

A Sustainable Growth of Fin-tech Industry in India : Transformation in Finance Sector

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ABSTRACT

Fin Tech is a term used to term emerging digital technology aiming to improve and automate the delivery and usage of financial services. It is the modern evolution of Fin Tech, led by start-ups providing challenges for regulators and market participants alike, exceptionally in balancing the potential benefits of innovation and sustainable growth with the possible risks of new approaches in the finance sector. Fin Tech is a term used to describe the growing technological innovations in the financial sector. Fin Tech is increasingly shaping the financial sector. Today, however, FinTech spans various sectors and industries, including education, retail banking, non-profit fundraising, investment management, and much more.

This research paper analyzes the Fin Tech Sustainable growth, Fin Tech-opportunities for start-ups in India and Fin Tech Trends in India. This paper aims to provide a detailed analysis of the Indian Fin Tech Finance Sector.

Keywords : FinTech, Finance, Sustainable Growth, Fin Tech Start-up

Introduction

The term Fin Tech was first devised in the 21st century to design the technology used in the back-end systems of established financial organizations. Fin Tech or Financial Technology refers to a firm inclusion in the upcoming technological trends to provide better financial solutions to its clients in the form of digital payments and transactions (Saumya Uniyal and Aakriti Suri, 2020). There has been a enormous acceptance of digital payment systems in India, making it a lot more suitable to go about with basic financial services. This growth and expansion of the Fin Tech ecosystem in India have been supported by a number of factors, including the growing availability of smart phones, increased

internet access, and high-speed connectivity. In fact, according to a report by Boston Consulting Group and FICCI, India is well-positioned to accomplish a Fin Tech sector valuation of USD 150-160 billion by 2025, implying a USD 100 billion in incremental value creation potential. To accomplish this goal, India's FinTech sector will need investments of \$20-25 billion over the next few years, according to this report titled ' India FinTech: A USD 100 Billion Opportunity.'

FinTech Sustainable Growth In India

During the pandemic, when every other sector has experienced decline in growth, the FinTech sector has thrived as COVID-based restrictions shortened physical movement and encouraged contactless transactions. 33 FinTech investment

deals worth US\$647.5 million were closed in the Indian market in the quarter ending June 2020.

The Indian FinTech industry has seen numerous start-up players in the past few years. With each start-up; the industry has now grown a lot and also is making a name worldwide.

Figure 1: India one of the largest FinTech markets in the World



Source: Matrix Partners India and McKinsey & Company

India is home to more than 2,100 FinTech companies, and it is one of the world's largest FinTech markets, after the US, China and the UK. Despite the enormous disruption brought by COVID-19, FinTech companies remain resilient on the long-term growth prospect of the industry.

There are over 2100 FinTech companies in India, out of which more than 67% have been set up in the last five years. India's FinTech segment has seen an exponential growth in funding; investments worth more than US\$8 billion were received across various stages of investment in 2021.

The FinTech transaction value size is supposed to rise from US\$66 billion in 2019 to US\$138 billion in 2023, at a compounded annual growth rate (CAGR) of 20%. India has a remarkable growth on the digital payments, recording a monthly volume (total digital transactions) of over 5.7 billion transactions worth approx. US\$2 trillion as of September 2021.

The supply side enablers are exponentially growing computing power, widespread internet penetration, and increased internet speed and coverage, coupled with demand side stimulants like need for inclusive financial services, customer expectations, and the business needs to reduce costs while providing faster, safer, and more reliable services are some of the key factors shaping the FinTech revolution in India.

Moreover, as FinTech platforms and services mature with a strong user base and product-market fit, they have been identifying more openings to diversify their revenue streams, in turn giving rise to Super apps. Super apps bring a diversified set of services under one platform that can facilitate multiple daily uses. Increasing levels of digitization, greater affordability of smartphones, and a COVID-induced preference for digital services, Super apps are finding greater acceptance across the Indian market. It is also worth noting that BigTech, such as Google, Amazon, and WhatsApp, have pinned their offerings to provide tailored services in India like Google Pay, Amazon Pay, and WhatsApp Payments.

Multiple factors distinguish markets world-over, and the FinTech sector is not an exception. India, with its own set of challenges and opportunities, stands out as a unique market for FinTech, especially in the payments community. (Adithya, S., 2019)

FinTech Opportunities for Start-ups in India

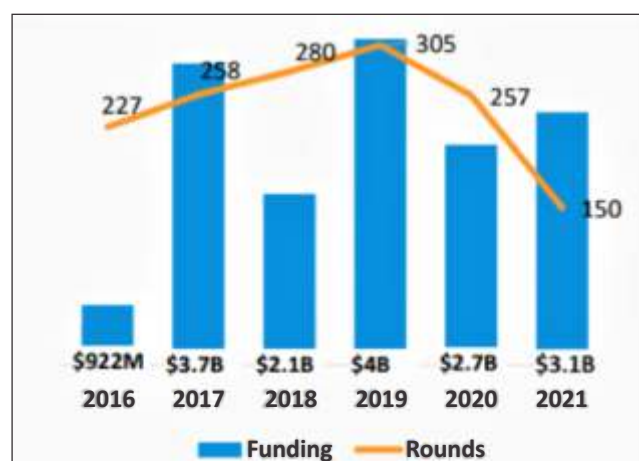
FinTech start-ups brought a significant change in our economy and major changes to how we make payments. The payment system has changed the way we all conduct business. India continues to witness the upsurge in Fin Tech evolution, which is primarily augmented by the rise of new Fin Tech start-ups and a robust wave of technological advancements. ([https:// ibsintelligence .com/](https://ibsintelligence.com/))

The FinTech sector in India has seen a funding bang in the last five years, with funding increasing at a CAGR of 98% in the past six years. Today, there are more than 1200 active FinTech companies in the country and their number is growing constantly ([https:// www. start- upindia.gov.in](https://www.start-upindia.gov.in)) and India has the world's second biggest FinTechhub with 2,565 start-ups operating currently, there were only 737 in 2014. India's largest share from FinTechstart-ups is through 'payments' and is followed by lending, wealth tech, personal finance, insurtech, regtech and others. (Ashwini., 2020)

Various factors that result to the success of FinTech start-ups in India are-

- Availability of capital and a vibrant investment ecosystem
- Favourable demographic in India as more than 65% are below the age of 35 yrs.
- Having the zeal for innovative technology
- Low penetration of financial services for a majority of population such as unbanked, rural areas and MSME's
- Government initiatives and regulatory restraint to FinTech
- Increased mobile and Internet access
- Reduced infrastructure and Transaction cost through usage of cloud based services
- Advancement in Technology

Figure 2: FinTech Funding in India



Source: BLinC Insights

From 2016 to 2021, the total FinTech funding stood at \$16.5 billion, from which around 60% was in the last 3 years.

In 2021, the funding received by digital payments was at \$0.9 billion, digital lending stood at \$0.73 billion and that of investment tech stood at \$169 million in 2021

For insur-techs, funding stood at \$512 million - a massive rise from \$291 million in 2020. Similarly, the one received by neo banking rose to \$159 million in 2021 from \$33 million in 2020 and that of other banking solutions was at \$476 million from \$68.6 million in 2020

According to a Livemint article, it was Warren Buffett's first investment in the country. Berkshire invested Rs 2500 Cr in the parent company of Paytm.i.e One97 Communications Ltd, this gives the company a valuation of USD 10-12 billion.

In the livemint article, the FinTech Industry in India is divided into 12 broad categories:

1. Alternative Funding;
2. Banking Tech;
3. Crowdfunding;
4. Consumer Finance;

5. Cryptocurrency;
6. Enterprise Finance;
7. Foreign Exchange;
8. Insurance Tech;
9. Investment Tech;
10. Mobile Wallets;
11. Payments; and
12. Software for Institutional Investor.

Conclusion

India has to regulate, invest, and promote its business, start-up environment only after which it will emerge as a start-upsanctuary. It has got a huge prospects to change into a developed economy. FinTech space has made use of new technologies and ineffective approaches to come up with better and innovative products. This trend is to continue and go bigger in the coming years. Banks will go through a revolutionary change with AI and ML in the centre of all the disruption that will happen in this sector. Wealth management is mainly of high net worth individuals now has scope to cheaper services to advise more customers in the coming times. There is computerisation in Corporate and Investment Banking, which has led to cost reduction and improved efficiency in all major banks. India is on the verge of the FinTech revolution, accelerated in part by the Government's policy initiatives and development of the Indian Stock. India's vast under banked and new-to-bank population makes it the most exciting opportunity place now. It is good to see how the FinTech revolution is going to change the habits and behaviour of the Indian population at large.

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