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Expert Speak

India Writes its Growth Story in Fintech Services

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Massive digital disruption in the financial services sector in India has seen fintech players emerge as anchors that hold the system together. Not only do they facilitate better access to formal credit and investment opportunities, but also better control over money, during and in the aftermath of the pandemic when there was widespread loss and drop in incomes for most households and businesses. However, building a new-age financial infrastructure can be challenging, especially in a country that is known for its diversity. Rajnish Kumar, former chairperson of SBI, throws light on the fintech landscape in India, and the challenges and opportunities that lie in its wake.

Over the past few decades, India's economic and social landscape has witnessed phenomenal changes. Be it in terms of physical infrastructure, public policy or trade, the country is rapidly paving its way to become a US$5 trillion economy.[1] One thing that is driving this growth is the vigorous usage of technology in all aspects. Hence, it is not surprising that India is leading a revolution in the fintech sector and is leaving an imprint globally.

From using technology as merely a backend support to now reshaping operational models to make the ecosystem more efficient, the prevalence of financial technology has come a long way. The fintech revolution has been the rage for nearly a decade now, wherein traditional financial institutions, startups, and banks have put their best foot forward to make the most of this environment. Digitalisation has had a powerful impact on the financial services industry in a way that it seamlessly facilitated and improved customer experience, while saving time and money for both the provider and the customer.

Transitioning to be a Global Leader

For traditional institutions like banks, adapting to such advancements wasn't an overnight change. The economic and banking reforms introduced in the country in the 90s and emergence of new generation private banks laid the foundation of fast-paced changes. With the introduction of core banking, the new paradigm of 'customer of a bank' and not of a particular 'bank branch' revolutionised the way banking services were delivered. Introduction of networked branches, Automated Teller Machines (ATMs), internet banking and mobile banking has enabled anytime, anywhere banking. Many revolutionary changes in the payments system introduced by the Reserve Bank of India and the establishment of National Payments Corporation of India (NPCI) in 2008 have proved to be game changers and put India on the global map. All of these reforms were coupled with the government's constant efforts to make the environment more conducive to digitisation.

Fast forward a few years, India is now leading one of the biggest digital revolutions in the world. As per the latest report by Ernst and Young[2] on the Global Fintech

[1] Press Trust of India. (2022, June 14). *India would become $5-trillion economy by 2026-27: CEA Anantha Nageswaran.* Livemint. https://www.livemint.com/news/india/india-would-become-5-trillion-economy-by-2026-27-cea-anantha-nageswaran-11655202333724.html

[2] Ernst and Young. (2019). *Global FinTech Adoption Index 2019.* https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/banking-and-capital-markets/ey-global-fintech-adoption-index.pdf

Adoption Index, India and China are industry leaders in the emerging markets with the highest adoption rate of 87%. In fact, India led the world in real-time payment transactions in 2021, with 48.6 billion transactions, representing more than 40% of the global transactions emerging from the country.[3] Evidently, the fintech ecosystem in India is thriving and this is not just limited to digital payments.

Most ventures providing services related to payments, lending, insurance, investment and other financial aspects, are deepening their use of technology to simplify processes like Know Your Customer (KYC) documentation, determining credit scores, detecting fraud, etc. Additionally, condensing other procedural affairs such as identifying, sorting, and making decisions based on multiple data points is also a major plus that ensures efficiency and accuracy, leading to a wider financial outreach and inclusion.

A Closer Look at the Fintech Industry in India

A massive transition from the manual execution of processes in the traditional financial organisations, including banks, to the digital way of functioning, was made possible after the government, private entities, corporates and other stakeholders joined hands to establish a robust digital infrastructure. In a bid to achieve the agenda of financial inclusion, the Indian government rolled out several schemes and initiatives to catalyse the process. Consider the *Jan Dhan Yojana*[4] initiative launched in 2014 that encouraged and facilitated the unbanked population of the country to open bank accounts. Not only did this help bring a large section of the population into the banking arena, but also gave an opportunity to fintech ventures to offer their services to a whole new, and previously unserved customer base. In several other steps taken by the government, there has always been an underlying opportunity or two for fintech companies to leverage. From time to time, the government has been providing impetus through encouraging policies and initiatives such as 'Startup India',[5] licenses for payments banks, etc., and developing a robust support system for the fintech sector.

[3] ACI Worldwide. (2022). *Prime Time for Real-Time.* https://www.aciworldwide.com/wp-content/uploads/2022/04/Prime-Time-for-Real-Time-Report-2022.pdf

[4] *Pradhan Mantri Jan Dhan Yojana* is a financial inclusion programme of the Government of India that is open to Indian citizens and aims to expand affordable access to financial services such as bank accounts, remittances, credit, insurance, and pensions.

Fortunately for India, even in times of crisis, for instance, during the demonetisation[6] or the global COVID-19 pandemic, consumers were able to quickly adapt to alternatives to cash due to the pre-existing foundation of payment services and thus, we were brought on the global map for clocking in the highest number of financial transactions.[7] This seemingly utopian picture is not just limited to payment services. Even though more than 90% of the sector's investment flows since 2015 have gone towards the payments and alternative finance segments, there have been significant changes towards a fairer allocation of investment across areas like insurtech, wealthtech, etc.[8]

With over 2,000 fintech companies established in the country, India is well-positioned to achieve a fintech sector valuation of US$150-160 billion by 2025,[9] implying a US$100 billion in incremental value creation potential. So, what has led the country to such glory?

Why is India at the Forefront of the Fintech Revolution?

India being the third largest fintech ecosystem globally,[10] there are multiple factors which have bolstered this growth and rapid expansion. As mentioned earlier, the biggest enabler for the fintech industry's steadfast growth is the existence of a digital ecosphere. The government's support for the proliferation of the fintech services sector has been monumental, both from the regulatory and policy standpoint, and the provision of enabling assistance. Consequently, this increased the number of internet users in the country, yet another contributing factor.

[5] Startup India is a flagship initiative of the Indian government to catalyse startup culture and build a strong and inclusive ecosystem for innovation and entrepreneurship in the country.

[6] On 8 November 2016, the Government of India announced the demonetisation of all ₹500 and ₹1,000 banknotes of the Mahatma Gandhi Series. It also announced the issuance of new ₹500 and ₹2,000 banknotes in exchange for the demonetised banknotes.

[7] Chadha, S. (2022, April 25). *At 48 billion, India accounts for largest number of real-time transactions in the world.* The Times of India. https://timesofindia.indiatimes.com/business/india-business/exclusive-at-48-billion-india-accounts-for-largest-number-of-real-time-transactions-in-the-world/articleshow/91070124.cms#:~:text=NEW%20DELHI%3A%20At%2048%20billion,a%20report%20by%20ACI%20Worldwide

[8] Invest India. (2022). BFSI – Fintech & Financial Services. Retrieved August 10, 2022, from https://www.investindia.gov.in/sector/bfsi-fintech-financial-services

[9] Goyal, R., Roongta, P., Sinha, S., & Sareen, N. (2021, March 12). *India FinTech: A USD 100 billion opportunity.* Boston Consulting Group. https://www.bcg.com/india-fintech-a-usd-100-billion-opportunity

[10] Invest India. (2022). BFSI – Fintech & Financial Services. Retrieved August 10, 2022, from https://www.investindia.gov.in/sector/bfsi-fintech-financial-services

Data[11] by the Telecom Regulatory Authority of India (TRAI) suggests that the total number of internet users in India has increased significantly from 795.18 million in December 2020 to 834.29 million in September 2021. As for rural India, there are 351 million internet users[12] with 37% internet penetration.

Moreover, regulators such as the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI), have ensured increased accountability and security through their initiatives. One such initiative is the account aggregator framework, which facilitates sharing of financial information on a real-time basis between different regulated entities. Not only will this information help streamline the lending sector but also improve customer experience. So far, 10 banks—nine private and one nationalised, are on board the account aggregator system.

Lastly, and most importantly, the key drivers of this revolution are the remarkable minds that are at work to fuel this continuous need for innovation in the industry. The highly skilled talent pools well-versed with cutting edge technologies such as blockchain, cloud infrastructure, machine learning, etc., are crucial cogs that help the sector thrive.

Challenges Affecting Continual Growth

While fintech growth and adoption in India has been unprecedented, the overall ecosystem continues to face a variety of hurdles as it thrives. Even though consumers go about routine banking business with ease, and fintech companies enjoy relative stability, they still encounter certain difficulties.

- **Meeting regulatory standards:** Due to the sector's evolving nature, the industry regulations keep changing, leading to cost-related challenges for users and businesses. In fact, regulations for investment exits, payment regulations, data, infrastructure security, and consumer protection are still evolving. Traditional banking has always been heavily regulated, with inherently high operational and

[11] Telecom Regulatory Authority of India. (2022). Indian Telecom Services Performance Indicator Report. https://www.trai.gov.in/sites/default/files/PR_No.02of2022.pdf

[12] ET Brand Equity. (2022, July 28). *Rural India takes driving seat in India's internet usage growth.* https://brandequity.economictimes.indiatimes.com/amp/news/research/rural-india-takes-driving-seat-in-indias-internet-usage-growth-report/93182741

transactional costs. Many existing rules inevitably slow down or limit operations of fintech firms and, at times, even pose entry barriers in emerging markets like ours. They require a regulatory framework with flexible policies and inbuilt clauses to contain and mitigate potential risks.

- **Data and cyber security; privacy risk:** Fintech service providers across the globe face the challenge of protecting the data and privacy of the users. Indian fintech players are no stranger to these concerns. The threat of data breaches, malware, third-party security, cloud-based security, and even digital identity theft looms large in this sector. Firms are now actively working towards having fool proof mechanisms to address and contain these threats.

- **Ensuring profitability alongside innovation:** With greater emphasis on new offerings, higher penetration, and customer adoption, most fintech companies start out by offering their products/services at minimal or even zero cost to their users. However, as we advance, a business model based purely on innovation and growth may not work. The challenge would be to build innovative business models that are profitable, and also meet the standards of corporate governance and regulatory laws, at par with any other player.

- **Slow adoption rate and operating differences:** Lastly, traditional banks and fintech firms often find it difficult to walk the path together. One of the major roadblocks in the path of the fintech sector is differential adoption rates of technology, especially among conventional banks and financial agencies, which still dominate the Indian economy and boast of large customer bases. Traditional banks are more process-oriented and the regulatory framework they carry restricts their abilities. On the other hand, owing to fintech companies' flatter organisational structures and more flexible processes, they have fewer barriers to change, but have to rely heavily on partnerships with the conventional banks. Both entities are governed by different rules, usually determined by the organisation's size, nature, and staffing. Moreover, the decision-making process has a high degree of variance too.

The Road Ahead

As opposed to the common perception of fintech companies and banks being competitors, there is an enormous possibility of collaboration or even interdependency among these two entities. Legacy banks, despite having a large customer base, are not susceptible to quick changes and new technology adoptions. And since traditional banks do not have the flexibility to constantly innovate and implement, the responsibility of intervening and making the user experience smoother lies in the hands of fintech companies. And to make this process seamless, big banks can provide financial support to these companies which is the biggest hurdle faced by small banks and institutions. What one doesn't have, the other can facilitate. From the government's side, there is a far greater need to have more conducive policies which are consistent, sustainable and transparent to encourage the right investment to fuel the sector's onward journey. Going forward, the fintech services sector is bound to see multi-fold growth in my opinion.

***Rajnish Kumar**, former Chairperson of India's largest public sector bank, the State Bank of India (SBI), currently serves on the boards of HSBC Asia Pacific, L&T Infotech, Hero MotoCorp, and BharatPe. He is also the chairperson of the board of governors, Management Development Institute (MDI), Gurugram, India. Recognised as a leader of the 'Digital India mission', Kumar recently joined the international strategic advisory board of Dun & Bradstreet, a global provider of data and analytics. Under his leadership, SBI witnessed the mega-merger of six banks and the rolling out of YONO—SBI's digital banking platform.*