


Chapter 8

Fintech Challenges and Outlook in India

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ABSTRACT

Fintech refers to the novel processes and products that become available for financial services due to the digital technological advancements. Fintech includes technologically enabled financial innovation leading to new business models, applications, processes, or products with an associated material effect on financial markets, institutions, and financial services. India is transitioning into a dynamic ecosystem offering Fintech start-ups a platform to grow into billion-dollar unicorns. From tapping new segments to exploring foreign markets, Fintech in India is pursuing multiple targets. The traditionally cash-driven Indian economy has responded well to the Fintech opportunity, primarily triggered by a surge in e-commerce, and Smartphone penetration. However, India's growth is still not comparable in scale to its global counterparts but is stacked well, due to a strong talent pipeline of the tech workforce. Hence, adopting an exploratory approach, based on in-depth literature review, the chapter aims to identify the challenges and deliberate on the outlook for Fintech in India.

INTRODUCTION

Fintech is an industry composed of companies that use technology to make financial systems and the delivery of financial services more efficient. Fintech refers to the novel processes and products that become available for financial services due to digital technological advancements. Thus, Fintech refers to technologically enabled financial innovation that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services. Nonetheless, the Fintech segment includes many elements, which according to Dorfleitner, Hornuf, Schmitt & Weber, (2017) can be loosely categorized into four main segments i.e. financing, asset management, payments and others. According to PwC (2016), 83% of financial institutions believe that various aspects of their business are at risk to Fintech startups. Due to

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Fintech companies already having a significant impact on the financial industry, every financial firm needs to build capabilities to leverage and/or invest in Fintech in order to stay competitive. The growth of investment in Fintech has been phenomenal. According to Accenture (2016a), global investment in Fintech ventures in the first quarter of 2016 reached \$5.3 billion, a 67% increase over the same period the previous year, and the percentage of investments going to Fintech companies in Europe and the Asia-Pacific nearly doubled to 62%. Hence adopting an exploratory approach based on secondary data the aim of this chapter is to identify the challenges and deliberate on the outlook for Fintech in India as India is a key player in the Asian Financial Market.

BACKGROUND

According to the report of (KPMG 2016), India is transitioning into a dynamic ecosystem offering Fintech start-ups a platform to grow into billion dollar unicorns. From tapping new segments to exploring foreign markets, Fintech start-ups in India are pursuing multiple aspirations. The forecast for Indian Fintech software market is approximate to the tune of USD 2.4 billion by 2020 from a current USD 1.2 billion, as per NASSCOM. The traditionally cash-driven Indian economy has responded well to the Fintech opportunity, primarily triggered by a surge in e-commerce, and Smartphone penetration. The transaction value for the Indian Fintech sector is estimated to be approximately USD 33 billion in 2016 and is forecasted to reach USD 73 billion in 2020 growing at a five-year CAGR of 22 percent.

However, 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 the 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 in general and specially for Fintech sector companies to develop, grow and attain competitive edge in the global financial market.

LITERATURE REVIEW

Financial markets worldwide were profoundly affected by the internet revolution in the early 1990s, with one of the major effects being that it lowered costs for financial transactions. Technological advances driven by the internet revolution changed the face of the financial services industry and led to the development of electronic finance (e-finance). E-finance refers to all forms of financial services such as banking, insurance, and stock trading performed through electronic means, including the internet and World Wide Web. E-finance allows individuals or businesses to access accounts, transact business, and obtain information on financial products and services without being in physical contact with financial firms. Many e-finance business models emerged in the 1990s, including online banking, online brokerage services, mobile payment, and mobile banking.

As with e-commerce, many of these changes have led to the downsizing and reduction of number in physical locations for banks. The impact of internet technology has been especially obvious in the banking industry. Information-intensive and time-sensitive in nature, virtually every component of the banking business' value chain benefitted from an innovative utilization of web technologies (Baporikar, 2019a; 2019b). From the bank's point of view, potential benefits of online banking include lower

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