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ROLE OF FINTECH IN SUSTAINABLE BUSINESS STARTUPS

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ABSTRACT :

The digitization of society and the integration of new technology have made the climate conducive to the growth of Fintech companies in India. Over the past ten years, India's FinTech sector has experienced phenomenal growth as a result of the proliferation of interest services in the nation. India has an 87% acceptance rate for fintech, compared to a global average of 64%.The FinTech sector is largely responsible for improving financial inclusion by giving those who lack access to banking and financial services.In addition to examining the regulatory legal environment, government initiatives, the fundamental ideas and focus areas of Fintech start-ups, this study examines the various segments of the Fintech businesses and their significance in the success of digital transformation. In addition, it made an effort to pinpoint the new problems, trends, and difficulties in the Fintech revolution.

Keywords: Digital Startups, Fintech, Sustainable Development, Business Start-ups etc.,

Introduction

Financial technology (better known as Fintech) is used to describe new tech that seeks to improve and automate the delivery and use of financial services⁴. The Fintech companies plays an major role in improving access to the gamut of financial services like AePS, Aadhar Pay, Remittances, and Recharges for the masses.With over 2,000 FinTech businesses officially recognized by DPIIT (Department for Promotion of Industry and Internal Trade)in India and projections indicate that the total addressable market for the Indian FinTech industry is set to reach \$ 1.3 trillion by 2025.

Fintech companies are innovative, nimble, and have lower operational costs than traditional banks⁶. They can lead the way through taking financial services, increasing access to credit, innovating with speed and compliance, promoting a cashless economy to the farthest corners of the country. Fintech companies can play a key role in boosting financial inclusion by leveraging the existing financial ecosystem and emerging technologies to make banking simpler, more accessible, and cost-effective for millions of unbanked and underbanked Indians.

FinTech is increasingly becoming an important focus area 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. The FinTech infrastructure backbone has been strengthened tremendously with the host of options available to market participants such as BBPS, Bharat QR, India Stack, UPI.

Statement of the Problem

The FinTech infrastructure backbone has been strengthened tremendously with the host of options available to market participants such as BBPS, Bharat QR, India Stack, UPI, etc. In India Fintech adoption rate is noted as 87% against the global average of 64% ⁴. According to a World Bank analysis more than 190 million Indians lack access to formal financial services, 20 percent of the Indian population is still unbanked, implying enormous untapped economic potential⁶. Rural India has only 17% internet penetration compared to 60% in urban India³.Above these two interpretationsmake an argument and couldn't judge the exact state of Fintech development in India.

- To know the present scenario of Fintech startups in India, the following questions wereraised?
- What are the various segments and significance of Fintech startups in India?
- What are the factors associated with thegrowth of Indian Fintech industry?
- What are all the issues, challenges faced by Fintech companies in the current economicclimate?
- What are the emerging trends predicted by Fintech industry?

Objectives of the Study

This study makes an attempt to find the solutions for the questions asked in the statement of the problem. Accordingly the following objectives have been framed.

1. To know the various segments and significance of Fintech startups in India.
2. To identify the factors associated with the growth of Indian Fintech industry.
3. To identify the regulatory legal framework and Government Initiatives for Fintech in India.
4. To explore the issues, challenges faced by Indian Fintech companies in the current economic climate.
5. To identify emerging trends in Fintech startups in sustainable development.

Research Methodology

As the research paper is of conceptual and review nature, the researcher has applied exploratory research design by using varied secondary data available from the secondary data sources. Based on the secondary data and review, the researcher has reported on important role of Fintech in sustainable startups in India

Review of Literature

Mr. Nishant kumar published an article titled as —Role of Fintech in India's Digital Economy in Nasscom community website on March 16, 2023. In this article he reveals that the role of Fintech in Indian Digital Economy, the key benefit of Fintech for business in

India, challenges of Fintech in India and the future of Fintech in India. He noted that in India the future of Fintech companies is bright, the immense potential.

The **Times of India** published an article entitled as —The role of Fintech companies in strengthening the banking and online payment sector in rural India on October 12, 2022 written by Amit Tyagi. The author expresses that India's Fintech market is among the fastest growing and is ranked the third largest market. He denotes that the companies have the potential to reshape the financial services and financial inclusion in India. He added that the companies play a major role in improving access to the gamut of financial services like AePS, Aadhar Pay, Remittances, and Recharges for the masses.

Deloitte the Learning Academy conducted a study and published an article in the name of —FinTech in India – Ready for Breakout. This article denotes the critical issues addressed by Indian FinTech companies and few of the critical structural issues afflicting Indian financial services as increase outreach, improve customer experience, reduce operational friction, and foster adoption and usage of the digital channel. This report suggests the financial companies can learn and adopt best practices around risk and internal controls, operational excellence, compliance culture, and employee engagement.

Fintech Segments –Area Wise Classification

Deloitte report analyzed the breakout potential of India's Fintech sector across six segments i.e Payments, Credit, Investment Management, Personal Finance Management, BankTech and InsurTech and across twenty sub-segments. Customer Loyalty, Technology & IT Infrastructure.

Area	Fintech Segments	Area	Fintech Segments
Credit	Peer-to-Peer Lending Crowd Funding Market Place for Loans Online Lenders – on-book lending by NBFCs Credit Scoring Platforms	Payments	M-wallets and PPIs Merchant Payments and PoS Services International Remittance Crypto Currencies
Investment Management	Robo Advisors Discount Brokers Online Financial Advisors	Personal Finance Management	Tax Filing and Processing Spend Management and Financial Planning Credit Scoring Services
Bank tech	Big Data Blockchain Customer Onboarding Platforms	Insur tech	Insurance Aggregator IoT, Wearables and Kinematics

Source : Deloitte Analysis

Significance of Fintech Startups in India

- **Promoting Financial Inclusion in India** – Most of the Indian people in rural area remain outside the formal financial system, and the use of financial technologies can bridge the gap left by traditional banking.
- **Finance for Micro, Small and Medium Enterprises (MSME)** – Lack of capital is the biggest threat to MSME, FinTech startups can play a key role and solve the issue of credit availability and offering easier and quick access to loans.

- **Improve Customer Experience** - FinTech start-ups provide better customer experience in terms of convenience, personalization, transparency, accessibility and developing credit scores and underwriting credit for customers for improving financial services penetration in India by leveraging big data, machine learning and alternative data.

Growth Factors of Indian FinTech Sector

Customer Loyalty, Funding environment, Technology & IT Infrastructure, Value proposition, Innovative use of Data, Cost of operation are considered as a key factors, leading to success of Fintech companies.

The following seven factors are likely to drive the growth of the Indian FinTech sector, in the medium to long term:

Combination of steady economic growth with low penetration of financial services.

Large public sector banks and insurers lagging market growth. Regulatory forbearance toward FinTech. Indian Millennials rapidly ascending the adoption S-curve of digital financial services and thus perceiving higher friction from incumbents. India Stack and internet data proliferation to improve financial services utility infrastructure and connectivity to support digital financial services. Advances in technology and adoption of cloud services leading to asset light models with almost zero unit costs at transaction levels could enable subsidization without building scale. Lower real interest rates in Indian economy.

Regulatory Legal Framework and Government Initiatives for Fintech in India

Owing to the overlapping and non-linear business models of fintech businesses, there is no single all-encompassing regulatory legal framework for fintech in India. The applicable laws and rules governing a fintech business will generally depend on the nature of the business being conducted. It is usually regulated by the RBI, SEBI, the Insurance Regulatory and Development Authority of India (IRDAI), the Pension Fund Regulatory and Development Authority (PFRDA), and IFSCA⁷. Aspects that are regulated by the aforementioned authorities include online payments and transactions, payment aggregators and gateways, data and privacy, lending and collection of deposits, trading of securities and derivatives, offering of insurance products and services, etc. For many financial offerings, prior approvals and licenses need to be obtained from the RBI, SEBI or IRDAI for a business to commence.

The government has already laid the groundwork for the Fintech industry to provide flexible and innovative digital banking with regulations like the Unified Payment Interface (UPI), Aadhaar, and open application programming interfaces (APIs). The Government also announces measures to specifically promote investments in tech/fintech/start-up businesses in India, or which have a positive impact on those sectors. Additionally, IFSCA has also introduced an incentive scheme for, inter alia, domestic fintechs seeking access to overseas markets as well as foreign fintechs seeking market access to IFSCs in India. The Government also proposed many tax-related relaxations, including an extension of timelines (from March 31, 2023, to March 31, 2025) for funds relocation to IFSC GIFT City. Tamil Nadu FinTech Policy 2021, offering collaboration and incentives for select fintech startups.

The laws and regulations that may apply to fintechs in India are listed below:

RBI

- Payment and Settlement Systems Act, 2007.
- Master Directions on Prepaid Payment Instruments (MD-PPIs), 2021.
- Framework for Scale Based Regulation for Non-Banking Financial Companies, 2021.
- Directions for opening and operation of Accounts and settlement of payments for electronic payment transactions involving intermediaries, 2009.
- Guidelines for Licensing of Payments Banks, 2014 and Operating Guidelines for Payments Banks, 2016.
- Framework for Recognition of a Self-Regulatory Organisation for Payment System Operators, 2020.
- Guidelines on Regulation of Payment Aggregators and Payment Gateways, 2020.
- Circular on Processing of e-mandate on cards for recurring transactions, 2019.
- Circular on Tokenisation – Card transactions, 2019.
- Guidelines on Digital Lending, 2022.
- RBI Master Directions on Credit Card and Debit Card – Issuance and Conduct, 2022.

National Payments Corporation of India (NPCI)

- Various circulars on Unified Payments Interface (UPI) payments.

SEBI

- Circular on Mutual Funds, 2021.

IRDAI

- Guidelines on Insurance Repositories and Electronic issuance of Insurance Policies, 2015.
- Guidelines on Insurance e-commerce, 2017.
- Insurance Regulatory and Development Authority of India (Issuance of e-Insurance Policies) Regulations, 2016.

IFSCA

- International Financial Services Centres Authority Act, 2019.
- Framework for FinTech Entity in the International Financial Services Centres (IFSCs), 2022.
- Apart from these the following initiatives are taken by the government for the benefit of public.

Jan Dhan Yojana – This initiative is considered as a world largest financial inclusion and it has helped in new account enrolment of over 450 million beneficiaries for direct benefit transfer and accessibility to a host of financial services applications such as remittances, credit, insurance, and pensions. It helps the Fintech companies to build technology products to enter the large consumer base in India.

India Stack –It is a set of APIs that allows governments, businesses, startups and developers to utilise a unique digital Infrastructure to solve India's hard problems towards presence-less, paperless and cashless service delivery.

UPI (Unified Payments Interface) –It is an advanced mobile app-based payment system to transfer funds between bank accounts developed by the National Payments Corporation of India in 2016, is the multiplier force behind the Fintech revolution in India. 338 banks registered under the platform, recorded more than 6.28 billion transactions in July 2022 worth 10.62 lakh crore .

Digital Rupee - India launched its Central Bank Digital Currency (CBDC) or digital rupee or e-rupee recently. It is an electronic version of cash and will primarily accelerate the growth of the FinTech market in India.

Fintech Hub - Fintech Valley Vizag, O-hub Bhubaneswar, Bandra Kurla Complex, FinTech Hub Kolkata, Mumbai Fintech Hub are Fintech parks created by the respective Government to promote business infrastructure in the state, and attract investors and multinational financial corporations to set up their offices in the hub.

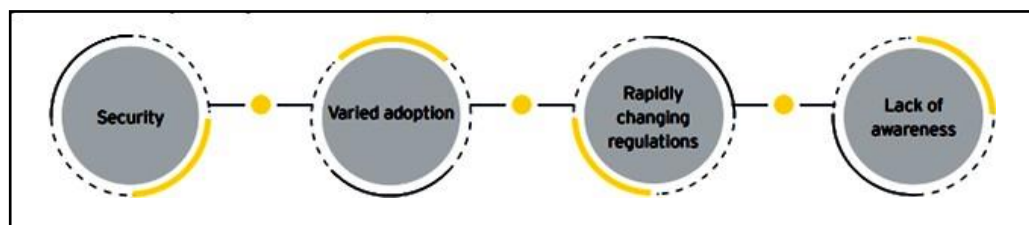
Issues, Challenges faced by Fintech Companies in the Current Economic Climate

Fintech systems are vulnerable to hackers by automation of processes and digitization of data. Absence of regulatory authority has led to increased chances of fraud threat to investor protection and movement of money in the economy. Due to the diversity of offerings in FinTech, it is difficult to formulate a single and comprehensive approach to these problems.

According to RBI financial literacy is only 27% of Indian adults and 24% of women meet the minimum level of financial literacy. The lack of financial literacy is also considered as a main issue. During the pandemic, digital lending through mobile apps became popular, but more than half of these digital loan providers were operating illegally. Many apps used tactics to exploit the widespread lack of financial literacy, charging interest rates up to 500% .

The true legal status of cryptocurrency continues to be a grey area in India. The Government of India introduced a draft Cryptocurrency and Regulation of Official Digital Currency Bill, 2021 (Cryptocurrency Bill), which provides for: (a) the creation of a framework for official digital currency to be issued by the RBI; and (b) the prohibition of all private cryptocurrencies in India – with certain exceptions, in order to promote the underlying technology of cryptocurrency and its uses. As per a recent report, WazirX, India's biggest Cryptocurrency exchange registered an annual trade of over \$43 billion.

Nearly three-quarters of population resides in rural India Fintech industries making its route to reach digitalization. Infrastructural costs, low usage due to lack of awareness, inconsistent availability of electricity, theft, and vandalism are some of the major deterrents for physical bank branches and ATM operators in rural areas².



Source :Deloitte Analysis

Emerging Trends in Fintech Industry

Fintech companies can rapidly roll out new features and products by testing new innovations in secure sandboxes while checking for adherence to government regulations and data security. This enables Fintech companies to provide innovative products and services in a faster yet secure manner⁶. The Fintech activities are divided into three broad categories: the Banking Sector; Capital Markets; and Funds Management and the Insurance Sector, and the notable Fintech trends include BNPL (Buy Now, Pay Later), Digital Banks, Robo Advisory,Blockchain, Sustainable Finance products, neo-banks, Embedded finance/ Insurance, Cyber Insurance, Artificial intelligence (AI) and the metaverse etc., are some notable trends of the year and it could change the scope and landscape of Fintech and it continued to show an upward trend too⁷. The Fintech areas/activities expressly include Agri Tech, Climate/Green/Sustainable Tech, Space Tech, Solutions for Banking, Financial Services and Insurance domain leveraging (AI, Chatbots, Web 3.0, etc).

Conclusion

Through the mobile applications and online platforms, Indian FinTech companies have been successful in offering various financial services to this population. It likely to reduce costs and improve quality of financial service and it will develop unique and innovative models of assessing risks and it will create a more diverse, secured and stable financial services land shape. The government should require Fintech companies to ensure that the data harvested from consumers will not be used for any purpose other than serving the consumer's interest. Establishing technological safeguards, educating and training customers will also help in democratizing Fintech and guarding against cyberattack issues.

FinTech will create a more diverse, secured and stable financial services landscape. FinTech companies are less homogenous than incumbent banks, and offer great learning templates to improve, both, capabilities and culture.

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