



A Study of Impact of Financial Technology on Banking Sector in India

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Abstract

Innovation and Technology have guided a radical change in traditional financial services. Now, Technology seems an essential key for the growth of digital economy. Over the year's Indian banks and financial service providers have cautiously adopted technology to augment reach to the customers, provide services to and operational efficiency with growing market and technological advances. But still, the momentum of technology adoption is not equivalent to its potential. Accordingly, there are gaps in the realization of financial services. Traditional Banks and Financial Institutions have noticed technology as a potential to empower the business propositions, rather than originating new business propositions themselves. Financial Technology (FinTech) Companies however are modifying that role by gratifying digital technologies to establish new business propositions and target new market segments which precedently were not possible. Even, RBI is enabling the development of fintech sector to multiply the reach of banking services for unbanked population.

FinTech is the legitimate sight in the utilization of technology to offer new financial products and services to new market segments in an economically feasible manner. From a business model perspective, the FinTech sector is manifest by technology companies that either attempt to disintermediate, or partner with incumbent Banks and Financial Institutions confide in on strategic account and market landscape. Hence, FinTech is progressively becoming a foremost center of attraction for all the key stakeholders in India's Financial Services industry – Regulators, Traditional Banks, NBFCs, Payment Banks, Investors, Payment Service Providers, Broking and Wealth Management Companies, Insurance providers and pure play FinTech players. So, the impetus of this paper is to confer about various facets of Fintech in India.

Keywords: Technology, financial, economy, digital, services, initiatives



Introduction: Financial Technology is the up to the minute technology and innovation that directs the traditional financial methods to deliver the financial services. The operation of smartphones for mobile banking, investing and crypto currency are instances of technologies that make financial services extra comprehensible to the general public. Financial technology companies subsist of both startups and established financial and technology companies demanding to succeed or strengthen the utilization of financial services provided by existing financial companies. In other words, “fintech is a new financial industry that applies technology to improve financial activities.” Fintech is the new applications, processes, products or business models in the financial services industry, composed of one or more complementary financial services and provided as an end-to-end process via the internet.

Internationally, technology propel a wave of innovation in finance that is changing the way that markets are structured and services are delivered. Artificial intelligence and machine learning build a more accessible trading system which is cheaper, more innovative and efficient. In the developing country, India is following early leaders like Kenya and the Philippines as a pivot for financial service innovation and experimentation. The inclusion of fintech in India is the integration of spirit of government policy, strong base in technology and innovation and the abundance of demand for financial services, which influenced the investment of over \$2.5 billion in Indian fintech businesses. The government policy of demonetization announced in November 2016 has directly sight to impel consumers from cash towards digital transactions, has directed the economy to grow faster. The motive of this research paper is to provide an overview of the fintech landscape in banking sector of India.

The country of 1.3 billion natives, India is growing market for fintech. Even, India is a young nation and the large number of its population is unbanked or underbanked makes high growth in digital penetration, makes India an exciting global space for Fintech.

The initiative of startup in India, the fintech startups have been rapidly increased in last three years and the segment is expected to grow further with over half a billion dollars flowing into startups. Banks and financial institutions are also focusing on fintech sector and contracting collaborations with different fintech startups 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.

The Evolution of fintech in India

The foundation of the fintech sector in India had been began by liberalizing its banking industry post-1990 with the introduction of technology-savvy banks. The government also took legislative action to boost the banking system and pushed new technology such as MICR, electronic funds transfer and other electronic payments that revolutionized the banking system which resulted in the great digital revolution in the Indian economy. However, for two decades from 1991, the technological innovation in financial services and banking were government-driven and witnessed slow growth.

The Indian government has started the penetration of fintech startups in India for the consumer offerings from the mid-2000s by mimicking the global trend. One of the initial offerings, which came up at around 2005, was the banking correspondent (BC) model, which leads the penetration of financial services to the rural household also. The model was promoted to perform financial transactions through agents. Agents having basic technological knowledge offer a lowered cost alternative to setup a full featured bank branch for financial institutions to serve the rural population which also improve the regional development. FinoPayTech and Eko India were the major startups that are built on the BC model and availed the initiative opportunity. The emergence of e wallets or famously known as mobile wallets startups has witnessed in 2010 which is designed for e bill payment and mobile recharge services. Major Fintech startups such as Oxigen, MobiKwik, Paytm and Freecharge originated between 2005–10. From 2010, there have been multiple Fintech startups that have groomed in different segments such as lending (100+ startups), personal finance management (40+ startups) and investment management (90+ startups). The profit maximizer Venture Capitalists had also gained the keen interest in 40% growth in investments in fintech sector and perform major funding activity in this between 2014 and 2016. Another visible trend in Fintech ecosystem is the growing number of collaborations between banks and Fintech startups. For instance, HDFC Bank and the Fintech startup ‘Tone Tag’ have partnered to provide phone-based proximity



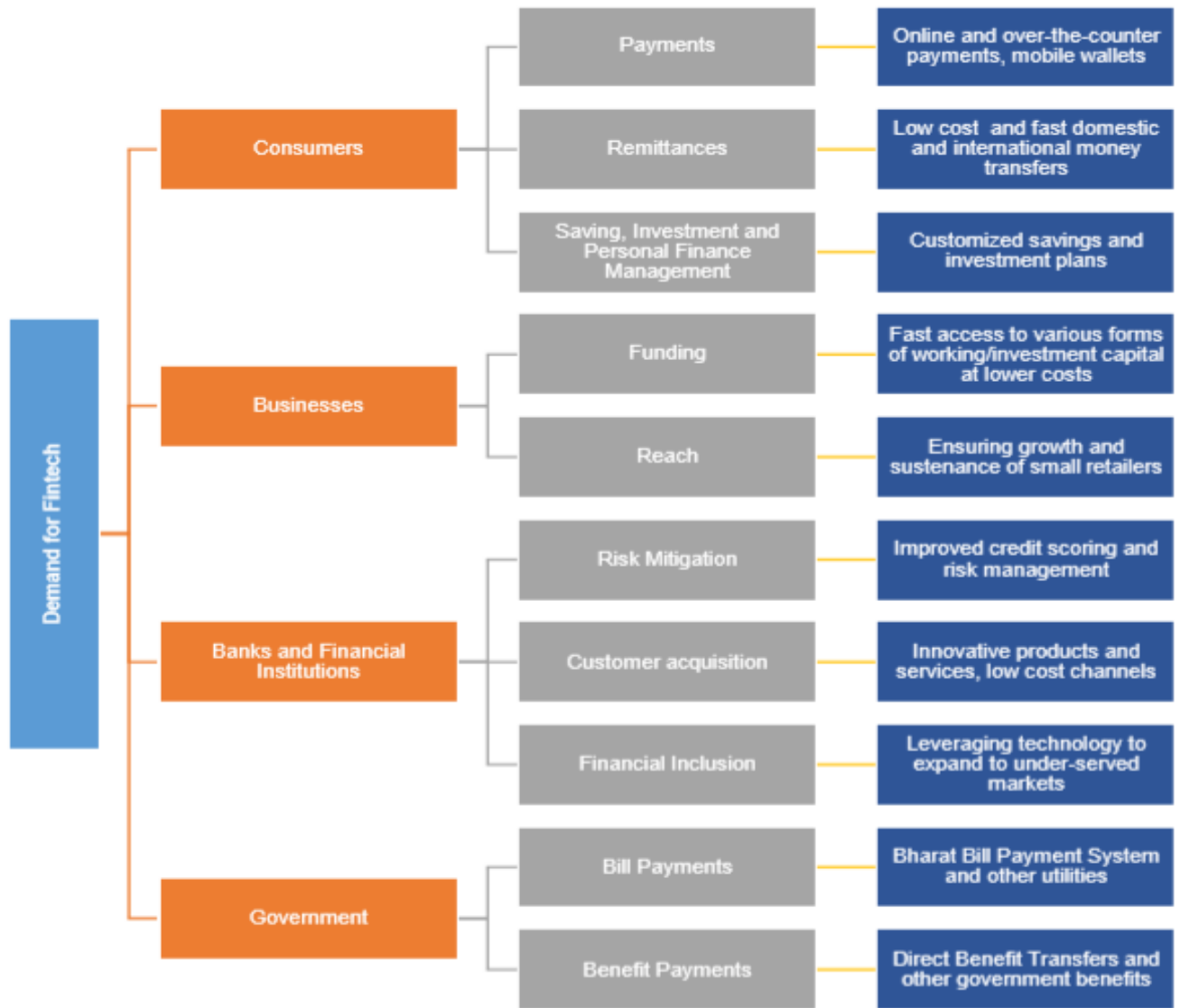
services and Yes Bank partnered with Ultracash Technologies to enable sound-based proximity payments. Such collaborations that help banks to provide effective services to their customers digitally and more cost effectively, these startups are also more expected to adopt the digital and smart city initiatives of the government to build the last mile digital connectivity.

For the best digital connectivity, Banks have also launched solutions with the help of their in-house teams to improve the digital financial infrastructure. Some of the initiatives include:

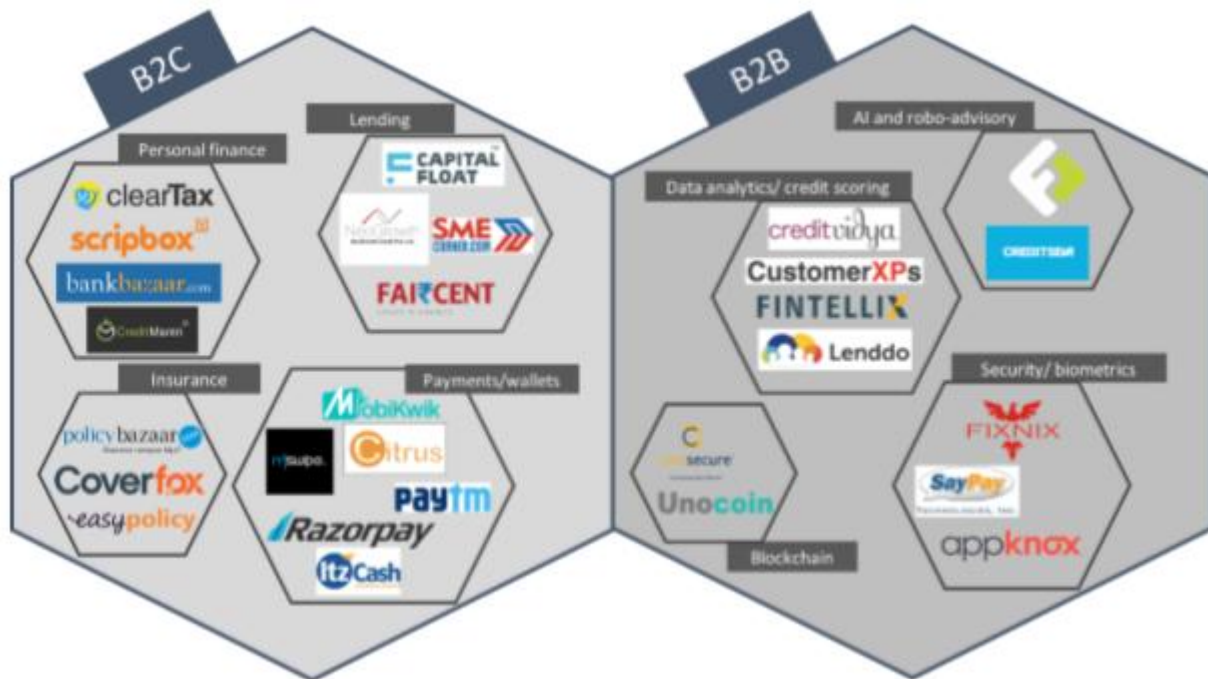
- ICICI bank launched a contactless mobile payment system which could enhance NFC payments in India
- Axis Bank presented the 'Invoice to Payment' feature that provide end-to-end digital invoicing and payment solutions
- DBS introduced the first mobile bank that allows customers to open accounts digitally with their PAN card and Aadhaar card
- Union Bank launched the *99# mobile application in partnership with NPCI that allows basic services like balance inquiry, fund transfers and mini statements to its customers even when there is no internet

These new solutions will enable Fintech startups to leverage the infrastructure created by banks to enable their solutions or enhance existing offerings with superior product experience.

Demand for fintech:



Segmentation of fintech:



GOVERNMENT ROLE: The government is taking various initiatives and acting as catalyst for the success or failure of fintech in a heavily regulated financial industry. The financial regulators SEBI, RBI and Government of India are importantly supporting the aim of the Indian economy to grow as a cashless digital economy and emerge as a strong fintech ecosystem via both funding and promotional initiatives.

The funding support: to accredit penetration of the digitally license financial platforms to the institutional and public communities, Funding Support is as follows:

- The Start-Up India initiative launched by the Government of India in January 2016 includes USD 1.5 billion fund for start-ups Financial inclusion and enablement
- Jan Dhan Yojana: added over 200 million unbanked individuals into the banking sector
- Aadhaar has been extended for pension, provident fund and the Jan Dhan Yojana.



Tax and surcharge relief: A few notable initiatives on this front are:

- Tax rebates for merchants accepting more than 50 percent of their transactions digitally.
- 80 percent rebates on the patent costs for start-ups.
- Income tax exemption for start-ups for first three years.
- Exemption on capital gains tax for investments in unlisted companies for longer than 24 months (from 36 months needed earlier).
- Surcharge on online and card payments for availing of government services proposed to be withdrawn by the Ministry of Finance.

Infrastructure support

- The Digital India and Smart Cities initiatives have been launched to promote digital infrastructure development in the country as well as attract foreign investments.
- The government recently launched a dedicated portal to provide ease in registration to start-ups.
- Startups will get support from the government in expenses of facilitators for their patents filing, trademark and other design work.

Regulators

In India, RBI is authorized to empower the development of fintech sector and embrace a careful approach in addressing concerns around consumer protection and law enforcement. The main aim of the regulator is to create an environment and discover the unhindered innovations by fintech, to enlarge the reach of banking services for rural unbanked or underbanked population, regulating an efficient electronic payment and providing alternative options to the consumers. Fintech simplify the payments, lending, security/biometrics and wealth management.



These have been the prime focus areas for RBI and we have seen significant approaches published for encouraging fintech participations. Examples:

- Introduction of “Unified Payment Interface” with NPCI, which holds the potential to revolutionize digital payments and take India closer to objective of “LessCash” society, Approval to 11 entities for setting up Payments Bank and approval to 10 entities for setting up Small Finance Banks that can significantly run in favor of cause for Financial Inclusion.
- Release of a consultation paper on regulating P2P lending market in India and putting emphasis for fintech firms and financial institutions to understand the potential of block chain.

One of the areas with a huge scope is around managing P2P remittances in India. In India, the smaller the remittance size, the higher is the transaction cost percentage, which makes it extremely expensive for beneficiaries involved in transactions. This massive problem is a big opportunity for any fintech firm committed to address it well, as has been guided in the mature markets. Example:

- Some of the fintech firms such as TransferWise in UK, have come up with a remittance platform; and with the rising acceptability of the same, the firm has touched a valuation of USD 1.1 billion.

Around 370 million internet users in India that is the growing digital population. The Internet penetration still lies at less than 40%. This is expected to grow in the near future continuing the 2x growth witnessed in 2015 in rural population coupled with government initiatives such as ‘Digital India’ aimed at penetrating digital services. The growth is expected to increase the penetration of current Fintech startups as well as provide a new market for potential new solutions and new players.

Promoting non-cash transactions: In order to reduce the amount of paper cash being used in day-to-day transactions, the government has taken certain proactive steps like tax rebates for merchants accepting more than 50% as electronic payment.



Biometric identification database: for the individual's unique identity, Aadhaar card, the government's initiative to create a central identification database, now contains the information of over 1 billion Indian citizens. This identification system also leverage the E-KYC and financial benefit transfer schemes. It also helps firms to reduce the time and effort required for first-time customer verification. DBS, a global bank, has launched their mobile-only banking platform called Digi bank, which leverages Aadhaar for customer verification.

Some of the key characteristics of the Indian market that make it exciting and interesting for Fintech startups are:

- India is the only Fintech hub that provides ample opportunity to target large unbanked population. Coupled with the growing young population who readily accept new technologies, India makes an attractive destination for Fintech startups.
- The difficult exercise to change consumer behavior towards accepting Fintech solutions is already underway.
- The broad level of technical education provides India with a strong talent pipeline of a comparatively cost efficient and easy-to-hire tech workforce.
- India has the second biggest startup ecosystem in APAC after China measured in deal size and number of deals.

Conclusion: India is confidently moving up the Fintech ladder and provides plenty of opportunities for Fintech startups to enter the diversified market and be successful provided a careful solution-customer match and a strong go-to-market strategy is in place. The two broad segments where Fintech is most active in India are payments and lending. Out of the more than 600 Fintech startups currently active in India, around 40% are payments and lending startups. The next few pages will hence dedicate special attention to these two Fintech segments. The development of Fintech sector has also given a boost to overall economy of India. But still there are some hindrances related to e security and the usage rate among unbanked population. So, the initiatives taken must not be faded away because of these little but not the least factors. So



the regulators should formulate the effective policies to remove it as such the fintech sector can upgrade the banking system of India completely.

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