



## "AN EMPIRICAL STUDY OF INFLUENCING FACTORS, OPPORTUNITIES AND CHALLENGES FOR FINTECH INDUSTRY IN INDIA"

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### Abstract :

*Fintech stands for financial technology, and it is used to create alternative banking and non-banking finance services. Fintech (financial technology) is a new concept in the financial business. The main purpose of this paper accesses influencing factors, the opportunity & challenges in the fintech industry. It explains the evolution of the fintech industry and present financial technology (fintech) in the Indian finance sector. The fintech provide digitalization transaction & more secure for the user. India has the world's fastest expanding fintech services. Fintech services will transform the Indian financial sector's habits and behaviour.*

**Key words:** *Fintech Revolution, Mobile Banking, Block Chain, FinTech Services.*

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### Introduction :

FinTech, which is a combination of the words "finance" and "technology," is a term that could apply to any technology that tries to enhance and automate the supply of monetary services in newer and faster methods than previously possible. In the delivery of monetary services, it tries to compete with traditional financial techniques. The use of smartphones for technology-driven financial services has made the process more convenient for customers. FinTech is a term that refers to a variety of financial activities that can be carried out without the involvement of an individual. In 1972, a New York banker developed the phrase "fintech." While there is no widely accepted definition of what falls under the term Fintech, companies considered to belong to that sector provide services such as payment options, financing, digital currencies, mobile wallets, artificial intelligence, and robotics in finance. With an enlarged definition, supplementary technology solutions targeted at financial services, such as biometrics, and technology to assist regulatory compliance, are considered (RegTech).

### Objectives Of The Study :

- To analyze the Fintech industry and its future in India
- To examine various factors influencing the Fintech Sector in India
- To identify various opportunities and challenges for FinTech in India



### Research Methodology :

This paper is prepared with the blend of theoretical knowledge consists of secondary data. In secondary data the main source of information will be carried out from internet which will be supported by the extracts from online journals, research papers, newspaper & magazine.

### Literature Review :

- **S. Agarwal** investigated on the information values of credit rating actions. The study was published by the Journal for Management Science. The study briefs about the credit rating processes and agencies.
- **Ernst and Young** (2016), Report on Capital Markets: Innovation and the FinTech Landscape identified the following nine technologies or a technology-enabled trend that, individually or collectively, facilitates current and future FinTech innovations: Cloud technology, Process & Service externalization, Robotic Process Automation (RPA), Advanced Analytics, Digital Transformation, Block chain, Smart Contracts, Artificial Intelligence (AI) and Internet of Things.
- **RBSA advisors** published a study on Fintech Industry in India which focused on the aspects of the future of financial services and the technological disruption of financial sector.
- **HarishNatarajan, Erik Feyen and Jon Frost** investigated on the digital transformation of the financial services. The study was published by the Bank for International Settlements. The study focused on Fintech and the implications for market structure and public policy.
- **Deloitte financial advisory Netherlands** published a study on Fintech and financial institutions which focused on the disruption of financial sector die to technology.

### Financial Technology :

FinTech companies use various technologies like AI(AI), Big Data, Cloud Computing, Robotic Process Automation(RPA) and Blockchain.

**AI(AI) and Machine Learning (ML)** : Artificial Intelligence and Machine Learning are the most widely used FinTech technologies. They transformed the approach of monetary risk management. AI algorithms are frequently used to forecast changes in the stock market, reduce financial risk, better understand customer spending habits and predict changes in the stock market. A number of the FinTech applications of AI & ML include credit scoring, fraud detection, regulatory compliance, and wealth management. Another AI-driven tool that banks have begun to use to aid with customer care is Chatbots.

**Big Data Analytics** : FinTech organizations place a high importance on data from customers and marketplaces. Information about consumer preferences, spending patterns, and investment behaviour is frequently retrieved from massive datasets, with the goal of developing predictive analytics. Predictive analytics refers to predicting how consumers are likely to behave using past information & mathematical algorithm. The collected data also helps in formulating marketing strategies and fraud detection algorithms.



**Cloud Computing** : In the financial services industry, cloud computing allows for faster time to market, better business analytics, strategic planning, targeted marketing, and processing. Cloud computing gives you the ability to respond swiftly to changing market and customer demands. It not only allows the banking system to spice up computing power so as to satisfy the growing demands of their customers but also provides a better insight which helps banks to make customized services for his or her clients.

**Robotic Process Automation (RPA)** : RPA is a type of technology that focuses on transferring manual processes to robotics rather than humans in order to simplify financial institution workflows. These activities entail just entering data into a system and do not require much skill. Thus, companies are replacing manual workforce with RPA which may complete the task quicker & more efficiently. The foremost widespread applications of RPA in finance are statistics & data collection, regulatory compliance & transaction management.

**Blockchain** : Blockchain technology is a financial technology that is gaining traction in the financial industry due to its capacity to keep transaction records and other sensitive data securely. Each transaction is encrypted and therefore the chances of successful cyber-attacks are relatively low when blockchain technology is used. This technology is additionally the backbone of the many crypto currencies.

### **Fintech Sectors In India :**

Fintech has already sparked a revolution, and Fintech entrepreneurs have begun to disrupt the financial services industry in a variety of ways, as we all know. Lending, crypto currency, Regtech, wealth management, insurance, and other areas make up the FinTech industry. Let us now look at the many Fintech areas that will drive the next wave of breakthroughs.

**Lending** : Lending can be divided into 2 categories such as digital lenders & intermediaries. They use technology like AI & ML for analyzing credibility of customers, screening & granting loans. A segment of lending includes P2P, Personal & other loans (Rupeek), Pay Day loans (Flexsalary) and SME Financing (Lendingkart).

**Blockchain/Cryptocurrency** : Crypto currency is a digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a central bank. Most of the crypto currencies have a public common underlying ledger termed blockchain. Examples of crypto currencies are Bitcoin, Litecoin, Ethereum, Ripple, Monero etc.

**RegTech** : Regulatory Technologies (RegTech) is a new vital dimension to FinTech. It is an IT technology that helps firms to manage regulatory requirements and compliance imperatives as per regulatory provisions. RegTech has developed a foundation inside the FinTech ecosystem for overcoming the difficulties of regulations and litigations, as well as providing technological solutions. An example of RegTech is the emergence of eKYC for customers.

**InsurTech** : The insurance business involves risk transfer from the policy holder to the insurer. InsurTech is the adaption of technology into the historic insurance models. This utilization of technology reduces the challenges and risks of the insurer and improves the efficiency and savings in underwriting, risk pooling and claims management. The major technology used in the insurance industry is the Big Data Analytics.



**WealthTech** : The use of technology in wealth management aspects with the goal of providing innovative digital solutions for the investment and asset management industries is known as WealthTech. WealthTech firms offer a variety of digital solutions, including portfolio management and investment planning software. WealthTech includes major segments like investment platforms, Robo advisors & digital discount brokers.

**Payments** : The old business model has been largely challenged by digital payment systems. Existing industries, such as credit card providers, give chances for new FinTech startups (Amazon). There are opportunities for Firms that specialise in ‘account to account’ transfers, which collect client information, analyse data, and advertise it. Payment ecosystem consists segments such as prepaid payment instruments, Mobile & digital wallets, Payment gateway & Payment banks & (P2P).

### **Factors Influencing Fintech Industry In India :**

There are various factors and challenges that influence the FinTech industry which are mentioned as follows:

**Political factors** : Political stability ensures the growth of an economy. Political factors play a significant role in determining the growth of financial services and credit opportunities. They also ensure the maintenance of a balanced political environment. The following are the various political factors such as interference of government in financial sector, Corruption, Anti-trust laws related to credit services, Industrial safety regulations in the financial sector.

**Economic factors** : Market conditions, macroeconomic and microeconomic factors all play a role in an economy's strength. Market conditions include the changes in the demand and supply conditions, consumer behavioral pattern changes and changes in the expectations of the people. Macroeconomic factors influencing the financial sector include Inflation rate, Bank rates, Aggregate demand & supply, consumption of people. Micro-economic factors include Competitive advantage of the FinTech firms, economic system type & competition in the market, Skill level of the workforce, Govt intervention & Efficiency of financial markets.

**Social factors** : The culture of the organization and the economy as a whole are influenced by social values, culture, and business practices. The attitudes, beliefs, habits, and traditions of a society that impact business activities are known as social factors. A social factor plays a vital role in understanding the behavior & consumption pattern of the customers. The following are the social factors such as Demography, Education level, Social class, Religious beliefs, Hierarchy in the society, Attitude and Culture.

**Technological factors** : Technology has altered the financial sector, resulting in the creation of a new industry known as FinTech. Companies should not only do technological study, but also determine the speed at which technology will disrupt the industry. Slower speed of technology would provide more time to adapt but greater speed would give very less time to the industry to cope up with and adapt to the changes. The following are the few technological factors such as Recent technological advancements like AI, robotics & machine learning, Digital transformation, Technological impact on cost structuring of financial services and Tech impact on financial products and consumer expectations.



**Environmental factors :** For the operations and activities of the firm, different markets have different environmental criteria. Before embarking on a new business, every organization should conduct a detailed examination of the environmental situation. The environmental factors includes Weather and climate changes, Pandemic issues like COVID, Laws regulating environmental protection, Waste management and recycling, Cyber security, Attitude towards green and ecological products like green accounting.

**Legal factors :** Legal framework and regulations are dynamic to every industry in the economy. The organizations must follow the changing rules and regulations and should be updated. The legal factors includes Changes in the taxation laws, Changes in the company and incorporation laws, Consumer protection and e-commerce, Changes in employment laws, Cyber security and data protection, Trademarks, patents and copyrights regulations.

### **Opportunities And Future Perspectives :**

- 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).
- Linking with the Aadhaar card, eKYC, UPI and BHIM had restructured the financial sector in India. After the ban of 500 and 1000 notes, it was reported that digital transactions raised up to 22% in India. FinTech start-ups like PayTM saw 435% of more traffic to the websites and Apps. This led to the growth of many FinTech start-ups in India as there are many opportunities to grow.
- Digital Finance firms have benefited from many government's start-up policies. Reserve Bank of India also allowed an easy way to start a FinTech start-up. Government is also providing the financial assistance for start-up's up to 1 crore. Customers started accepting the digital currency for both personal and commercial use.
- Due to various changes in the Indian economy, the financial structure of Indian banks and financial institutions were changed and digital wallet became a mandatory channel for the transfer of payments.
- Integration of IT with finance led to the increase in the value of digital money like Bitcoins. Crypto currency, Block chain system led to faster transactions of digital payments.
- Banks like HDFC, Federal Bank etc. linked their official digital transactions with the small startup in India like Startup Village which led to the growth even in small FinTech start-ups.
- Modernization of the traditional sector of banking and finance had increased more customers, reduced the time and were able to provide fast and quick services to the customers.

### **Challenges And Barriers Of Fintech In India :**

Fintech lending companies confront a number of difficulties, including long fund-raising cycles, missed targets, and escalating losses. These problems come primarily as a result of poor lending lifecycle management. Every day, the Fintech industry in the country faces numerous hurdles such as:

- FinTech industry also has few challenges, like Fintech startups, find a little difficult to reach the growing phase in the business cycle.



- Collaboration and adoption rate is quite less but the ratio is moving upwards with a 59% increase in the digital payments.
- Integration of many other techniques like blockchain management, crypto currency is not still in a niche stage in India.
- Transparency of the regulatory issues and hiring of tech personnel are among the key challenges of the Indian FinTech 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.
- Lack of Trust- Indian customers tend to have a conservative outlook and traditionally prefer to conduct business through cash transactions. Despite people those who remain unbanked still lack knowledge of banking services. Thus, for FinTech companies, it's a challenge to build trust amongst people.
- Geographical isolation- Approximately 2/3 of India's population lives in rural areas, along with 70 % of the labor force. Despite the growing rural economy & the increased use of financial services among rural people, fintech firms struggle to meet rural demand.
- Lack of proper regulation in Fintech sector- The increase in regulation may threaten Indian fintech companies by stifling innovation and raising operating costs. However, regulatory transparency will bolster the sector in the future by enabling it to earn customer confidence & bring more capital.
- Compliance Laws- Many laws inevitably contribute to the slowdown of the Fintech industry in Indian financial markets. Not only are these regulations challenging to cope with, but they also make it difficult for Fintech industry to grown the Indian markets. Many times Compliance laws act as massive barriers for the new Fintech entrants.
- Cyber threats- Fintech industry deal with sensitive customer data. Multiple cyber security threats result in massive monetary losses during online transactions. The technology that offers convenience also opens up people's online accounts to fraudsters looking to steal their assets. A massive amount of financial data is made available digitally. This increases the risk of cyber security breaches.
- Lack of Support from the Government - Fintechs faces a dire lack of governmental support and incentives to protect their interest in the Indian financial markets. This can be highly demotivating for new Fintech players.

### **Conclusion :**

The findings of this study reveal that the fintech business has transformed financial services in India, and India's fintech industry is the world's fastest expanding fintech industry. The historically cash-based Indian economy has reacted favourably to the fintech opportunity, which has been supported by an increase in e-commerce and smartphone adoption. The economy has witnessed a 'v-shaped' expansion since the second wave of COVID in 2021, with increased financial activities through rising FinTech start-ups. The excellent performance of the Sensex and NIFTY reflects our economy's gradual expansion. The Indian government also focuses on and fosters the fintech business,



as well as promoting new ideas and innovations in the sector. Financial technology innovation in India benefits the Indian economy more. The fintech services are more secure & user-friendly. The fintech services reduce their costs for financial services.

Digital tools have the potential to improve the quality and delivery of government services. FinTech sectors will undoubtedly revolutionize the character of finance in the next 5-10 years as a result of unanticipated technological advancements. India is ranked for its technical advancements by the Harvard Business Review, which assesses countries based on their progress toward digitalization. The IMF has praised India as one of just two countries in the world for its push toward digitization and social protection. The future of finance belongs to services which are ubiquitous such as cloud, miniature IOT devices, personalized customer services, internet assistants like Google assistant Siri and Amazon assistant Alexa.

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