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CHAPTER NO. 01
NAME OF THE CHAPTER:-
FINTECH IN INDIA:
OPPURTUNITIES AND GROWTH.**

LEARNING OUTCOMES:-

- To understand the relationship between FinTech and the development of financial markets
- Analyse the development and management of FinTech is linked to the wellbeing of the society
- Understanding the review of FinTech and identify the underling institutional supports necessary for its growth.

1. ABSTRACT :-

FinTech (financial technology) has exploded all over the world. As a result, scholarly literature on FinTech has grown significantly in the previous five years. Research is often fragmented, with no overarching research aim. There are still significant research gaps and key questions. There is still a lot of work to be done before this field becomes a recognized academic discipline. This study presents consistent research themes derived from focus group discussions with policymakers and academics, as well as a critical review of the literature. We identify seven important research gaps and pose questions that could serve as the foundation for future academic research. If these issues are overcome, this field will be on its way to becoming a recognized academic discipline.

Keywords

FinTech, industrial structure, customer benefits, barriers, vulnerable customers, identity, cyber security, AI, financial stability, regulation crypto currencies, payments, business models, Bitcoin, Blockchain.



1.1 WHAT IS FINTECH?

Fintech, a combination of the terms “financial” and “technology,” refers to businesses that use technology to enhance or automate financial services and processes. The term encompasses a rapidly growing industry that serves the interests of both consumers and businesses in multiple ways. From mobile banking and insurance to cryptocurrency and investment apps, fintech has a seemingly endless array of applications.

For example, mobile banking is a form of fintech that allows customers to access their bank accounts and carry out banking activities such as transferring funds and paying bills through their mobile phones.

1.2 DEFINITION OF FINTECH :-

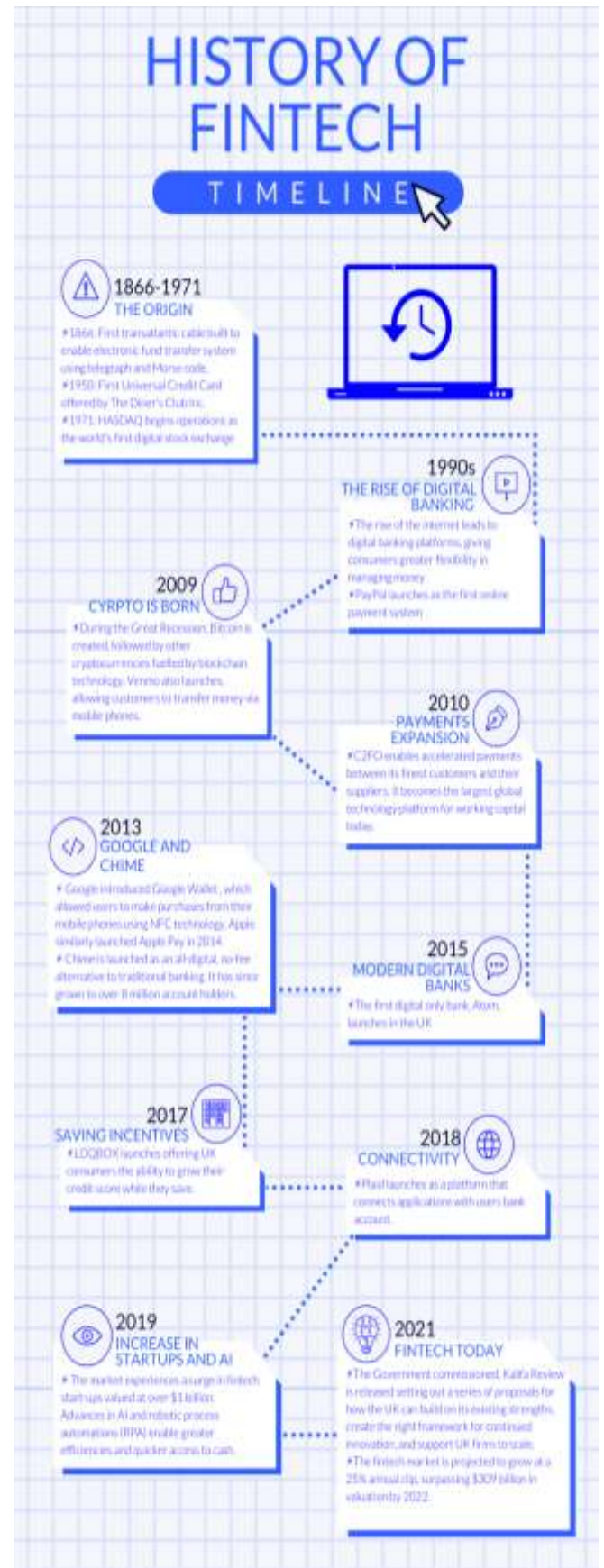
Giving a comprehensive and exhaustive definition of FinTech – or fintech – it’s a hard task.

This word encompasses so many sectors and markets, but always implies some principles – namely a user-focused experience and financial inclusion.

The definition of fintech will maybe change over time, but we at FinTech Weekly crafted a complete definition that will help you discover the meaning of fintech, the history of this industry, its environment – and drawbacks – and its applications – related to both businesses and people.

2.1 HISTORY OF FINTECH :-

The role of technology in the financial sector has always been key, so where do we start talking about fintech? AILabPage identifies the following key periods in fintech’s timeline:



3. DIFFERENCES BETWEEN FINTECH AND TRADITIONAL BANKS?

Fintech and banking have many differences, despite their similarities:

- **Approaches:** The traditional banking industry is more process-focused, whereas fintech start-ups place a great priority on the comfort of the customer experience.
- **Regulations:** While fintech companies are not need to adhere to tight regulations, traditional banks are subject to them.
- **Customers:** While fintech companies provide credit cards to people with bad credit histories or financial histories and consider ways to raise their scores, traditional banks focus on customers with strong credit histories and proven track records.

4. THE BENEFITS OF FINTECH FOR BUSINESSES IN INDIA :-

Digital transformation is an unavoidable journey for enterprises in India. The fintech sector is actively contributing to facilitate this shift by offering groundbreaking solutions that empower businesses to propel their growth, enhance efficiency, and embrace operational flexibility.

Here are some of the key benefits of fintech for businesses in India:

1. **Improved Customer Experience:** Fintech solutions play a pivotal role in empowering Indian businesses to deliver exceptional customer experiences, with the inclusion of cutting-edge features like instantaneous payments, seamless integration of mobile wallets, and AI-driven chatbots. Remarkably, this advancement has led to a significant surge in customer contentment, resulting directly in enhanced loyalty and satisfaction levels.

2. **Cost Reduction:** Fintech solutions assist organizations in automating processes and eliminating manual involvement. This results in cost savings in terms of both time and resources. Furthermore, fintech firms are offering competitive pricing strategies, lowering business costs even further.

3. **Enhanced Security:** Fintech solutions include strong security features that shield firms from data breaches and cyber assaults. This ensures that businesses can function with confidence, knowing that their data and processes are secure.

4. **Improved Regulatory Compliance:** Fintech solutions are assisting organizations in more successfully meeting ever-changing regulatory standards. This ensures that firms avoid expensive penalties while also maintaining a strong compliance record.

5. THE CHALLENGES OF FINTECH IN INDIA :-

The Indian fintech industry is now facing a number of obstacles that are impeding its growth. One of the most significant issues is a lack of access to high-quality data. This is a serious issue because data is required for the development of new financial products and services. When it comes to innovation, fintech companies are at a disadvantage if they do not have access to trustworthy data.

Another issue for fintech startups in India is traditional financial institutions' sluggish acceptance of new technologies. Many of these institutions continue to use antiquated methods and are resistant to change. This makes it harder for fiFinally, another challenge for Indian fintech firms is the high cost of customer acquisition. Because of the country's low penetration of financial services, fintech companies frequently have to spend a lot of money on marketing and advertising to attract potential customers.

Despite these obstacles, the Indian fintech industry has enormous development potential. With the appropriate rules and

regulations in place, India has the potential to become a global leader in this field.

5.1 THE FUTURE OF FINTECH IN INDIA :-

Fintech has been one of the fastest expanding areas in the Indian economy in recent years. India today has a slew of world-class fintech firms and start-ups, and the industry is playing a growing role in propelling the country's digital economy.

Looking ahead, there are several themes that will likely determine the future of fintech in India. For starters, the government's aim for a cashless society will almost certainly increase demand for fintech products and services. Second, as more Indians gain access to smartphones and internet connectivity, there is a sizable untapped market for fintech firms to exploit. Finally, as India's middle class expands, there will be a greater demand for financial services that meet their needs. As a result, it is apparent that the future of fintech in India is quite promising. The sector has enormous potential and is expected to grow rapidly in the next years.

5.2 Fintech Apps Examples

Below are good examples of how fintech is used in various sectors:

Mobile Payments. Smartphone users now incorporate mobile payments into their daily lives. Many services have been developed that enable people to make payments and swap money using their mobile devices or online. Examples include PayPal, Paytm, G-pay, etc.

Insurance. The insurance business has not lagged behind; insurtech, as it is now known, encompasses everything from house insurance to vehicle insurance. These insurtech start-ups are receiving a lot of cash.

Crowd funding Platforms. These services, such as Patron and others, allow users to send and receive money from other users on the same platform, as well as gather funds from numerous sources all

in one spot. It is now feasible to approach investors directly in order to secure their support for your project or company.

Investment Management. Investors' life have been made easier by the invention of apps that allow traders to stock since they can now buy, sell, and trade stocks on their mobile devices.

6. FINTECH USERS

There are four broad categories of users for fintech:

- Business-to-business (B2B) for banks
- Clients of B2B banks
- Business-to-consumer (B2C) for small businesses
- Consumers

WHAT ARE EXAMPLES OF FINTECH?

- Fintech has been applied to many areas of finance. Here are just a few examples.
- **Robo-advisors** are apps or online platforms that optimally invest your money automatically, often for little cost, and are accessible to ordinary individuals.
- **Investment apps** like Robin hood make it easy to buy and sell stocks, exchange-traded funds (ETFs), and cryptocurrency from your mobile device, often with little or no commission.
- **Payment apps** like PayPal, Venmo, Block (Square), Zelle, and Cash App make it easy to pay individuals or businesses online and in an instant.
- **Personal finance apps** such as Mint, YNAB, and Quicken Simplifi let you see all of your finances in one place, set budgets, pay bills, and so on.
- **Peer-to-peer (P2P) lending** platforms like Prosper Marketplace, LendingClub, and Upstart allow individuals and small business owners to receive loans

from an array of individuals who contribute microloans directly to them.

- **Crypto apps**, including wallets, exchanges, and payment applications, allow you to hold and transact in cryptocurrencies and digital tokens like Bitcoin and non-fungible tokens (NFTs).
- **Insurtech** is the application of technology specifically to the insurance space. One example would be the use of devices that monitor your driving in order to adjust auto insurance rates.

7. **KEY REGULATORS :**

Financial sector undertakings, including fintech businesses, are usually regulated by the RBI, SEBI, the Insurance Regulatory and Development Authority of India (IRDAI), the Pension Fund Regulatory and Development Authority (PFRDA), and IFSCA.

THE LAWS AND REGULATIONS THAT MAY APPLY TO FINTECHS IN INDIA ARE LISTED BELOW:

RBI

- Payment and Settlement Systems Act, 2007.
- Master Directions on Prepaid Payment Instruments (MD-PPIs), 2021.
- Framework for Scale Based Regulation for Non-Banking Financial Companies, 2021.
- Directions for opening and operation of Accounts and settlement of payments for electronic payment transactions involving intermediaries, 2009.
- Guidelines for Licensing of Payments Banks, 2014 and Operating Guidelines for Payments Banks, 2016.
- Framework for Recognition of a Self-Regulatory Organisation for Payment System Operators, 2020.

- Guidelines on Regulation of Payment Aggregators and Payment Gateways, 2020.
- Circular on Processing of e-mandate on cards for recurring transactions, 2019.
- Circular on Tokenisation – Card transactions, 2019.
- Guidelines on Digital Lending, 2022.
- RBI Master Directions on Credit Card and Debit Card – Issuance and Conduct, 2022.
- *National Payments Corporation of India (NPCI)*
- Various circulars on Unified Payments Interface (UPI) payments.

SEBI

- Circular on Mutual Funds, 2021.

IRDAI

- Guidelines on Insurance Repositories and Electronic issuance of Insurance Policies, 2015.
- Guidelines on Insurance e-commerce, 2017.
- Insurance Regulatory and Development Authority of India (Issuance of e-Insurance Policies) Regulations, 2016.

IFSCA

- International Financial Services Centres Authority Act, 2019.
- Framework for FinTech Entity in the International Financial Services Centres (IFSCs), 2022.

8. **ADVANTAGES AND DISADVANTAGES OF FINTECH**

8.1 ADVANTAGES OF FINTECH :-

- ***Greater accessibility.*** This correlates to an increase in the banked population because anyone with internet access can open an account and apply for a loan.

- **Response times:** On average, *fintech* have response times for applicants that *range from 10 minutes to 48 hours*.
- **Time optimization.** Because all processes are carried out via the Internet, it is not always required to visit a physical branch.
- **Variety of services.** *Fintech has succeeded to segment services so that a wide range of services are available to both users and producers of financial services.*
- **Availability to Consumer :** A variety of financial services are available to consumers, including opening a savings account, applying for a credit card, and investing in companies seeking funds for expansion.
- **Payment System:** Financial service providers use fintech to analyse credit applicants' profiles, store data in the cloud, and streamline payment methods.
- **Cost reduction.** In addition to offering lower commissions than banks, one of the great differentiators of fintech is that most of them intend to compete against traditional financial firms.

8.2 DISADVANTAGES OF FINTECH :-

- **Lack of physical branches.** In the event of a problem with the service, everything must be handled via email or social media, which can be a disadvantage.
- **Security issues :-** In this respect, some fintech companies use blockchain technology to improve security, but not all of them do, which compromises the security of user data.

- **Lack of Access :** It may seem as simple as using a smartphone for some, but it is the reality that this condition excludes a very large part of the population who do not have access to the Internet, so they will have difficulty becoming banked even with Fintech.
- **Lack of regulation.** Due to its **widespread** recognition, governing bodies worldwide extensively research and create legislation to address various aspects of this phenomenon. Consequently, the regulations governing fintech globally are not flawless, leaving room for potential fraudulent activities in the absence of appropriate regulations.

9. THE OVERLAP BETWEEN FINTECH AND OTHER SECTORS:

In most businesses, there is already some overlap between the finance and HR departments, typically for handling payroll and expenses, and budgeting for recruitment. But FinTech makes this crossover more effective.

Finance and Accounting

The intersection of Financial Technology (FinTech) and HR goes beyond salary management and offers opportunities to enhance employees' financial health. Particularly in times of economic uncertainty, FinTech solutions enable HR and accounting managers to empower employees with greater control over their finances.

For instance, companies can implement flexible payment options, giving employees easy access to their wages. Additionally, online calculators can be provided to help individuals track their earnings and pension contributions.

Personal employee development

FinTech HR has the capacity to foster personal development by integrating eLearning platforms into employee training programs. These platforms present online courses and training sessions on a wide range of subjects, including financial literacy, cyber security, and technological proficiency. By granting access to these eLearning resources, employees can continuously enhance their skills and knowledge, resulting in improved job performance and job satisfaction. Additionally, companies can provide training on utilizing FinTech tools for personal and professional purposes.

Productivity and management

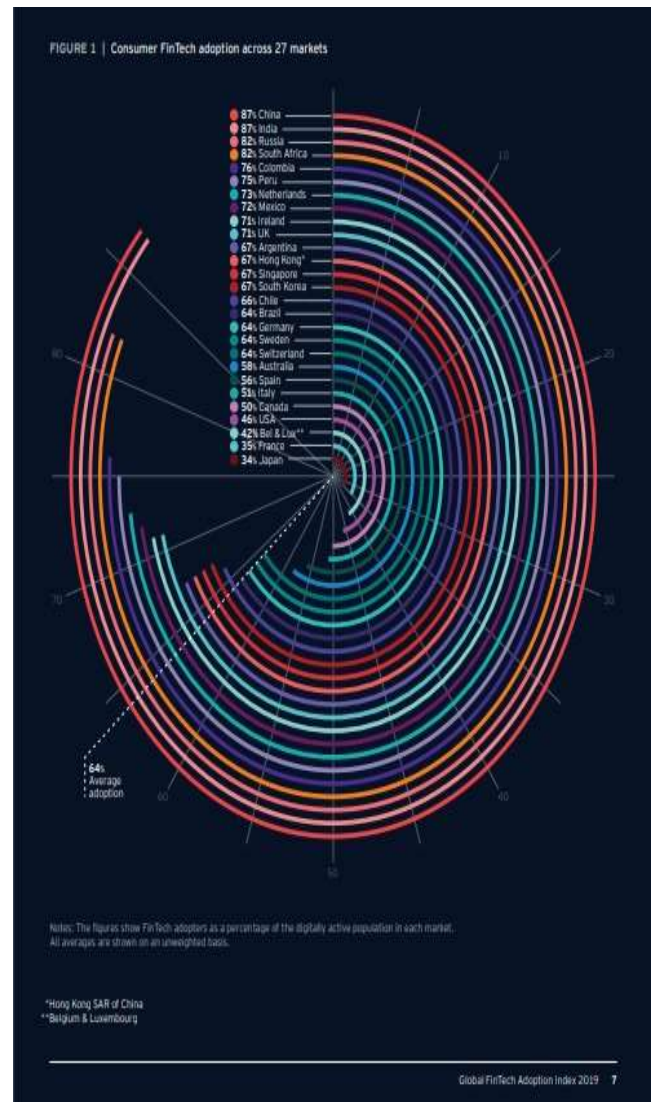
Several businesses employ time-tracking software to enable employees to accurately record their working hours and receive appropriate compensation, while also allowing HR managers to monitor attendance. This aspect of using time-tracking tools intersects with the realm of Financial Technology (FinTech) as these tools play a vital role in determining salary payments.

For example, a time-tracking tool directly linked to your payroll system can streamline the whole process and provide full transparency. This makes it easier to track breaks and overtime and comply with labour laws. It's important for employees to know they will be paid fairly for the work they do.

10. ARTICLE ON FIN-TECH :- **Economic Survey 2023: India outpaces world in fintech adoption, driving financial inclusion**

The Survey quoting the latest Global FinTech Adoption Index said while the world average is 64%, India has achieved 87 per cent fintech adoption

HARSH KUMAR JANUARY 31, 2023
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Representative image

India has outgrown the global average in terms of digital adoption, giving a fillip to the on-going financial inclusion efforts, showed the Economic Survey 2023.

Quoting the latest Global FinTech Adoption Index, it said that while the world average stands at 64 percent, India has achieved 87 percent fintech adoption. This jump is enabled by emerging technologies and innovative solutions, democratising access, and spurring personalisation of products, the Survey said.

“With a strong foundation provided by the Jan Dhan-Aadhaar-Mobile (JAM) trinity, UPI, and other regulatory frameworks, the pandemic has aided acceleration in digital adoption and provided a fillip to digital financial services solutions by banks,

NBFCs, insurers as well as fintech,” said the Survey.

The Survey noted that the pandemic provided an opportunity for fintech companies to reach the underserved and provide cost-effective financial services to those at the bottom of the pyramid.

Earlier, venture capital firm Chiratae Ventures and Ernst & Young said in a report released on August 9 said that India’s financial technology sector is expected to reach \$1 trillion in assets under management (AUM) and \$200 billion in revenue by 2030 as companies offer segment-specific solutions, fintech adoption gains momentum and greater penetration of the Unified Payments Interface (UPI).

“The market has seen high valuations on the back of large untapped market opportunities...and historical fintech growth has been driven by an organic and collaborative ecosystem while being supported by key government initiatives,” said the report.

However, Sharat Chandra, Co-Founder, of India Blockchain Forum, an industrial body, said that the economic survey expects CBDCs to boost digital financial services. Collaboration between fintech and banks will be the key to ensuring the adoption of use cases built on top of CBDC, Chandra said.

Start-ups should be accorded priority sector status by the government. “Fintech should be allowed to partner with Digital Banking Units DBUs to accelerate the adoption of digital payments and financial services,” Chandra said.

According to the Economic Survey, on average, between 2019 and 2022, growth in UPI-based transactions in value and volume terms has been 121 per cent and 115 per cent respectively. In Dec 2022, UPI touched it’s highest-ever mark with 782 crore transactions worth Rs.12.8 lakh crore.

The survey further highlighted that in FY19, UPI accounted for 17 per cent of the country's total 3,100 crore digital

transactions. The next fiscal year saw UPI’s share rise to more than 27 per cent as it processed 1,250 crore transactions out of 4,600 crore digital transactions. In FY22, UPI accounted for 52 per cent of the total 8,840 crore financial digital transactions, the survey said.

11. CONCLUSION :-

In India, Fin Techs are rising in all categories of financial services. By examining the rate at which fin technologies are emerging, it is clear that India has huge entrepreneurial potential. In India, there are approximately 1500 Fin Tech start-up companies, over half of which were founded in the last two years. Fintech enterprises must be well-prepared, both technically and financially. The bulk of successful start-ups are in the payments market, and the same is expected in the other financial segments. The government and other regulatory agencies must continue to support the fintech industry through various measures.

12. FAQ :

✓ **Who is at risk of the security risks associated with fintech?**

Anyone who uses fintech services, including individuals and businesses, is at risk of security risks such as data theft and cyber-attacks.

✓ **What are the legal and regulatory challenges facing fintech?**

Fintech companies must navigate a complex web of legal and regulatory requirements, which can vary by jurisdiction. This can be challenging and time-consuming.

✓ **How can fintech companies address the lack of physical branches?**

Fintech companies can offer virtual services, such as online banking and mobile payment solutions, as alternatives to physical branches.

✓ **What is the objection to fintech's reliance on digital technologies?**

Fintech's reliance on digital technologies can compromise privacy, as extensive data is collected and stored electronically.

✓ **How can fintech companies address the challenges of software quality?**

Fintech companies can invest in high-quality software development and testing processes, as well as hiring competent software developers.

✓ **What is the objection to the global competition faced by fintech companies?**

Fintech companies face intense global competition, which can make it challenging to differentiate themselves from competitors and succeed.

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