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Applicability of fintech companies in Indian banking sector: Opportunities and challenges

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Abstract

Fintech companies have played a key role in increasing the accessibility of financial services such as Ae PS, Aadhar Pay, remittances and charge to mass. We democratized digital payments and increased access to digital payments and online banking. There is no doubt that the fintech industry is heading down a bumpy road in rural India. Shortly after the abolition, India recognized the need to adapt to technology and adopt digital payments. The main purpose of this research paper is to address the opportunities and challenges in the fintech companies. This paper examines the evolution of the fintech companies in the Indian banking sector. The fintech provide digitalization transaction and more secure for the user. The benefits of fintech services reducing operation costs and friendly user. The fintech services India fastest growing in the world. The fintech services are going to change the scenario of the Indian banking sector.

Keywords: Fintech revolution, banking services, artificial intelligence, digital currency

Introduction

Fintech companies have played a key role in increasing the accessibility of financial services such as Ae PS, Aadhar Pay, remittances and charge to mass. We democratized digital payments and increased access to digital payments and online banking. There is no doubt that the fintech industry is heading down a bumpy road in rural India. Shortly after the abolition, India recognized the need to adapt to technology and adopt digital payments. Digital payments have become a critical enabler of e-commerce sales, supporting the expansion of businesses small and large to new customer segments and new global markets. From mobile money to services like BNPL, globally transactions, mobile wallets, and payment orchestration, Fin Tech players like (Visa, Klarna, and PayPal) are playing an effective and important role in increase the banking service without trade barriers among different countries. From traditional institutions employing robo-advisors to sophisticated algorithms that assess the risk of loan applicants, fintech companies may continue to expand their use of AI and machine learning. The fintech provide digitalization transaction and more secure for the user. The benefits of fintech services reducing operation costs and friendly user. The fintech services India fastest growing in the world. The fintech services are going to change the scenario of the Indian banking sector.

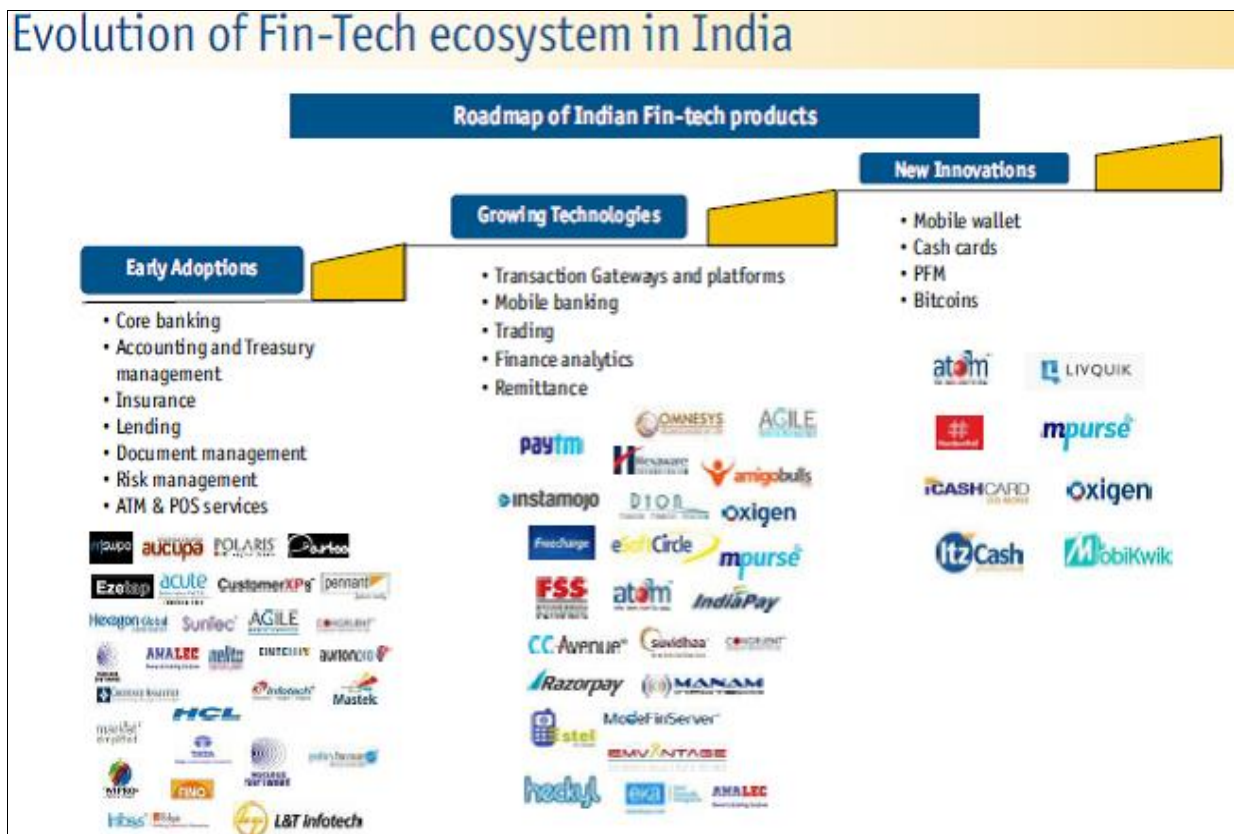
Fin-Tech in India

In 2018, India was in the spotlight with its Fin Tech achievements that echoed the global momentum in this industry. The Indian Fin Tech market currently stands as the third largest Fin Tech ecosystem in the world behind the US and China. However, India still remains an untapped market due to lower penetration of financial services. These untapped opportunities, along with a favourable ecosystem, create large growth potential for Fin Techs in India.

India's growth wave may still not be of the scale when viewed against its global counterparts, but it is stacked well, largely due to a strong talent pipeline of easy-to-hire and inexpensive tech workforce. From wallets to lending to insurance, the services of fintech have redefined the way in which businesses and consumers carry out routine transactions. The increasing adoption of these trends is positioning India as an attractive market worldwide.

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Source: NASSCOM

Evolution of Fin-Tech ecosystem in India

Applicability of fintech companies in Indian banking sector

India’s Fin Tech market is among the fastest growing and is ranked the third-largest Fin Tech market globally with an expected market size of \$150 Ban by 2025. Fin Tech companies definitely have the potential to reshape the financial services and financial inclusion landscape in India in fundamental ways. Fin Tech companies have played a major role in improving access to the gamut of financial services like Ae PS, Aadhar Pay, Remittances, and Recharges for the masses. It has democratized digital payments and increased access to digital payments and online banking.

Gandhiji once said, “The Soul of India lives in its villages”.

In fact, it’s estimated that villages are where nearly three-quarters of our population resides. There is no doubt that the Fin Tech industry is making its route on the bumpy roads of rural Bharat. Right from demonetization, India realized need to adapt to technology and use digital payments. While the whole country was walking the digitalization lane, rural India remained in the backseat due to lack of adequate presence of commercial banks with only 5% of the 600,000 villages having a commercial bank presence in 2018. Infrastructural costs, low usage due to lack of awareness. Infrastructural costs, low usage due to lack of awareness, inconsistent availability of electricity, theft, and vandalism are some of the major deterrents for physical bank branches and ATM operators in rural areas. Such challenges continue to slow down the provision of basic banking amenities to this segment of the population. Slowly with the right

resources and efforts by different Fin Tech companies, the rural population have also become well-versed with using digital modes of payments and banking. The usage of financial services has considerably increased since the penetration of Fin Tech platforms in rural areas. Even our Honourable Prime Minister Mr. Narendra Modi has always emphasized on the strengthening of digital services in India to move towards Atmanirbhar Bharat. Further, the Government of India as well as RBI have undertaken several steps to ensure the safety and security of digital payments in the country.

Opportunities of Fin-Tech in India

India has been at the forefront of this revolution. It is reported that there are as many as 1,218 Fin Tech firms operating in India which have created a large number of jobs. They are also generating a healthy appetite for investment. The Reserve Bank has over the years encouraged greater use of electronic payments so as to achieve a ‘less-cash’ society. The objective has been to provide a payment system that combines the attributes of safety, security, enhanced convenience and accessibility, leveraging technological solutions that enable faster processing. Affordability, interoperability, and customer awareness and protection have also been other focus areas. Banks have been the traditional gateway to payment services. However, with the fast pace of technological changes, this domain is no longer the monopoly of banks. Non-bank entities are cooperating as well as competing with banks, either as technology service providers to banks or by directly providing retail electronic payment services. The regulatory framework has also encouraged this enhanced

participation of non-bank entities in the payments domain. Developments in the spheres of banking technology and trade finance have been commendable as well. Alternative models of lending and capital raising are coming up and have the potential to change the market dynamics of traditional lenders and the role of traditional intermediaries. Crowd funding, which entails raising external finance from a large group of investors, is at a very nascent stage in India. The peer-to-peer (P2P) lending for which the Reserve Bank has issued Master Direction in October 2017 has the potential to improve access to finance for small and medium enterprises. Eleven entities have been licensed to operate P2P platform. The Reserve Bank has also granted licenses and permitted seven purely digital loan companies (NBFCs) to commence operations.

Invoice trading is another nascent area of Fin Tech application in India. It assists micro, small and medium enterprises (MSMEs) which often have working capital and cash flow problems due to delayed payments.

The Reserve Bank has set up the Trade Receivables Discounting System (Tre Ds), which is an innovative financing arrangement where technology is leveraged for discounting bills and invoices. Three entities have been authorized for this purpose and the volumes are slowly gaining traction.

Another initiative has been laying down a regulatory framework for Account Aggregators (AA). A total of five entities have been given in-principle approval as NBFC-AA and are expected to commence their operations during 2019-20.

Challenges and Future Perspectives

Digital onboarding and financial inclusion

There are two broad areas that merit attention in the Indian context: the first is regarding improving the accessibility of financial platforms using Fin Tech; and the second is about analyzing potential risks that may arise out of Fin Tech adoption. Designing suitable financial products that cater to specific needs of the financially excluded population, digital onboarding and boosting the quantum of investments are vital in achieving the first objective. Effective utilization of Aadhaar eco-system may provide incentives for the people to adopt digital platforms as it is happening in the case of direct benefits transfer (DBT). The central KYC registry is a significant step in this regard – about 100 million KYC records have already been uploaded onto this platform. We also need to ensure multi-lingual financial literacy and a robust grievance redressal machinery to effectively handle inter-regional disparities and to offer online dispute resolutions.

Reg Tech and Sup Tech

As regards potential risks and their mitigation, RegTech2 and SupTech3 have an important role.

Regulators and supervisors have to undertake accelerated off-site surveillance. This also brings in the need for a transparent, technology and data-driven approach. To serve this need, new fields called Reg Tech and Sup Tech are coming up. Both the technologies aim at improving efficiency through the use of automation, introducing new capabilities and streamlining workflows.

A strong risk culture - in which risk detection, assessment

and mitigation are part of the daily job of bank staff - will be central to the success of managing the emerging risks. Similarly, systemic risks may arise from unsustainable credit growth, increased interconnectedness, procyclicality, development of new activities beyond the supervisory framework and financial risks manifested by lower profitability.

Risks for Fin Tech products may also arise from cross border legal and regulatory issues. Data confidentiality and customer protection are major areas that also need to be addressed.

The Reserve Bank has encouraged banks to explore the possibility of establishing new alliances with Fin Tech firms as it could be pivotal in accelerating the agenda of financial inclusion through innovation. It is essential that flow of investments to this sector is unimpeded to realise its full potential. It is imperative to create an ecosystem which promotes collaboration while carefully paying attention to the implications that it has for the macroeconomy.

In India, acceptance of various cashless modes payments was seen after demonetization notes. The government itself encouraged everyone towards the cashless technologies like digital wallets, Internet banking, and the mobile-driven point of sale (POS).

Transparency of the regulatory issues and hiring of tech personnel are among the key challenges of the Indian Fin Tech space. Innovation has been a bit limited for the low-income groups. Additionally, mass awareness and internet bandwidth is still a huge roadblock in India

Conclusion

The Fin Tech has the potential to reshape the financial services and financial inclusion landscape in India in fundamental ways. It can reduce costs and improve access and quality of financial services. We have to strike a subtle balance between effectively utilizing Fin Tech while minimizing its systemic impacts. By enabling technologies and managing risks, we can help create a new financial system which is more inclusive, cost effective and resilient.

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