

Fintech Industry in India: Growth Trajectory, Opportunities and Emerging Challenges

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Abstract

Financial technology is a concept that has gained rapid followers over the last few years. As usual, Fintech stands for the use of emerging technologies by financial services firms to expand, automate and strengthen the delivery of their services. There has been a gradual progression in terms of integrating back-end services technology more into customer-centric services to make the overall process effective. After China, India is one of the fastest growing fintech industries. Mobile penetration in India has given more scope to the expansion of fintech industries. This paper discusses the growth of the fintech industry and the top countries that are adopting the fintech industry in the world. The paper covers the current market of the fintech industries and analyzes the growth of the industry in the future. It also addresses the challenges and challenges of the implementation of financial technology in India.

Key words: Fintech, India, Growth, Issues, Challenges

1. Introduction:

Fintech is a term used to describe new technology that seeks to improve and simplify the delivery and usage of financial services. At the most basic level, Fintech is used to help businesses, business owners and customers better control their financial activities, processes and lives through the use of advanced software and algorithms that run on computers and increasingly on smartphones. The term "fintech" is a mixture of "financial technology" and "financial innovation." According to Deloitte Analysis Fintech segments includes Digital payments, alternative lending, Insuretech, Investment tech, Robo advisor, Banktech, and Regtech (Graph -1).

Graph 1: Fintech segments



Source: Deloitte Analysis

The global Fintech industry reached nearly \$111,240.5 million in 2019, with a compound annual growth rate (CAGR) of 7.9% since 2015, and is forecast to reach nearly \$158,014.3 million by 2023, with a CAGR of 9.2%. In addition, the demand is projected to expand at a CAGR of 10.2 percent to \$191,840.2 million in 2025 and \$325,311.8 million in 2030.

The growth of Fintech start-ups, the penetration of smart phone users, the continuous development of digital infrastructure, and the overall streamlining of financial processes in many industries all point to a bright future for the Fintech industry. According to a new study by Research and Markets, India, along with China, had the highest FinTech adoption rate of 87 percent among all emerging markets in the world as of March 2020. The global average acceptance rate, on the other hand, was 64 percent.

1.1. World top Fintech countries in the world:

According to the recent report by Findexable (2020), the USA, the UK, Singapore, Lithuania and Switzerland take the lead and form top 5 countries that drive fintech innovation forward. These countries actively contribute to improvement of electronic payments, payment security, digital banking, cryptocurrency, blockchain and other branches of financial technology.

Graph -2

Fintech's Top 10

	RANK	STRENGTH	POPULATION	FINTech CITIES IN TOP 100	LOCAL FINTech LEADERS	FINTech INVESTMENTS	WIFI SPEED
 USA	1	Payments, B2B fintech, Security	329 million	22	Stripe (val: \$22.5bn) Coinbase (\$8bn) Robinhood (\$5.6bn)	\$9.4bn (H1 2019)	#20
 UK	2	Challenger banks, personal finance & wealth, lending, blockchain	67.5 million	3	TransferWise (val: \$3.5bn) Greensill (\$3.5bn) BGL Group (\$3bn)	\$2.29bn	#6
 Singapore	3	Wealth management, digital banking, SME	5.8 million	1	TenX (val: US\$159.1m) Quoine (\$123m) KyberNetwork (\$105m)	\$735M	#12
 Lithuania	4	Payments, lending, banking	2.8 million	1	Stockinvest.us Coingate NEO Finance		#1
 Switzerland	5	Cryptocurrency & blockchain, wealth management, crowdfunding	8.6 million	4	Avaloq Group Ethereum Numbrsa		#14
 Netherlands	6	Digital payments, alternative lending, investment	17.1 million	2	Adyen, Ohpen, BUX		not in top 20
 Sweden	7	Digital payments, SME, neobanks	10 million	1	Klarna, iZettle, Anyfin	\$736.7 m	#17
 Australia	8	Digital payments, personal finance, alternative lending	25.3 million	2	Judo Capital, Airwallex, MoneyMe		not in top 20
 Canada	9	Crypto and blockchain, lending, insurance	37.5 million	5	Carta, Borrowell, Wave		#19
 Estonia	10	Digital payments, personal finance, alternative lending	1.3 million	1	Fortuma, Veriff		#3

Sources: Global Fintech Index 2020, CBInsights, Holland Fintech, London & Partners, Media, Ooma, Pitchbook, Statista, Tracxn, Go Vilnius

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1.2.Fintech adaption rate in different countries:

The top five countries in the world that have implemented financial technology are listed in the graph -1 below (FinTech Adoption Index 2017). China has seen an 83 percent increase in digital money transactions and payments, while India has seen a 72 percent increase. Digital payments and money transfers have increased by more than 50% in Brazil, Australia, and the United Kingdom. China has seen a 58 percent rise in digital savings and investment, while India has seen a 39 percent increase. Digital lending grew by 46 percent in China and 20 percent in India. In India, techinsurance has increased by 47% (graph -3).

Graph- 3 Fintech Adaption rate in top 5 countries

	 Money transfer and payments	 Financial planning	 Savings and investments	 Borrowing	 Insurance
1	 China 83%	 China 22%	 China 58%	 China 46%	 India 47%
2	 India 72%	 Brazil 21%	 India 39%	 India 20%	 UK 43%
3	 Brazil 60%	 India 20%	 Brazil 29%	 Brazil 15%	 China 38%
4	 Australia 59%	 US 15%	 US 27%	 US 13%	 South Africa 32%
5	 UK 57%	 Hong Kong 13%	 Hong Kong 25%	 Germany 12%	 Germany 31%

Source: Fintech adaption index, 2017

2. Fintech industry in India:

According to the World Bank's 2017 Global Findex survey, India's unbanked population is second only to China's at 190 million people. In 2017, the Indian government's financial inclusion policies resulted in a significant rise in the number of people with bank accounts. As India's fintech ecosystem develops, this number is only expected to rise. Now India is one of the world's fastest growing FinTech markets in the world. With China, India has resisted the highest FinTech adoption rate in the world. The \$65 billion in digital payments in 2019 is projected to rise at a CAGR of 20% until 2023. WealthTech, Payments, Lending, and InsureTech are the four main segments of India's Fintech industry (according to Investment.gov.in)

2.1. WealthTech industry in India:

In India, the WealthTech industry is seeing the rise of startups with cutting-edge technology and business models. Growing personal capital, increased penetration of mobile and digital platforms, and reduced knowledge asymmetry between small and large financial institutions and investors are all driving the industry forward. Between 2010 and 2015, 1216 new FinTech startups were launched in India. The number of new FinTech startups increased dramatically from 210 in 2014 to 454 in 2015, representing a 116 percent increase in growth. Between 2015 and the end of June 2020, new startups in the Payments, Lending, Wealth, and other sectors grew at an incredible rate. The transformation of India into a progressive FinTech nation is not a miracle. It occurred as a result of implementing a four-point strategy.

Bengaluru and Mumbai are leading the charge in FinTech, accounting for 42 percent of all startup headquarters. Apart from the top five FinTech hubs of Mumbai, Bangalore, New Delhi, Gurugram, and Hyderabad, India's rest of the country is home to 738 FinTech startups (table – 1).

Table -1
Segment-wise start-ups in India

Sl. No.	Segments	Number of start-ups
1.	Payments	405
2.	Lending	365
3.	WealthTech (Less PFM)	313
4.	Personal Finance Management	173
5.	InsurTech	111
6.	RegTech + Cyber security	58
7.	Other Segments	748

Source:PWC, 2020.

2.2.Digital payments in India:

The Indian FinTech industry has been led by digital payments. India's first real-time payment system, IMPS, was launched in 2010 and UPI was introduced in 2016. In the world, there are 375 payment startups. In India, online transactions increased by 80% in 2020 compared to 2019. By 2023, India will account for 2.2 percent of the global digital payments market, with the total volume of such transactions estimated to hit \$12.4 trillion by 2025. Table -2 shows the digital payments in india from 2015-16 to 2019-20. The digital paymerns are increased from Rs. 593 cores to Rs. 3434 corers in 2029-20.

Table - 2
Year wise digital payments in India

Year	Digital payments
2015-16	593.61
2016-17	969.12
2017-18	1,459.01
2018-19	2,343.40
2019-20	3,434.56

Source: RBI

However, as a result of COVID-19, UPI transactions fell 20% to 999 million in April 2020. Since then, the number of UPI transactions has increased dramatically, reaching an all-time peak of 1,800 million in September 2020. We expect UPI to continue to develop in FY21–22, thanks to new use cases and growth in person-to-merchant (P2M) transactions (table -3).

Table -3
Projected growth of UPI transactions in India

Year	Transaction Volume (in Billions)	Transaction value (Rs. In Trillions)
2018-19	5	9
2-19-20	13	21
2020-21W	22	39
2021-22E	36	59
2022-23E	54	78
2023-24E	75	101
2024-25E	99	128

Source: PwC analysis of RBI and NPCI data

2.2.1. Payment System Indicators in India

Indicators of India's payment system from 2017-18 to 2019-20 are shown in the table. In 2017-18, the value of transactions increased from 13,69,86,734 crores to 16,23,05,934 crores in 2019-20. In addition, the value of digital payments has declined in 2019-20 as compared to 2018-19. The key reason for the drop in digital payments is Covid19 and the country's lockdown (table -4).

Table -4

Detigal payments in india

Item	Volume (Lakh)			Value (₹ Crore)		
	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
Total Digital Payments	1,45,902	2,34,339	3,43,455	13,69,86,734	16,38,52,285	16,23,05,934

Source: RBI

2.3.Digital lending industry in India:

India is a major emerging market for microfinance, but it only reaches one-fifth of the country's 75 million poor people who need financial assistance. The demand for small-scale credit has been estimated at Rs. 150,000 crore per year, but credit has only been disbursed in the amount of INR 8,000 crore so far. To fill this lending gap, many lending companies are started digital lending programme in India. Table -5 shows the growth of digital lending in India from 2012 to 2023. India's digital lending market is expected to rise from USD 110 billion in 2019 to USD 350 billion in 2023. This will raise the share of digital lending in India's overall lending market from 23% in 2018 to 48% by 2023, making it the sector with the highest digital channel penetration in the world.

Table - 5
Growth of digital lending in India (in USD billion)

Year	Amount
2012	9
2013	14
2014	23
2015	33
2016	46
2017	58
2018	75
2019	110
2020	150
2021	200
2022	270
2023	350

Source: CIBIL, BCG Google 2018 Digital Lending Survey **2.4. InsureTech industry in India:**

India has more than 110 InsurTech players across subsegments, including aggregators, claims management, digital first-class insurers, white label software and APIs and IoT facilities.

InsurTech's small payment and low-duration insurance products solve the cost-efficiency

challenge. The insurance 'bite size,' also known as the insurance 'sachet,' is growing rapidly.

It is often purchased as an option with a variety of products and services on the market, including travel and electronic commerce.

India is estimated to have a 1.7% share in the global insurance market, and is expected to grow to 2.3% by 2030. (Swiss Re). The overall real rate of growth of India's premium, which was 9.3% vs. 1.5% of the world average in 2018, is a promising story for the growing Indian insurance industry. However, the penetration of Indian insurance is only about 3.7%. In India (e.g., 829 million Internet users by 2021), fast digital adoption has provided the insurance companies with much-needed opportunity and infrastructure to reach Indian clients.

Table shows - 6 growth of the insurance companies business in India. As per the reports of IRDA (2019), insuretech industries growth rates are registered more than the traditional insurance companies in India. Acko General Insurance grew by over 600 per cent in September 2019 for gross direct premiums. YOY and Go Digit Insurance have experienced an increase of more than 260%. In traditional insurance companies only SBI General registered highest per cent of growth rate.

Table - 6 Growth of insurance companies business Insurance companies 2019-20
2018-19 Growth

			(YoY) in %
Acko General Insurance	165.46	22.91	622.22
Go Digit General Insurance	994.47	273.59	263.49
ICICI Lombard	6439.5	7304.54	11
New India Assurance	13544.01	11761.88	15

SBI General

3114.09

2064.38

50

Source: IRDAI

3. Initiatives by India's government to boost fintech industry in India:

The NASSCOM has shown that there are currently 400 Fintech companies working in India, and that the number is growing every quarter of the year. Foreign investment in start-ups worldwide, combined with a software market preferences, which could reach 2.4 trillion dollars in 2020, have doubled the current growth rate.

The GOI created a regulatory environment in the country and encouraged new companies in the financing sector to take the lead and make a mark. Over 125 Fintech startups came into existence in 2018. This is obvious because we have seen an increase in international and national bank investments and funding as well as grounds for Fintech start-ups in India to finance payment wallets, financial tools and other financial services.

- The government of India has introduced initiatives for technology innovators such as the National Payments Council of India (NPCI), the Digital India Program, and the Jan Dan Yojana.
- Government is provided tax benefit for bussines and customers for electronic payments.
- The authentication criteria for the same demonstrate the government's active effort to improve India's fintech sector.

4. Challenges of Indian Fintech industry:

There are certain challenges that are faced by FINTECH in India. Some of them are: –

- **Regulatory Landscape:** Most of the sector Fintechologies are seeking clear regulations, whether RBI or SEBI or IRDA or any other, of their regulators. 11 FinTech startups providing deposit, savings and remittance service have been granted Payment Bank licences to RBI. In the area of mobile/e Wallet & P2P loans, RBI has produced few regulation but there is a need for much more clarity. It is necessary, as there is public money, that P2P lending and payments must be clarified prioritarilly. In this area, regulatory uncertainty is very risky.
- **Financial Ecosystem:** From competition to collaboration have changed the relationship between FinTech and the traditional financial institution. Financial institutions work with start-ups in many respects, such as partnerships, procurement, incubation etc. There are, however, many barriers in cooperation. Both have their own

rules on efficiency, size, acceptance and so on. It's not a matter of time, before tradition FI can afford to be left off, before they become Nokia of the FI industry. It's time to open up arms and explore synergies between both Fintex and conventional FI. All parties in the financial ecosystem, including banks, financial institutions, and regulatory bodies such as the RBI, SEBI, and TRAI, must keep up with the rate of technological innovation.

- **Data Security & Privacy Risk:** Data, as we all know, is the new oil. Companies can collect massive amounts of data in this area. To prevent a situation like Cambridge Analytica, which could result in the closing of businesses and the investigation of founders, Data Security and Privacy must be taken seriously.
- **Consumer Confidence:** Customers in India are known for being conservative and price sensitive, particularly when it comes to making financial decisions. FinTech companies also have a long way to go in terms of gaining consumer confidence in India.
- **Lack of awareness:** More than 70% of India's population lives in villages, and the majority of urban residents use these digital payment platforms. This industry must gain traction in rural India by raising awareness.
- **Cash Market:** Despite its demonization, India is still a cash-based economy. FinTech companies find it difficult to obtain information about customers and transactions that are not recorded and contain cash.
- **Need for Innovation:** India has the potential to become a global hub for inclusive growth, emulating the development of London, Singapore, and New York. According to Yes Bank's "India Opportunities Fintech Review 2018," "Innovation Labs" should be developed to enable Fintech companies to address the importance of use cases to the government.

5. Conclusion:

India is one of the fastest growing Fintech markets in the world. As of March 2020, India, along with China, had the highest rate of Fintech adoption (87%) out of all emerging markets in the world. Wealthtech, Payments, Lending and Insuretech are the four main segments of the Fintech industry in India. The Fintech industry has recorded the highest growth in the last five year and India is also one of the fastest Fintech industries. More technological strategies in the banking sector are still needed in India. The fintech companies should minimise this cost and offer customised services so that, they can get better business. In India over 19 per cent of the population is still unbanked. The government of India also should introduce regulations and guidelines for the development of Fintech industry in India.

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