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FINTECH BOOM IN INDIA: A STUDY ON THE DRIVING FORCES

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Abstract

The objective of the given article is to study about the driving force behind the success of fintech companies in India. It also includes the introduction to Fintech companies, a brief discussion about the services offered by these companies. The reason for their growth and sustainability in Indian financial sector. It also studies success stories of some global and domestic players. The challenges faced by these companies are also highlighted in the paper. The study is completely based on secondary source of data. And conclusions are drawn on the same.

Introduction:

Financial technology (fintech) though at initial stage but is growing rapidly not only globally but also in India, with an encouraging market base, scene of an innovation-driven startup, and welcoming government policies and regulations. This emerging and forceful sector has been occupied by several startups, while both traditional banking institutions and non-banking financial companies (NBFCs) are trying catch up.

In the year 2017, the National Association of Software and Services Companies (NASSCOM) reported that the no. of fintech firms operating in India are around 400 in India, which have largely boosted foreign investments in fintech-focused startup accelerators and incubators. It is predicted by NASSCOM that India's fintech software market alone could reach US$ 2.4 billion by 2020, doubling on the current rate of growth.

Fintech firms can reshape the financial services landscape in the country in three critical ways:

1) They can reduce costs and improve quality. These firms are not held back with legacy operations, IT systems, and expensive physical networks and can pass on the benefits of leaner operating models to customers.
2) They can develop unique and innovative models of assessing risks. By leveraging big data, machine learning, and alternative data to underwrite credit and develop credit scores for customers with limited credit history, they can improve the penetration of financial services.
3) Being less homogenous than incumbent banks, fintech firms can "create a more diverse, secured and stable financial services landscape."

Financial Technology in financial services in the Indian market

Basically, fintech refers to the possibility of financial services that can be available on digital podiums. This new interruption in the banking and financial services sector has had a widespread impact. Key service submissions to emerge on digital platforms include the following:

a) ***Peer-to-Peer (P2P) Lending Services:*** Companies use diverse credit models and data sources to offer consumers and businesses with quicker and stress-free access to capital. P2P lending permits online services to directly counterpart lenders with borrowers who may be individuals or businesses. Examples are i2iFunding, Shiksha Financial, GyanDhan, and MarketFinance.

b) ***Payment Services*:** In these companies payments are accepted over the web and on mobile without needing merchant accounts by both private individuals and businesses. Transfers are made directly to the bank account linked to the payee in order to secure against fraud. Examples are Mobikwik, Paytm, and Oxigen Wallet.

c) ***Remittance Services*:** Some of the startup ventures, even though registered abroad, are trying to address the gaps in remittance transactions (both inbound and outbound) as the current process is cumbersome and expensive. The aim of these startups is to disrupt the current monopoly held by firms like Western Union and MoneyGram. Examples are Remitly, Instarem and FX.

d) ***Personal Finance or Retail Investment Services*:** The growing need to offer customized financial information and services to individuals, that is, how to save, manage, and invest one's personal finances based on individuals requirements id also catered by Fintech companies. Examples are BankBazaar, PolicyBazaar, FundsIndia.com and Scrip box.

e) ***Miscellaneous Software Services*:** Companies are contributing a variety of cloud computing and technology solutions, which have improvised access to financial products leading to increase in efficiency of day to day business operations. The application of fintech at both macro and micro levels is rapidly diversifying, from providing online accounting software to creating specialized digital platforms connecting buyers and sellers in specific industries. Examples comprise ftcash , catalyst, Airtime Up, StoreKey, and Humming Bill.

f) ***Equity Funding Services*:** Crowdfunding platforms are enabled that is funding of a project or business venture by raising funds from a large number of people. Fintech companies are gaining attractiveness as internet-mediated platforms across the world as access to venture capital which is usually difficult to secure. These services are particularly targeted at the early stage of a businesses' operation. Examples consist of: Ketto, Wishberry, and Start51.

Key Drivers of Fintech in India

The fintech universe in India is gearing up. WhatsApp, the most extensively used messaging app in the country, has recently started rolling out a Unified Payments Interface (UPI)-based payments feature here. Developed by the National Payments Corporation of India, UPI is an instant, real-time digital payment system for mobile-to-mobile money transfer between participating banks. With more than 200 million active users in India — the largest anywhere in the world — WhatsApp is anticipated to drive large volumes on peer-to-peer (P2P) payments and also become a popular platform for merchant payments. India is slated to be the first country globally to get the payments facility from WhatsApp.

Other global giants, too, are eyeing this universe. For instance, Google has already hurled its payments app Google Tez ("Tez" in Hindi means fast), while Samsung has launched Samsung Pay and Amazon has introduced Amazon Pay. While both Google Tez and Samsung Pay have been UPI-enabled for the past few months, Amazon Pay introduced the UPI feature earlier. Apple, too, is looking to introduce Apple Pay in India in near future. In a media interview a few months ago, Apple senior vice-president Eddy Cue said: "Apple Pay is something that we definitely want in India."

For now homegrown digital payment firms like Paytm, PhonePe, MobiKwik and FreeCharge (all are UPI-enabled) are firming up their arsenal. Paytm, India's largest online payments and mobile wallet company, has put in Rs. 5,000 crore ($786 million) in mobile payments to date. PhonePe, the digital payment arm of India's leading e-tailer Flipkart, is planning for large investment to scale up its technology platform and increase its merchant network and consumer base.

A report by Google and Boston Consulting Group (BCG) titled *Digital Payments 2020* predicts that digital payments in India will exceed $500 billion by 2020, up from $50 billion in 2016. "Global digital payments is undergoing rapid transformation and is set to grow four times in value by 2020. India is on an even more exponential growth trajectory. The smartphone explosion will usher in a new era in digital payments in India over the next few years that will see … non-cash transactions exceed cash transactions by 2023."

Industry analysts attribute that there are **multiple factors which are driving fintech** growth in India. These include:

1) Redefining the way companies and consumers conduct **transactions** on a daily basis.
2) **Inadequacies** in the country's banking system,
3) **Payments** will be a pathway to other areas such as lending, insurance, wealth management and banking.
4) The **turnaround time** is also much faster for the approval and disbursal of loans by fintech firms despite several banks (State Bank of India, ICICI, HDFC, and Axis bank) digitizing and speeding up these processes markedly.
5) Most people in India lack **credit history**. Digital payments give them a credit history which can be leveraged in other areas. Fintech undertakings use machine learning algorithms and alternative data points such as social media footprints, call records,

shopping histories, and payments to utility service providers to increase efficiency and provide greater access to credit.

6) A large unbanked and underserved population: large percentage of India's population is unbanked and roughly 80% of transactions are carried out by cash.
7) Steep **smartphone penetration**, increasing access to the internet: India has about 800 million mobile phones with over 430 million having Internet connectivity.
8) A **booming ecommerce** market.
9) Availability of a large **talent pool** which understands both **technology and financial services**.
10) A key backing is the **strong support from the government** by way of initiatives such as the financial inclusion program Jan-Dhan which aims to ensure that every Indian has a bank account. Other government-led initiatives such as Digital India program, and National Payments Council of India (NPCI) have provided important enabling platforms for technology innovators.
11) **Strong Infrastructure** is the core: The biometric and iris-based Aadhaar which aims to give every Indian resident a unique identification number, and the Unified Payments Interface. The RBI has so far promoted the Unified Payments Interface and the Bharat Bill Payments System, as well as digital payments, P2P lending, and the use of automated algorithms to offer financial advice.

Challenges and opportunities for fintech is India:

1) Legacy of formal institution with an established infrastructure is not easily replaceable, although digital finance firms have benefited from the government's pro-startup policies and flexible regulatory conditions imposed by the Reserve Bank of India (RBI).
2) Indian customers are known for conservative mind set in their financial preferences, so Fintech companies need to infuse more confidence among them.
3) Figuring out to cater to market needs and influence financial behavior is a biggest challenge, along with setting up a strong and responsive regulatory infrastructure to keep pace with the speed of technological innovation.
4) Alternatively, traditional banking and financial institutions have an advantage of leveraging their existing customer base and embrace digital products that nurture strong financial relationships at the same time improving service efficiency for changing needs.
5) The disruptive potential of fintech firms can provoke the much needed modernization of the traditional sector, reducing costs in the process and increasing the size of the banking population.
6) In response to these opportunities and challenges, banks like HDFC and Axis have propelled mobile phone applications to ease digital transactions; Federal Bank announced a partnership with Startup Village to develop innovative banking products; U.K. giant Barclays is set to operationalize its fifth global fintech innovation center

that will be located in India; and Goldman Sachs Principal Strategic Investments Group (GSPSI) is looking to invest in Bengaluru's fintech startup scene.

Hence, the growth prospects in technological innovation may not necessarily produce a mutually exclusive relationship between traditional institutions and fintech firms in India

Conclusion:

The era of digitization has revolutionized & transformed business operations across all industries, and the financial and banking sector is no exception to that. The positivity is that the Indian government and regulatory institutions have in effect promoted have made the business environment more entrepreneurial rather than obstructive for fintech in India.To ensure security, transparency and growth, the policies and governance will need to match the speed of innovation in this sector particularly.

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