

Role of Fintech in Development of Indian Economy

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Abstract

In the present global scenario the role of financial technology in the development of Indian economy. Further investigation provides that there is a paradigm shift in the way day-to-day transactions are made after the Fintech boom. India has traditionally been a cash dependent economy, with majority of the transactions still happening based on paper money. However, Fintech is changing the way Indian consumer and businesses are transacting. Fintech has empowered the economic development by enhancing speed, accuracy, affordability, transparency and convenience of our day-to-day financial transactions. Today, Fintech business models have covered practically most of the areas such as investing, payments, managing, financing, insuring, and real estate among others. The key success factors are customer service orientation and manifestation of services in transparency, efficiency, low costs and user friendliness as well as accessibility and speed. Fintech offers great opportunities for governments, from making the financial systems more robust and competitive, to deepen access to financial services for the unbanked/under-banked population. However, these opportunities should be coupled with cautious and stable infrastructure to meet the potential threats to consumers and investors. This paper studies the various opportunities and challenges faced by Fintech in India.

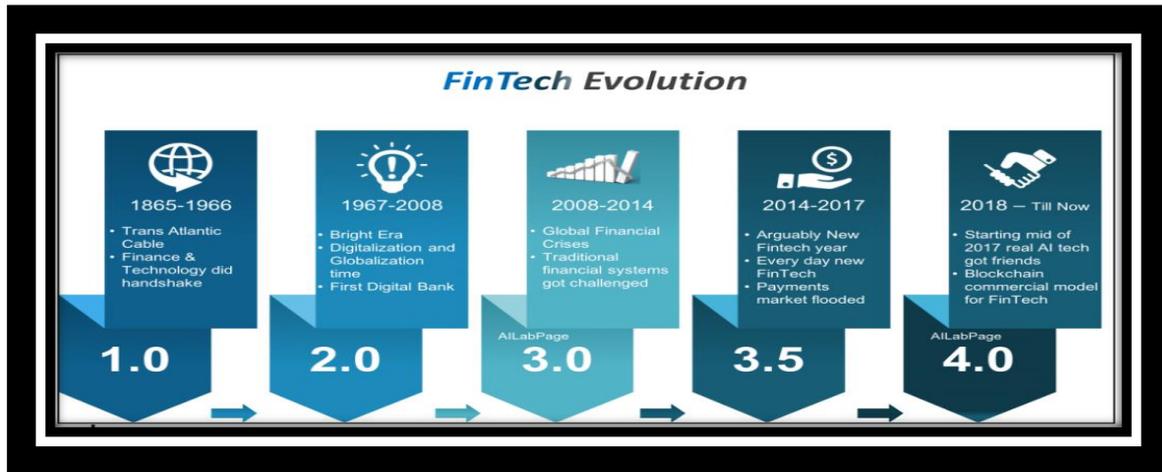
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Introduction

In the present scenario with a population of around 1.3 billion, India is a growing market for Fintech. A large percentage of the unbanked or under-banked population and the fact that it is a young nation witnessing high growth in digital penetration makes India an exciting global space for Fintech. With over half a billion dollars flowing into startups, Fintech in India has grown rapidly in the last three years and the segment is expected to grow further. Banks and financial institutions have taken note of this and are actively participating in the ecosystem. The government and regulators have also taken several initiatives to boost the Fintech ecosystem and provide startups with new opportunities to launch competitive products. This report on Fintech in India aims to provide a comprehensive overview of the Indian Fintech ecosystem. The first section of the report summarizes the Fintech ecosystem in India including the investors, startups, accelerators and incubators, human capital, and initiatives taken by banks and the government. The second segment discusses the uniqueness of the Indian Fintech ecosystem, compared to other global Fintech hubs. It also provides a brief analysis of innovation, trends, and key growth drivers for payments and lending segments, which have seen rapid growth in India in the last couple of years. In the next segment, the report provides details of two key Fintech companies – Paytm and Zerodha – which

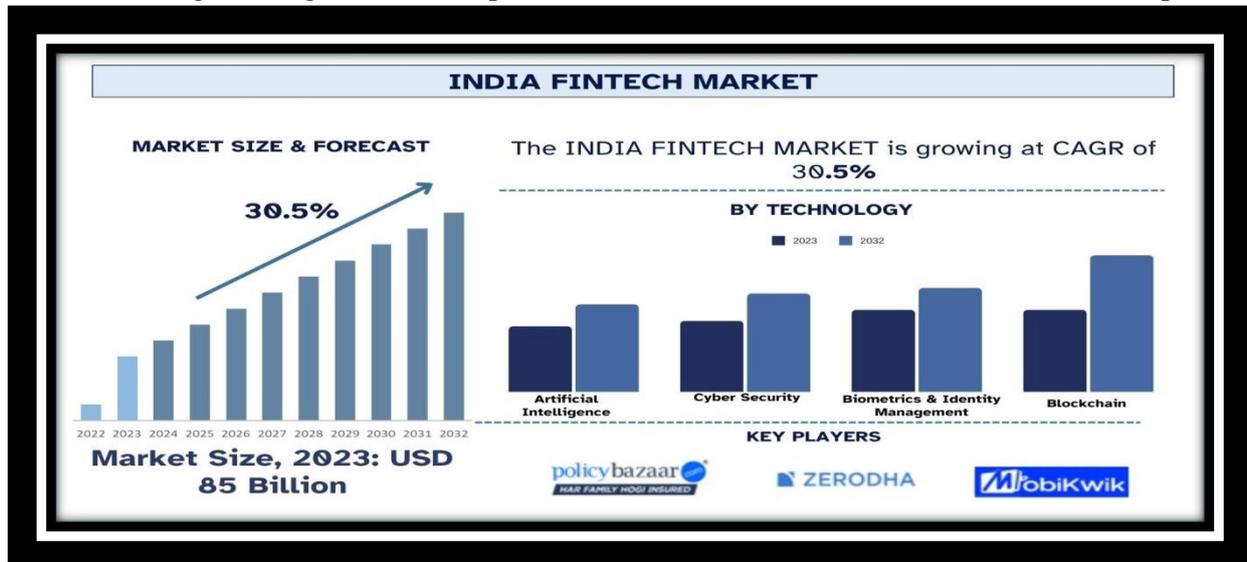
have disrupted the traditional means of doing business and have been prominent in their segments. It is followed by an analysis of an upcoming Fintech segment in India: InsurTech. The report concludes with an overview of how Swiss entrepreneurs could benefit from the Indian growth story, and major areas of making an impact. It also provides insights into some of the major challenges Swiss Fintech startups could face when they enter the Indian market.

Fintech Evolution



Current scenario of Indian Fintech Market

Today the Indian Fintech market is estimated at USD 111.14 Billion, and is expected to reach USD 421.48 Billion by 2029, growing at CAGR of 30.55% during the forecast period (2024-2029) (Intelgence, 2024). In fact, India emerged as a global fintech power and ranked third in terms of total fintech companies.



Role of Fintech in Development of Indian Economy:

In the last few decades the entire industry of financial services, products and procedures have seen a drastic improvement. The expression Fintech is an amalgamation of two words, Finance and technology. It is this collaboration between these two that has led to a change in the way banking, investments and trading have been functioning traditionally.

Lending: firms related to marketplace lending and alternative underwriting platforms. Digital lending market in India is expected to reach USD350 Bn by 2023.

Blockchain/crypto: Investment companies leveraging blockchain technologies for financial services. The global Fintech blockchain market is expected to grow to USD6.23 Bn by 2023

Regtech: Regulatory Technology; Audit, risk and regulatory compliance software. Globally the Regtech market size was estimated to USD15.68 Bn in 2020.

Personal finance: Used in tools specializing in managing obligations and tracking personal and/or credit accounts

Payments: Fintech tools used for processing payments, card developing & subscription billing software tools. The volume of digital payments transactions recorded were USD74.22 Bn up by 33% from last year. UPI was the most used payment interface.

Insurance: Insurance companies are selling insurance digitally and/or providing data analytics and software for insurers and reinsurers. The Insurtech industry is finding acceptance from Venture Capitalist firms all over the world.

Capital markets: Fintech innovations in sales and trading, analysis and infrastructure tools for financial institutions. Along with mobile apps and a multitude of services for the customers, through the integration of AI, Data Analytics, and machine learning-led processes, State-of-the-art technologies are being implemented.

Wealth management: Referring to Investment and wealth management platforms and analytics tools. According a report by Redseer, the Indian wealthtech market is expected to grow from around USD20 Bn in 2020 to about USD63 Bn by 2025.

Review of Literature

Shim and Shin (2016) The Chinese government makes use of a techno-globalist strategy for the purpose of improving its global competitiveness in the fintech industry, while also using a techno-nationalist strategy to foster “national champions” and protecting domestic companies against foreign global players. Begenau et al (2018) if data is a storable, sellable, priced asset, then investment in data should be valued just as if it were an investment in a physical asset. Understanding how to price data as an asset might help us to better understand the valuations of new-economy firms and better measure aggregate economic activity.

Wonglimpiyarat (2018) The crowdfunding system in Thailand is in an initial stage of development at present and thus this funding system needs various government supports to assist SME, the crowdfunding mechanisms need to co-evolve with the FinTech industry, the Thai government needs to work together in order to improve policy coherence in building a start-up eco-system for entrepreneurial development.

Nakashima (2018) For companies of every size, an essential business activity in modern society and does not mean simply using technology, but achieving social creation through the use of technology .

Anshari et al (2019) AgroPay provides necessary functions for investors to conduct transactions efficiently anytime-anywhere. Investors through crowdfunding can select from the wide-range agriculture products through their smartphone to invest.

Objectives of the Study

1. To study role of Fintech in development of various sectors in Indian economy.
2. To study the challenges faced by Fintech with respect to Indian Economy.
3. To analyze the various opportunities available for Fintech with respect to Indian Economy.

Methodology

Here our study we have used secondary research to emphasize the data. We have collected data from recent reports, Internet research papers, periodicals, books and published papers. Study is taken from available data on internet.

Opportunities put forward by Indian government:

In the present financial system RBI and SEBI under active support from the Government of India, are providing for fulfilling the ambition of the Indian economy to develop into a cashless digital economy and emerge as a resilient Fintech ecosystem by extending both funding and promotional initiatives.

1. Schemes for financial inclusion and enablement such as Pradhan Mantri Jan Dhan Yojana have added beneficiaries upto 45.11 crores till 2022.
2. Aadhar system has been extended for pension, provident fund and the Pradhan Mantri Jan Dhan Yojana.
3. Section 269SU included in Income Tax Act to boost digital transactions. the section provides that any business having turnover exceeding Rs. 50 Crores should provide facility for accepting payments digitally.
4. GST council has announced an incentive in form of cashback of 20% of the GST component for digital transactions done through BHIM, Rupay or USSD.
5. In Union Budget 2022-23, the finance minister extended the eligibility for start-ups to avail 100% tax rebate for a period of three in a total time frame of 10 years of operations.

Challenges faced by Fintech in India

The following are the challenges faced by Fintech in India and Government efforts to answer them:

1. **Cyber security challenges:** Fintech companies usually deal with sensitive and confidential personal data of clients. Multiple cyber security threats like personal data breaches, risk of malwares, third-party security risk, phishing, cloud-based security threats and even digital identity theft risks.
2. **Need for a stringent regulatory framework:** Banking in India is a heavily regulated sector with constant business models, high transactional costs and operational costs. Fintech companies need to work with these financial institutions and thus, require stringent regulatory framework that is strong enough to mitigate all current and potential risks
3. **Restrictive regulatory framework:** the restrictive regulatory and compliance framework designed to prevent cybercrimes proves as a barrier for new entrants. The framework puts forward a lot of formalities before these start-ups can even start their operations.
4. **Conservative approach of merchants:** Indian merchants and consumers have traditionally been used to do business on cash basis. This conservative approach makes it difficult for them to adapt to newer avenues. Even though in recent times as we have seen a gradual change coming in this area as consumers and merchants are accepting the immense potential and ease of transacting with Fintech, India still remains predominantly a cash based economy.
5. **Financial exclusion:** Fintech companies have to face barriers such as large number of unbanked and under banked population, low internet and literacy levels. Although Indian government is trying to tackle these issues with generous policies, the benefits will be experienced only in the long run.

Conclusion

In the present global system With a rapidly expanding Fintech environment, India is now one of the world's largest and fastest-growing marketplaces. One of the main reasons for India's quick rise into the forefront of Fintech is a combination of macroeconomic factors, including a rapidly expanding ecommerce business, the demographic dividend India enjoys, rising national disposable income and a sizable unbanked population. Consumers and small and medium-sized enterprises (SMEs) can now benefit from the Fintech ecosystem in India. Also included in this industry are more typical financial services such as insurance, personal finance, and gold lending.

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