also provide additional benefits, especially in areas where literacy, educational institutions and innovative entrepreneurs are high in penetration.

While it is natural to tread caution and restraint to decipher the complex interplay of Financial Technology in a well regulated Indian financial services market, it is important to
inculcate the strategy and vision of the regulatory initiatives from the mature markets can help in
the development of the Financial Technology sector.

A framework needs to be developed for incubating innovative minds and giving them a
direction for succeeding with their business plan. Helping Financial Technology with
infrastructural facilities such as office space, hardware and other logistical arrangements.

In order to sustain and increase investments from local and foreign players, it is important
to build an ecosystem of maximum returns and most innovative offerings. This can be done by:
creating a market place platform where Financial Technology can demonstrate and provide a
brief about its offerings to the potential investors. Creating awareness among investors and
showcasing the potential encompassed in the Financial Technology space. Enhancing capital
access at the seed stage for the Financial Technology start-ups, so that they have funds once the
business plan is approved and organizing more fundraising initiatives by teaming with private
players and financial institutions.

CONCLUSION

India is currently witnessing an impactful and far reaching Financial Technology
transformation, accelerated in part by government efforts towards incentivizing cashless
transactions and developing the Indian Stack. India’s vast under banked and new-to-bank
population makes it one of the most exciting opportunities in the Financial Technology space
anywhere in the world. Financial Technology is a very successful platform in India and it helps
the financial system to move faster. Financial Technology has facilitated various financial
services with better user experience and lower cost.

As per the Maharashtra State Manufacturing policy 2011, every job in the manufacturing
industry creates 2-3 additional indirect jobs. However a Massachusetts Institute of Technology
analysis has found that hi-tech and emerging technology focused sectors like Financial
Technology have a multiplier effect of creating 5 additional jobs. Higher investments and
increased trading activities can improve the labor market as MSMEs grow their business.
Consumption would increase as a result. It would also help them acquire necessary skills and
improve their longer term income potential. According to a KPMG - Google report, Financial
Technology would drive 5x more employment, increase MSME contribution to the GDP by 10
percentage points by 2022. The number of direct jobs created per crore of investment in
Financial Technology industries is thrice the number of direct jobs created per crore of
investment in the traditional industries in Maharashtra.

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