

Future of FinTech in India

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Abstract

Fintech is using new technology and the internet to create financial products and services. It is the innovative use of technology, digital platforms, and data analytics to provide financial products and services to the unserved and unbanked populations in India. It includes a wide range of technologies and applications used in providing banking and financial services such as mobile banking, digital payments. Unified Payments Interface (UPI), Immediate Payment Service (IMPS), mobile wallets, Prepaid Payment Instruments, Quick Response (QR) codes, crowdfunding, peer-to-peer lending, rob advisory services, blockchain, and artificial intelligence. The fintech industry has expanded greatly worldwide, including in India, thanks to better digital infrastructure, widespread use of mobile phones, and changing customer preferences for simple and easily accessible banking and financial services. Fintech can help overcome obstacles that restrict financial inclusion, like problems related to location, expensive fees, limited infrastructure, and difficulties in getting regular banking services. By using technology and data, Fintech can offer innovative solutions that are more affordable, convenient, and tailored to the needs of underserved population. Fintech makes it possible to provide financial services using different methods, like mobile phones, digital platforms, and agent networks which help more people and businesses who were left out before to access these services.

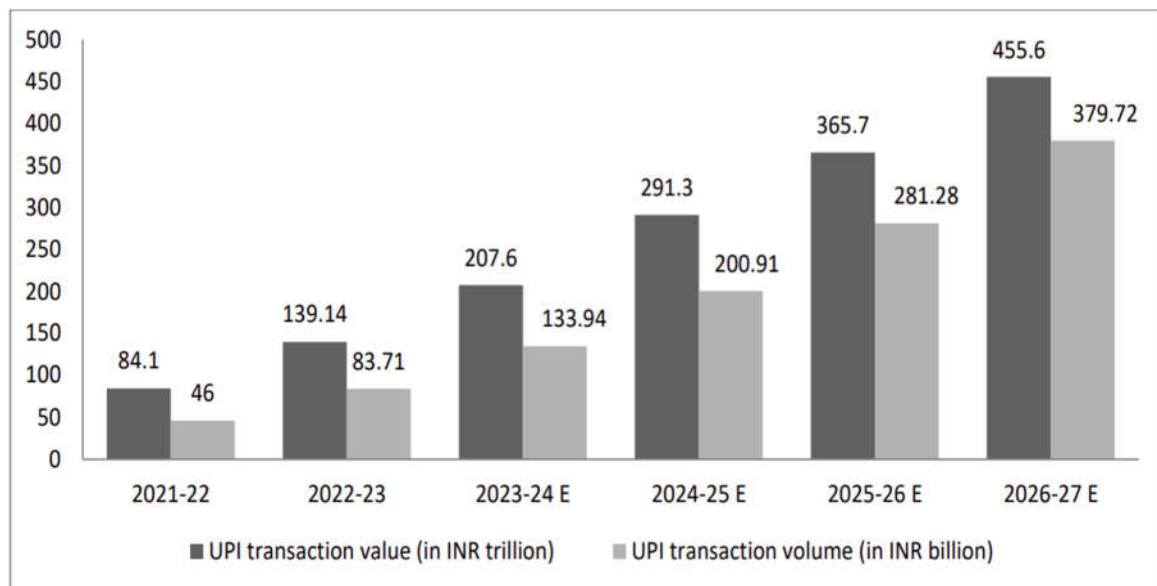
Key words: Artificial Intelligence, Blockchain, Financial Inclusion, FinTech, SWOT Analysis.

Introduction

Fintech industry in India has emerged as global superpower with a third rank as many as 9500 fintech companies (**IIFL Fintech Report, 2022**) which have been in operation and providing a multitude products and services viz., payment, credit, investment, trading, wealth management, personal finance, insurance and credit ratings, etc. after the fourth industrial revolution, a lot of uncertainties, opportunities and risks are said to be rising which have necessitated the fintech industry to have a crucial role in spurring financial literacy thereby advancing financial inclusion in the country.

Meanwhile, the COVID-19 pandemic had substantially made the intensive and extensive usage of the digital gadgets which had catalysed the progress of financial inclusion thereby bringing the unbanked into the banking system. Additionally, the Indian Digital Market is expected to grow at a CAGR of 22 percent from \$ 270 billion dollars in 2022 to \$ 1.3 trillion market by 2030. When it comes to fintech & digital players, they have become an integral part of the Indian financial system & NPCI which have been on offering innovative solutions viz., UPI. Aadhaar-based payment and APIs, etc. With support of it, internet has extremely used by fintech companies in providing a varied digital service associated with local partners reaching towards solutions of the next generation. As mentioned above, UPI is considered one of the most preferred modes of instrument among all the various retail payment systems which had a record of as many as 486878.15 lakh digital payment transactions to the tune of Rs. 8.92 lakh crore (**Trend Report on Financial Inclusion in India, 2022**). In this regard, the following figures depict a number and volume of UPI transactions taken place in the country as follows:

Figure 1: UPI Transactions

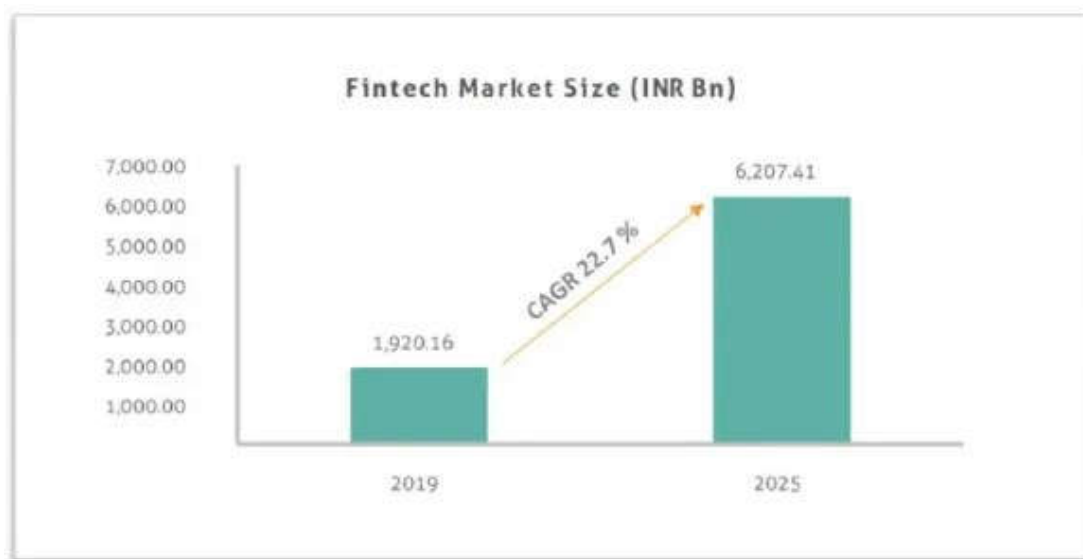


Source: The Indian Payment Handbook: 2022-2027

One of the most preferred modes of payment is UPI in India. As such, the value of transactions have been carried out in the year 2021-22 to the tune of 84.1 INR trillion with a volume of 46 INR billion compared to the 139.14 trillion INR in the year of 2022-23 associated with the 83.71 transaction volumes which implying that UPI transactions are rapidly going up owing to the initiatives viz., the progress of Digital India is being effectively done by fintech companies associated with socio-economic issues which are said to be having

a crucial role at spurring UPI transactions as far as the population of India concerned. Furthermore, the increase in UPI transactions is expected to be high in the coming years, as a result, the value and volume of UPI transactions are predicted to reach about 455.6 INR trillion & 379.72 INR billion by the year of 2026-27. By all means, the 20 percent is still unbanked out of 140 crore population who would be certainly included in the process of financial inclusion on account of the advancement in technology like 5 Gen. Blockchain Technology & Artificial Intelligence, etc.

Figure 2: FinTech Market Size (INR Bn)



Source: Business World News dated September 11, 2020

In a report, by Research and Markets, as of March 2020, the FinTech market in India is expected to expand at a compound annual growth rate (CAGR) of ~22.7% during the 2020-2025 Period. FinTech despite having huge opportunities has still a tricky path to steer on.

The future of the FinTech industry looks promising and growing rapidly on the back of

- Rise of start-ups in the FinTech industry
- Penetration of Smartphone users
- Continuous build-up of the digital infrastructure
- Overall streamlining of financial process in many industries

FinTech - A SWOT Analysis

Strengths

The benefits of FinTech are complex. By making the communication among customers and monetary administrations just as between monetary specialist organizations simpler and easier, FinTech offers huge potential to upgrade efficiencies, diminish costs, modernize the monetary foundation, empower more viable danger the executives and extend admittance to monetary administrations across a scope of various regions including loaning, installments, individual budget, cash move, and protection.

Weaknesses

The security of individual data given by purchasers online is under the spotlight nowadays. The new information break at Face book is a valid example. This issue is especially pertinent for the FinTech area similar to the danger of misrepresentation or monetary dangers related to purchasers not completely understanding the new monetary items.

Opportunities

The 'de gambling marvel has turned into an existential danger to many little states in the Commonwealth, particularly in the Caribbean and the Pacific. FinTech might actually offer answers for a portion of the vital drivers of de-gambling, for example, the 'Know Your Customer strategy' or dispose of the requirement for comparing banking connections out and out.

The declining cost of internet providers and developing versatile and cell phone infiltration in little and agricultural nations additionally give an incredible chance to use FinTech to advance monetary consideration among the assessed two billion individuals who stay without admittance to formal monetary administrations.

While numerous Central Banks are effectively advancing FinTech through 'sandbox' approaches, the current administrative boundaries are assisting manages an account with keeping up with the norm. The FinTech and the conventional financial area, nonetheless, need not generally contend yet can likewise supplement and gain from one another, manufacturing new organizations for the effective conveyance of monetary administrations.

Threats

Cybercrime might possibly sabotage the trustworthiness of the whole monetary framework. This is maybe the fundamental motivation behind why some Central Banks are hesitant to accept FinTech all the more extensively. In the Commonwealth, numerous little and agricultural nations do not have the limit and foundation to protect network safety. There are likewise worries that numerous FinTech new businesses are too focussed on dispatching their item rapidly, without giving due consideration to safety efforts.

Then, at that point, there is likely maltreatment of FinTech. Without legitimate guidelines, simple admittance to back can energize hazardous practices like exorbitant acquiring and high close-to-home obligation gathering. There is additionally some genuine worry about the market rivalry. A couple of early contestants in the market can get too huge too early and can use impressive monopolistic force. Then again, an excessive number of participants offering comparative types of assistance can likewise swarm the market and make oversight more troublesome. This is particularly valid for some little and non-industrial nations where the ascent of the area can extend currently restricted administrative and administrative limits.

Trends in FinTech

Digital-only banking: The monetary area moves immediately when banks essentially give worldwide installments, Peer-to-Peer moves, contactless MasterCard alongside no exchange charges, and freedoms to trade and buy Bitcoin, Ethereum, and different other digital forms of money. Banking measures that offer these administrations to clients through online channels are progressively altered by computerized just banking. These are amazingly gainful since, with the assistance of computerized measures, no client needs to invest energy visiting the banks actually, sit tight in a long queue for banking administrations, and do a ton of desk work. Because of the ascent of computerized just banks, visits to banks have dropped by 36% somewhere in the range of 2017 and 2022. The non-necessity of actual visits has been a shelter during the hour of the pandemic, and that has thus brought about the work of being acknowledged at an expanding number of banks. Different advantages of computerized just banking incorporate quick bill installments, practical expense the executives, continuous examination; reset pins from home, and speedy equilibrium survey.

Biometric security systems: Different computerized monetary administrations like versatile banking have become so famous because of expanded web use and cell phones. However, this is a decent practice; the expansions in computerized administrations raise a great deal of safety-related inquiries.

Cybercrime is additionally another issue that continues to increment in number each day. This is the reason each FinTech organization ought to consider taking important safety efforts, and one approach to do that is to add a biometric framework to the rundown!

Biometric security frameworks give clients certainty that all their own and monetary data is defended, and since the presentation of different biometrics advancements like facial acknowledgment and unique mark ID are additionally a piece of cell phones today, biometric security frameworks can be executed to turn into a piece of individuals' regular daily existences. Be that as it may, in the years to come, contactless biometric arrangements are accepted to assume control over touch-based arrangements.

RPA: RPA (Robotic Process Automation) is an innovation that utilizes computerized robots or projects (bots) to robotize explicit and repetitive undertakings that people ordinarily do. Numerous associations have effectively executed comparative frameworks to let loose assets and increment exactness. Many have likewise taken on the innovation to computerize back-end office measures like client on boarding, security checks, and compromise of installments, account upkeep, and then some.

The main benefit of RPA is that robots can do every one of these jobs faster and all the more proficiently, permitting human workers to zero in on considerably more complicated and innovative approaches.

Blockchain: However, initially intended to zero in on cryptographic forms of money, blockchain innovation has completely changed the working of the FinTech business today. With this innovation, every exchange is guaranteed to be done in a safe and safe way; blockchain decentralizes the confirmation cycle of exchange, and the resulting expansion in the security of exchange has implied that many banks and monetary organizations have effectively embraced it and are at present utilizing its advantages!

Blockchain ensures that all the data stores are gotten start to finish while there is the least danger. It can likewise be executed to guarantee safe cross-line installments. These are a couple of reasons why blockchain is moving today.

Artificial Intelligence (AI): Banks overall are intending to utilize Artificial Intelligence for a large number of their interior activities. As per Autonomous Research, AI is accepted to lessen 22% of the functional costs in a bank by 2030, implying that banks will actually want to save around \$1 trillion basically by carrying out AI for their activities.

Monetary establishments can utilize AI to deal with the expanding digital assaults by recognizing monetary dangers and cheats. Simulated intelligence can likewise be made to work in a client-driven way by carrying out calculations that can record all. Collaborations with the most extreme accuracy and precision.

Through customer administration arrangements like Chatbots, Artificial Intelligence has effectively shown its handiness in monetary knowledge it is inevitable that monetary foundations and banks embrace AI for different purposes.

Voice-enabled Payments: The prominence of Siri and Alexa has shown how significant voice innovation is in our regular routines. In any case, these advancements cannot exclusively be utilized for assisting individuals with turning off their lights and perusing their news yet can likewise assist them with making simple installments. Reports have shown that there are over 3.25 billion voice partners being utilized all throughout the planet. Along these lines, when an ever-increasing number of clients begin contingent upon their Smartphones for installments, voice innovation may take over conventional installment strategies and become the new installment arrangement.

Open Banking: Open banking unites banks and FinTech, empowering information organizing across a few monetary organizations. It additionally guarantees that the information delivered by monetary specialist co-ops is normalized and secure, making data sharing simpler among various approved associations on the web. It can likewise permit clients to deal with their monetary records in a safe and available way by offering them a merged perspective on their financial records. By making ledger the board straightforward and simple, open banking can possibly work on the monetary judgment of clients and can possibly help long-haul abundance creation.

Virtual Cards instead of Plastic: Utilizing virtual cards rather than plastic isn't new however is most certainly getting famous this year. One of the significant reasons why it is acquiring ubiquity is high security; data can't be taken or replicated effectively except if an actual medium is available. Clients will likewise not need to stress over discarding the cards once they terminate.

Autonomous Finance: Independent money utilizes ML, AI, and mechanization to offer clients an issue-free encounter on versatile entries. In this innovation, the client isn't needed to give inputs straightforwardly. All things being equal, the client can utilize the virtual investor made explicitly for him on the entry. These one-of-a-kind virtual brokers will actually want to oversee and dissect the client's dangers, portfolio, and speculations. The AI calculation will then, at that point create the best reserve funds and venture alternatives for the clients, diminishing the odds of any off-base careful decisions or human blunders.

Cyber Security: With the expanding FinTech arrangements being carried out, monetary establishments should not leave out effective network safety techniques. Digital dangers increment consistently with expanded online exchanges, and advanced cycles and cyber-attacks can make shared dangers across frameworks.

This is the reason monetary foundations should make themselves digital secure and execute compelling network safety methodologies to ensure themselves and their customers.

FinTech Versus Traditional Banking: Ethical Context

FinTech isn't 'innately' more moral than customary banking: everything's to do with individuals and the designs that make it up. Obviously, individuals are as yet blameable of being, indeed, individuals. Be that as it may, its whole presence as another industry depends on the trust procured from its clients. FinTechs need to show improvement over those that preceded. FinTechs need to be there for individuals who have been abandoned by banking's weaknesses.

FinTech likewise has one major blacksmith's iron looming over its head: its clients can go somewhere else. It's an industry that requires its clients to jump aboard, and in the event that they choose to leave on account of terrible practices and exploitative conduct, they can't actually get around that. Clients will leave and take their cash somewhere else. Financial backers will take their assets to less troublesome freedoms. That joined with the impending age of morally disapproved twenty to thirty-year-olds, there simply isn't as a very remarkable heritage for FinTech organizations to depend on. In the event that they don't act in a normal manner, they may basically bite the dust.

The extraordinary thing about FinTech is that it's a fresh start. Inheritance banks are overloaded with a set of experiences and a design that multiplied and boosted awful conduct to a degree they actually do. FinTech has an ideal chance for better morals directly all along

Opportunities for FinTech in India

India is the biggest consumer market on the planet. It is among the quickest developing FinTech industry market on the planet. Purpose in benefits for FinTech working in India is a fast web infiltration, the biggest populace of unbanked class, and the most elevated FinTech reception rate on the planet. Besides, it is assessed that the Indian FinTech market will be developing at a CAGR of 22% in the following five years according to NASSCOM. Subsequently, India has neglected income potential for FinTech players. The chances are restricted to retail shoppers as well as exist to incorporate the 57.7 million independent ventures enlisted in the country.

- **Infrastructural Advantage**

India is the world's third biggest and quickest developing start-up center, with over 26000+ new companies projected to be inactivity by the end of 2025. The development capability of Indian new businesses is enhanced by the development of start-up foundations in India.

The Government of India is running different plans for the development and advancement of new companies in India. Plans, for example, Start-up India Scheme, Make in India scheme, Stand-up India Scheme, Atal Innovation Mission (AIM) are the noticeable ones among the different plans presented by the Indian Government at different degrees of administration.

The Start-up India Scheme has an award worth 1.5 billion US dollars to be distributed for creating new companies to reinforce the start-up biological systems of the country. Likewise, the Government gives a discount on business and brand name enrolments alongside tax breaks to new companies. The Government of India likewise dispatched a committed stage for start-up enlistment to make the new businesses mindful of the different plans and advantages accessible to them. The stage is valued to give simplicity of enrolment to new companies by the business clique and unfamiliar financial backers.

- **The Best of Industry Talent**

The Best Industry Professionals on the planet are available in India. The IT labor force of India Accounts for multiple million experts. India stands second as far as the number of IT experts revitalizing behind the USA. Notwithstanding, among the 6.5 million IT experts of the USA, 1.5 million have a place with Professionals of Indian beginning working in the USA. The fare of Indian IT administrations remains at 180 billion US dollars in yearly income. The all-out world power in India remains at 510 million individuals and is positioned second on the planet.

- **Smart Country Initiative**

The Government of India dispatched the drive to assemble a savvy framework for the country by the drive of the advancement of Shrewd Cities and the dispatch of the Digital India development. The move plans to draw in unfamiliar interests in the economy. Aside from these, free Wi-Fi at a public spot, Railway stations, and hyper- nearby (metro) stations are practical all through the country. The way that web portable information in India is the least expensive in the entire world aids in the simple infiltration of web-based help suppliers. The biggest rail route organization of the world, Indian railroads likewise permitted installment for ticket booking and different administrations through Digital installments choice, for example, installment wallets banks and FinTech organizations.

- **Tax and Rebate Benefits**

The Government of India gives different Tax and Rebate motivations and discounts. Assessment discount is presented to vendors making more than half of their exchange carefully. Aside from this, refunds up to 80% of expenses are given to new companies at the hour of brand name enlistment.

The DPTT perceived new businesses likewise get the expense occasion time of the initial a long time from the date of acknowledgment by the Government. An exception is given on capital increases expense to interest in unlisted organizations for a speculation period yearning for more than 24 months. The Government is in converses with different Government and administrative bodies to stop the charging of overcharges or exchange charges made for taxpayer-driven organizations and enrolments.

- **Investment in India**

The unfamiliar venture possibilities for India are blasting at a quick speed. India partakes in the trust and speculations of financial backers from all throughout the planet. The ventures by Foreign Direct Investors remained at 64.37 billion dollars during the financial year 2018-2019. The FDI gotten in the principal quarter of 2019- 2020 Fiscal year remained at 16.3 billion US dollars. The private equity and venture capital (PE/VC) ventures arrived at US\$ 25.20 billion from January to October 2018. The nation is getting FDI and FPI at a remarkable rate. During the time of April June 2019, the FDI remained at 18.4 billion US dollars. The nation is making a course for turning into a five trillion economies by 2025.

Conclusion

FinTech has been known for its transitioning innovation claiming towards offering the most helpful and adaptable choices for purchasers. It isn't shocking that going ahead, monetary administrations will offer an altered and nearby contribution to their clients utilizing information investigation. With the ever-increasing number of advances in innovation monetary administrations adjust to overhaul their techniques, more development in this area is anticipated. This is only the start of a gigantic FinTech market in the impending decade.

Out of a sum of 21 unicorns in India, 1/3rd are FinTech organizations, Paytm being the most elevated esteemed unicorn, at \$16 billion. The FinTech market in India has been regarded at INR 1,920 Bn in 2019 and is depended upon to show up at INR 6,207 Bn by 2025, stretching out at a gathered yearly development rate (CAGR) of 22.7% during the 2020-2025 period. While the FinTech business is as yet in its initial reception stage, we trust it is all around situated to observe long haul development in the coming years. The progressions will be more centred on advanced loaning (elective finance) and open banking. FinTech development will at last set out outsized open doors for firms and assist with enabling them in the advanced age.

FinTech has disrupted financial markets with technology and innovation by transforming the finance business and is growing faster than ever before. Digital finance is now emerging as the backbone of businesses. This makes it crucial for FinTech firms to address concerns relating to online business risks more proactively. The financial market crisis of 2008 was the beginning of FinTech and it has evolved with time. The challenges for FinTech firms in the recent past years have increased substantially due to the Coronavirus pandemic; however, the current situation also presents them with the opportunities to monetize from increasing digital transactions and growing demand for tele-medicines and insurance products. Currently, the new investments in FinTech have almost stopped as many firms are forced to cut costs and reduce redundancies. The online or digital business is here to stay, and FinTech firms can further learn from the current crisis and come out strongly with innovative solutions.

Finally, we may opine that the digital and technological transformation changed business activities across all enterprises, and the financial and banking area is no exemption. What is encouraging is that the Indian government and regulatory institutions have basically advanced and innovative as opposed to the obstructive environment for FinTech in India. In any case, policies and governance should coordinate with the speed of advancement in this area, especially to guarantee secure and straightforward development. Above all, future of FinTech in India is bright!

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