Challenges of FinTech in India

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Abstract

Financial inclusion, the access and usage of financial services by all individuals and businesses, is vital for economic growth and development. However, traditional banking systems often fail to reach the unbanked and under banked populations, leading to exclusion from basic financial services. Fintech, the integration of technology into financial services, has emerged as a solution to address these gaps and improve financial inclusion. It has revolutionized the financial sector by offering digital payment solutions, mobile banking, peer-to-peer lending platforms, and microfinance services. These innovative technologies have enabled individuals without access to traditional banks to participate in the financial system. Fintech companies such as mobile money providers have allowed users to conduct transactions, save money, and access credit using their mobile phones, thus reducing the barriers to financial access.

In comparison to traditional banking methods, fintech offers lower costs, faster transactions, and greater convenience. Mobile banking apps and online payment platforms have simplified financial processes, making them accessible to a wider audience. Furthermore, fintech companies leverage data analytics and artificial intelligence to assess creditworthiness and offer tailored financial products to underserved populations. Despite the benefits of fintech in promoting financial inclusion, challenges exist, such as cyber security risks, data privacy concerns, and regulatory barriers. Additionally, digital literacy and internet connectivity issues can hinder the adoption of fintech services in certain regions. Addressing these challenges will be crucial to ensuring that fintech can truly enhance financial inclusion for all.

***Key words**: Data Security, FinTech, Systematic Risk, Trust in Cash, Unbanked Population.*

Introduction

The term 'FinTech' is a combination of the words 'financial' and 'technology''. It can be broadly defined as technology-enabled financial innovation that could result in new business models, applications, processes or products with an associated material effect on financial markets, institutions and the provision of financial services.

FinTech, therefore. has the potential to reshape the financial services and financial inclusion landscape in India in fundamental ways. Through their innovations, new business models and applications, FinTech firms can help increase competition and play an important role in accelerating Financial Inclusion in India by helping reduce costs and improving access to financial services to the underserved, persons in low-income groups, rural and other underserved sectors of the Indian economy. An estimate suggests that almost 90% of micro units in India are still outside the formal credit system. This segment, along with the small enterprises, can benefit immensely from a collaboration between banks and FinTech players, whereby their other payment records can form a basis for assessing their credit worthiness. It is noteworthy that a number of FinTech players have witnessed strong growth over the past few years and from being virtually unheard of, at the beginning of this decade, today we have as many as 1218 entities operating in India.

India is transitioning into a competitive environment providing a forum for FinTech start-ups to eventually transform unicorns worth billions of dollars. FinTech business visionaries in India are following different objectives, from entering new areas to focusing on global business sectors. The adoption of Indian FinTech has grown rapidly in recent years. For FinTech India has now turned into Asia's market chief. In setting up its predominance over Asia's FinTech markets, India has crushed quick contender China. India has recently earned USD 286 million in risk capital funding. FinTech companies in China, on the opposite hand, obtained an investment of USD 192.1 million over the identical period. As per NASSCOM, the Indian FinTech application industry was projected to hit USD 2.4 billion from an expected USD 1.2 billion by 2020. The principal driver of the Indian FinTech Market's uncommon development has been its vigorous FinTech environment, where various players are progressively strong both as far as giving assets and building innovative and pioneering abilities. One in everything about premier helpful patterns inside the country might be a profound advancement pool with moderate and simple to-recruit tech labourers.

The companies that come up during this room are mainly divided into 4 industries, Le Payments, insurance, lending, and management of wealth. The payment market is often subdivided into Mobile wallets, Mobile POS; Payment Gateways are only some groups where much of the activity takes place. Citrus Pay, PayU Biz India, CCAvenue, Direcpay, Instamojo, Zaakpay, Bill Desk, PayUMoney, Atom Paynetz, ePaisa, Airplay. JusPay, Emvantage, and Transecute are major players during this region. Loans may be categorized into Digital loans, P2P loans, and SME financing, etc.

Wealth management is one in every of the most sectors that several businesses that are arising with creative ideas because the per household, income has dramatically risen over the years. Therefore, people need help to create informed investment decisions.

India has always been a country of economies of scale, wherein a lot of new companies/start-ups are running the race to accumulate maximum data possible. For example, a new company called Cred has been giving huge cashback and discounts to people who are paying credit card bills through that financial technology start-up based out of Bangalore in India. A lot of people in the industry have been wondering why? The answer is simple that after the company has a good amount of data they shall be able to sell relevant products to their database without any difficulties, they would know which bank has a maximum credit card, high net individual customers, etc. in turn they will be pitch & position their products, loans, offers from the partners effectively.

Therefore, FinTech is now a choice to conventional banks and procedures, they provide digital solutions to traditional cash management. Banks are getting down coming up with things like API banking, automated cash management, e-collections, etc. Many of those items address millennial who believe FinTech is best than conventional banking. As an example, with virtual account management, a corporation is going to be able to have multiple account numbers which might be shared with different clients. However, the funds are going to be parked in one main account, hence the customer is going to be ready to reconcile the funds easily by bifurcating the virtual account numbers, whilst keeping one main account for easier book-keeping.

Also, the government has begun to take some measures to boost FinTech's penetration by ordering banks to create more and more POS terminals. As India currently has the bottom number of POS terminals, i.e. 1 POS per 500 citizens, among the BRICS countries, this demonstrates that companies within the financial technology sector like Mobile POS (Paytm, Mobi Kwik, etc.) do have an outsized reach here. The govt. has founded a body named India's National Payment Council that introduced a digital portal for domestic payment named Rupay. The first goal of launching this was to form money and in-house control of the transactions being routed through international players like Visa or MasterCard. Governments have taken many steps to push it in India and beyond. The Indian government signed a separate Memorandum of Understanding with Singapore, Bhutan, Maldives, United Arab Emirates, and The Kingdom of Bahrain

FinTech despite having huge opportunities has still a tricky path to steer on. Below is the probable roadblocks list within the path of FinTech enterprises:

- It's not very easy to enter into the Indian market and perform because of the restrictive regulatory framework designed to forestall fraud. It acts as a large barrier for brand spanking new entrants, they have to satisfy plenty of formalities before the beginning of its operations itself
- Unbanked population, Poor infrastructure in terms of Internet Connectivity, and low literacy level are the opposite hindrances. Still, a large Indian population (48 percent) doesn't have bank accounts which are a requirement for conducting online transactions. While people have bank accounts they still face the problems of poor internet connectivity which takes more intervals to end the transaction. So people tend to prefer a cash transaction instead of a web transaction. Keeping aside, the purpose of getting a checking account and internet connectivity the bulk of the Indian population still doesn't have enough financial literacy level suitable to travel for it.
- It's very tough to vary the conservative approach of merchants and users who deal the daily transactions with cash. The bulk of the aged people are doing these transactions in cash for an extended time and it's hard to suddenly change their old habits and introduce them to new avenues at this age.
- Different frauds resulting in loss of cash in online transactions are an awfully hard bite to swallow for the shoppers. People's money is looted by the fraudsters by using technology and this has been a good challenge ahead of the FinTech firms. Therefore, the firms indeed should work effortlessly for bringing improvements in infrastructure and being more consumer-friendly.
- FinTech in India is bereft of a scarcity of presidency support and Incentives for shielding their interests. At a really basic level, this demoralizes the entrepreneurs. They weren't provided the correct guidance and support to start out though it's something for the betterment of the country's economy still.

Challenges Impacting the Indian FinTech Sector

The challenges impacting the FinTech Sector include

- **Uncertainty in Regulation:** India is one of only a handful of exceptional purviews with a particular Payments and Settlements law to accommodate guideline and management of installments and settlement frameworks in India and to assign the Reserve Bank as the expert for the reason.

After the administrative fillip, India actually has the best approach as far as giving security to business stages. A couple of guidelines including guidelines for safe speculation leaves, its remain on cryptographic money, installment guidelines by NPCI, and so on are as yet developing and ongoing changes in the administrative situation will be consolidated thinking about the dynamism of the FinTech business. Further, cross-line installments are as of now not being channelized through trendy new companies and get led through age-old financial channels. A uniform norm of training (across locals), a usually deciphered language, and normalized KYC standards combined with proportionate guidelines can open up an immense window of unfamiliar exchanges through FinTechs.

- **Discovery of Platforms:** As a result of an abrupt ascent in FinTechs openings, numerous players have begun taking an interest and opening up their individual FinTechs incomparable or covering spaces. There are various FinTech new businesses making it swarmed to make a brand review among all. To catch development, a portion of the overall industry and clients in this generally divided market will be trying for players except if combination turns into the thing to take care of.
- **Data Security Risk:** Information spills, stage vacation, and data burglary have become very wild in the FinTech space. Information, computerized reasoning, and AI are the foundation of FinTechs. Fostering a solid system to ensure information is of central significance and players will need to put profoundly in components to control this danger and agree with administrative prerequisites towards information security. Further, control of information and the decision of offering the individual information to different applications and sites ought to be practiced as a solid privilege by Indian masses; mindfulness and advanced schooling to that degree are as yet inadequate with regards to prompting information spills and improper utilization of classified information.
- **Lack of Trust and Awareness:** Because of an absence of mechanical progressions, mindfulness, and variation to these FinTechs, the infiltration of these administrations has so far stayed confined to metros and top-level urban communities. This imbalance of access and its absence of provincial entrance and mass variation in lower-level urban areas will stay the significant prevention and the significant development driver also for the area.

Till then, at that point, the dependence on neighbourhood moneylenders and inclination for cash exchanges will proceed.

- **Systemic Risk:** With the colossal development of the FinTechs and the wild development in hidden misconducts because of the idea of the credit stream, have prudential guidelines controlling the framework wide danger multiplication. Customary banks give signs of progress sourced from Deposits, though these FinTech organizations loan from Debt Funds/Equity Funds. In this manner, the danger can saturate to different classes of individuals including financial backers, shoppers, and empowering influences.

Challenges for Future Development in FinTech in India

FinTechs will stand up to a few chances and difficulties later on. Extensively, they need to address six worries to turn out to be more productive, solid, even handed, and versatile.

I. Regardless of enormous extension for development, cross-line installments are as yet an unchartered area for FinTechs. Benefiting settlement administrations troubles transient laborers because of steep expenses related to such settlements. A high portion of getting line installments courses through reporter banks, whose decreasing numbers could result in much greater expenses and retrogression to casual, unregulated installment networks in India, cross-line exchanges is slow contrasted with home grown installments and hardly any choices are accessible, in spite of substantial internal individual settlements. To make installment frameworks in various locales interoperable, installment guidelines should be meant as a typical language. For this, norms and practices across wards should be composed, and shared trust in every home grown organization's Know Your Customer (KYC) and Anti-Money Laundering (AML) systems should be set up. As of late, UPI was associated with Singapore's Network for Electronic Transfers (NETS) on a pilot premise at the Singapore FinTech Festival 2019, proposing that huge advances could be made inside the current arrangement. The UPI framework gets comfortable fiat cash inside the controlled monetary framework edge and hence, presents less danger than frameworks, for example, stable coins which are normally overseen by BigTechs.

II. The expanding ubiquity of FinTechs could compound information use, insurance, and protection concerns if the legal rights and commitments of specialist organizations are not obviously outlined. Al calculations could duplicate and sustain existing examples of segregation and reject weak segments. As the Indian populace becomes information-rich with expanding Internet and portable inclusion, the following test is engaging buyers with the information produced by them through satisfactory lawful and administrative mediations. Residents ought to have the option to practice control of their information like some other individual resource. There is an arising interest for information limitation from different wards. In this unique situation, an answer could be a model where information is put away locally and just double (Yes or No) questions are permitted on it from abroad, from a predetermined and internationally endless supply of allowed inquiries.

III. There is a need to discover the effect of FinTech on monetary soundness, because of the greater potential for framework-wide danger with its extension. Loaning principles could debilitate because of more extensive credit access and higher rivalry. Since FinTech moneylenders give propels from obligation and value instead of from stores, such credit could be more procyclical and unstable because of the absence of standard credit rules. Further, credit movement outside the prudential guideline space could deliver credit-related countercyclical approaches less viable. Reputational, digital, and outsider dangers might emerge for banks interfacing with FinTechs.

IV. There is an imbalance of admittance to FinTech administrations. Regardless of having the world's second-biggest Internet client base, admittance to the Internet is still profoundly one-sided towards the metropolitan, male, and princely populace sections. Confidence in the online commercial centre is low and a regular client requires 3-4 months to make their first online exchange. Most clients utilize online stages for item explore however lean toward ensuing disconnected buys. However, 'miniature shippers in India represent a staggering extent of deals; they have been avoided with regards to the credit- only upheaval particularly in more modest urban areas. Notwithstanding the high infiltration of portable information and cell phones, use for monetary exchanges is low because of conduct reasons like absence of trust, confusions about tax collection, absence of applied information in utilizing computerized installment modes, and saw security dangers.

V. The issue of shopper security and advanced training. Controllers need to pressure pre-emptive extortion recognition, while additionally coordinating computerized proficiency into monetary education to dissipate confusion. Security arrangements and complaint redressed components should be rearranged and pitched to support investment by low-pay gatherings. Nonetheless, monetary proficiency and computerized cleanliness alone might be lacking. Cross-country proof proposes that paying with cash is the propensity, by and large, delayed to change. In China, road merchants, buskers, and even acknowledge electronic installments. Be that as it may, in Tokyo, six of ten eateries require cash installment. Money use increments as worries about protection rise, while it decays as trust in banks rises. In this manner, approaches to elevate electronic installments need to address major worries about protection and trust in monetary organizations.

VI. Controllers need to behave impartially. The Report of the Working Group on FinTech and Digital Banking alerts that controllers ought to neither overprotect officeholders nor unduly favour newbie's by applying differential. The program brought about the increment in financial balance holders in the nation, just as bringing a conduct change among the unbanked buyers

This has prompted the ascent in the interest for tech-empowered monetary items, in this manner setting out suitable open doors for the development of FinTech organizations in the country administrative treatment. With the expanding strength of huge firms in advanced installments, there will be a rise in trade-off between information- filled oligopoly for modest administrations and the requirement for re- adjusting motivations to encourage more modest, more imaginative firms for a cutthroat environment. Notwithstanding, to follow the guideline of non- partisanship, "specialists might need to battle with stricter treatment for specific sorts of movement, like where a case on the stage's accounting report is produced or where retail financial backers and customers are included".

Challenges for Indian FinTech Companies and Start-ups

Long raising support cycles, passed up major opportunity targets and expanding misfortunes are some extremely normal issues looked at by FinTech loaning organizations. These issues emerge principally because of the fumble of the loaning lifecycle. There are different difficulties that FinTech's new businesses in the nation face each day. A couple of them are being given here under:

- **Regulatory and Compliance Laws:** Numerous laws definitely add to the lull of the FinTech new companies in Indian monetary business sectors. Not exclusively are these guidelines testing to adapt to, yet they additionally make it hard for FinTech players to enter the Indian business sectors. Consistence laws are laid set up as a prohibitive administrative system to forestall misrepresentation. Notwithstanding, they also go about as enormous obstructions for the new

FinTech participants. There is a major rundown of customs that FinTech new companies need to satisfy before they even beginning activities.

- **Unbanked and Underbanked Population:** In any case, FinTechs had staggered development due to helpless foundations like low web infiltration and proficiency levels in India. Albeit the Indian government is handling these issues with liberal strategies, the advantages may be apparent over the long haul. Actually even today an enormous fragment of the Indian populace is unbanked, and in this manner inclines toward cash exchanges as opposed to online buys.

  One more obstacle for FinTech development in India is low monetary proficiency in the Indian people group. For instance, India dispatched the Pradhan Mantri Jan Dhan Yojana to work on monetary incorporation in the country. In any case, subsequent to opening a sum of 180 billion ledgers, over 48% of them stayed torpid without a solitary exchange in a year, a World Bank report recommends. In spite of the relative multitude of drives set up, India is a long way from the way to monetary consideration.
- **Trust in Cash:** Most Indians follow a moderate methodology with regards to day-by-day exchanges and wind up utilizing cash. They have confided in cash as a vehicle of deals for a long time and think that it is hard to change their propensities and adjust to new roads. Offering financial sorts of help with an unbanked market is problematic since these organizations are routinely related to modernized stunts. A few Indians neglect to see the utility that FinTech offers through their imaginative items and administration because of monetary ignorance.
- **Cyberthreats:** FinTech organizations manage touchy client information. Various network protection dangers bring about huge financial misfortunes during on the web exchanges. These are altogether ridiculous for clients. The innovation that offers accommodation additionally opens up individuals' online records to fraudsters hoping to take their resources. This is a consistent stream to the prominence of FinTechs. FinTechs need to strengthen against any test presented by programmers. An enormous measure of monetary information of people and organizations is made accessible carefully. This expands the danger of online protection breaks.

- **Lack of Support from the Government:** FinTechs face a desperate absence of legislative help and motivations to secure their premium in the Indian monetary business sectors. This can be exceptionally demotivating for new FinTech players. FinTechs assumes an essential part in driving monetary development and should be offered every one of the ability to flourish.
- **Industry-Related Complexities:** FinTechs are intended to work with a complex working model. This makes it hard for them to keep a smooth relationship with other monetary organizations like banks. Banks, then again, dread to work with FinTechs gambling notoriety misfortune.

Challenges for Banks in India

The challenges Banks are facing include

❖ **Continuous Innovation:** Innovation comes from bits of knowledge, and experiences are found through client connections and constant hierarchical examination. Bits of knowledge without activity, nonetheless, are barren it's crucial that monetary foundations be ready to turn when important to address market requests while developing the client experience.

❖ **Outdated Mobile Experiences:** Nowadays, every bank or credit association has its own marked versatile application notwithstanding; on the grounds that an association has a portable financial technique doesn't imply that it's being utilized as adequately as could be expected. A bank's portable encounter should be quick, simple to utilize, completely included (think live visit, voice-empowered computerized help, and so forth), secure, and consistently refreshed to keep clients fulfilled. A few banks have even begun to rethink what a banking application could be by presenting versatile installment usefulness that empowers clients to treat their cell phones like secure advanced wallets and right away exchange cash to loved ones.

❖ **Customer Retention:** Monetary administrations clients anticipate customized and significant encounters through straightforward and natural interfaces on any gadget, anyplace, and whenever. In spite of the fact that client experience can be difficult to evaluate, client turnover is unmistakable and client dependability is rapidly turning into a jeopardized idea. Client steadfastness is a result of rich customer connections that start with knowing the client and their assumptions, just as carrying out a continuous customer- driven methodology.

- **Rising Expectations:** The present consumer is more intelligent, savvier, and more educated than any other time in recent memory and expects a serious level of personalization and comfort out of their financial experience. Changing client socioeconomics assumes a significant part in these elevated assumptions: With each new age of banking, clients come a more inborn comprehension of innovation and, thus, an expanded assumption for digitized encounters.

  Millennials have driven the charge to digitization, with five out of six detailing that they like to associate with brands through online media; when reviewed, recent college grads were additionally found to make up the biggest level of portable financial clients, at 47%. In view of this pattern, banks can anticipate people in the future, beginning with Gen Z, to be significantly more put resources into Omni channel banking and receptive to innovation.
- **Increasing Competition:** The danger presented by FinTechs, which regularly focus on the absolute most beneficial regions in monetary administrations, is huge. These new industry contestants are constraining numerous monetary establishments to look for organizations and additionally securing openings as a makeshift measure; truth be told, Goldman Sachs, themselves, as of late stood out as truly newsworthy for intensely putting resources into FinTech. To keep an upper hand, customary banks and credit associations should gain from FinTechs, which owe their prosperity to giving a streamlined and instinctive client experience.

Summing-up

FinTech, a portmanteau of 'financial technology’ refers to a brand new wave of companies that are revolutionizing financial services through the utilization of innovative new technologies. It is an economic industry comprised of companies that aim to compete with the normal financial methods to shape the longer term of banking. It encompasses a large range of technologies, products, and business models that are changing the way people pay, send money, lend, borrow, and invest. The industries are adopting FinTech as a way that produces the prevailing delivery process more efficiently in every aspect.

In India, the expansion of FinTech has been phenomenal, to the extent where the foremost widely used messaging app, WhatsApp has introduced a brand new payment feature by using Unified Payments Interface (UPI). UPI, managed by the National Payments Corporation of India (NPCI), is a second and real-time payment system between participating banks to transfer money through mobile-to-mobile. India accounts for over 200 million

WhatsApp users providing a large the consumer base for merchant payments and contributes to large volumes in terms of peer-to-peer (P2P) payments.

Many other global IT giants are zeroing in on adding payment features. For instance, in 2017, Google Tez, a payment app, was launched by Google, while Amazon has launched Amazon Pay and Samsung has introduced Samsung Pay. UPI feature has been enabled by Samsung Pay and Google Pay and within the near future; Apple plans to launch Apple Pay within the country.

Meanwhile, UPI-empowered computerized installment firms like Phone Pe, Mobi Kwik, Paytm, and Free Charge is augmenting their arms stockpiles. In 2017, India's largest online payment firm and mobile wallet company, Paytm, invested Rs. 5,000 crores (786 million) in mobile payments. Flipkart, one of India's leading e- retailers, has also invested $500 million in Phone Pe, to increase its technology platform and consumer base and proportion its merchant network through online payments.

FinTech is playing a significant role in meeting customer expectations within the financial industry. It has decentralized the supply of economic services from physical, financial centers to the smart devices operated at the fingertips of the consumers. The revolution is extremely helpful for developing countries where traditional banking and financial infrastructure aren't robust and accessible to a bigger share of the population. The explanation cited for the acute shortage of those services in developing counties and underdeveloped countries was the price of the establishment of such centers of finance. This shortcoming has been bridged by the event of FinTech. Finally, we may conclude that in order to reap benefits of fintech, the challenges in the way should be addressed on urgent basis.

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