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Fintech Issues and Challenges in India

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Abstract: India is a growing market for Fintech with a population of nearly 1.3 billion. A huge percentage of unbanked and under banked population is making India an exhilarating global space for financial technologies. Fintech is regarded as a game changer and disruptive innovation which is capable of shaking up the traditional financial markets. Fintech has been growing rapidly in India in the last five years and is expected to grow further in the nearest future. At this outset the article focuses on the basic types of financial technologies and their functions and also discusses the opportunities and challenges it has in the Indian business environment.

Keywords: Financial innovation, Customer experience, Payments, Security

I. INTRODUCTION

The term 'Fintech', the short form of the phrase financial technology denotes industry that is comprised of companies which use technology for efficient delivery of financial services. It is an emerging type of service in this 21st century. The new start - up companies are trying to replace the traditional transaction system with the new, effective methods by applying technology in financial sectors for mobile payments, loans, money transfers and even for asset management.

Some more examples of technology applied to the financial transactions are peer-to-peer lending, peer-to-peer payment technology, digital wallets, Block chain and mobile banking. These aim in bringing further benefits and achieving high efficiency for the financial transactions. They also help to reduce costs incurred for customers.

II. OBJECTIVES OF THE STUDY

1. To fill the gap in the current academic literature regarding the financial technology (Fintech) companies and its functions.
2. To provide a conceptual overview of the Fintechs and adoption of Fintech among digitally active consumers.
3. To identify both the Motivators for adopting financial technologies, Barriers and Challengers for adopting financial technologies

III. FINTECH IN INDIA

The financial services landscape in India is being transformed by Fintech firms. The Research conducted (EY Fintech Adoption Index 2017) showed that India has moved forward to the second place after China with regard to the adoption of Fintech services. Fintech adoption in India is surprisingly very high. Powered by mobile wallets, and many more recent innovations like the Unified Payment Interface (UPI) platform, the Indian consumers have welcomed the use of mobile payments in their regular day-to-day transactions. Consumers are running through the bank sites for comparison shopping. Adoption of Fintech has increased significantly over the last two years in India .And according to EY's Fintech Adoption Index 2017, India was in the second highest place in Fintech adoption rate (52%) covering 20 markets globally. This was observed in each of the five categories of services. This was visible with digitally active Indian consumers displaying 50%— 100% higher adoption rates than the global averages

Adoption of Fintech among digitally active consumers

	Money transfer and payments	Financial Planning	Savings And Investments	Borrowing	Insurance
India	72%	20%	39%	20%	47%
Global	50%	10%	20%	10%	24%

Source: EY Fintech Adoption Index 2017 Country Dashboard.

IV. MOTIVATORS FOR ADOPTING FINANCIAL TECHNOLOGIES ARE

1. Ease of setting up of an account
2. Ability to access to wide variety of products and services
3. Effective service quality
4. Good online experience and functionality
5. Attractive rates and fees
6. 24/7 access to services
7. Availability of more innovative products when compared to traditional financial institutions

V. BARRIERS FOR ADOPTING FINANCIAL TECHNOLOGIES ARE

1. Lack of awareness
2. Lack of proper knowledge of their usage and functions
3. Feel traditional financial services provider as more reliable
4. Lack of trust on the financial technologies

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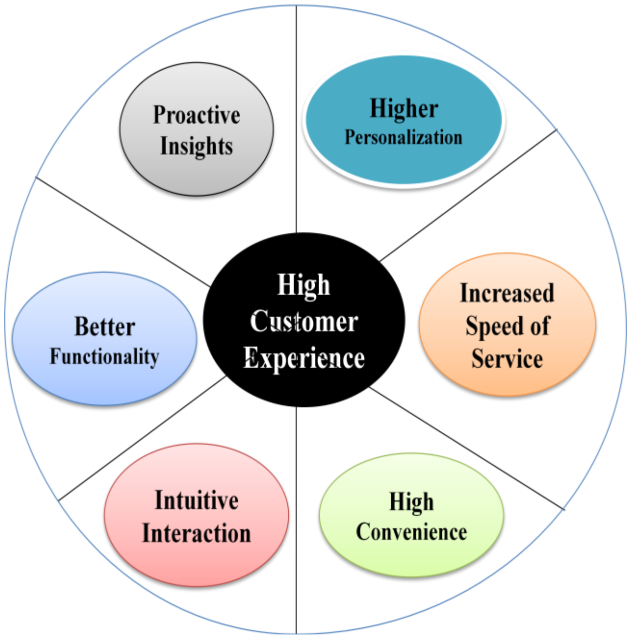
VI. HIGH CUSTOMER EXPERIENCES - A WIN – WIN SCENARIO

Customers though are the primary beneficiaries of any business; a win-win scenario may be created for all including incumbent firms. If the customer journeys are being effectively redesigned, it encourages customers to think of financial institutions to be not only as the service providers but also as experts who can be relied upon for advice and also for wider range of services A few factors can impact customer experience positively. If firms focus on a few critical elements they can help in maximizing their efforts in improving their customer journeys. These factors are discussed below.



Source: Created by the author

Higher personalization:
Availability of huge customer data can be effectively used in providing personalized offerings and services according to the tastes and preferences of the customers.

Increased speed of service: Today's Customers are habituated to get things done quickly and digitally. Excess delays are resulting in customer turn-off. So the speed of the service have to be increased to minimize this situations.

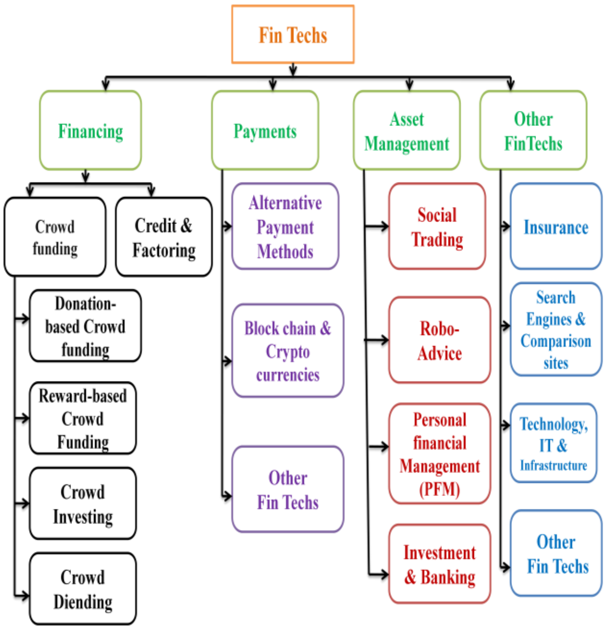
Improved convenience:
24/7 services are available to provide access to any time service at anywhere through any channel or device

Intuitive interaction:
Customers can be guided comfortably through their journeys through design-based
User - interface principles. Also Firms can hold AR/VR technologies for better customer engagement.

Better functionality:
Firms keep on improving themselves while solving the customer pain points. It helps in providing innovative solutions.

Proactive insights:
Firms take the support of predictive analytics to identify and understand customers' needs in advance and provide services accordingly. Firms help customers in prevention of fraud or money - saving opportunities. These unexpected services may sometimes add appreciation and delight to the customer experience.

VII. FINTECH INDUSTRY SEGMENTS



I. FINANCING

Fin Tech companies are changing the financing or lending process. People need not to turn to banks for borrowing money anymore. Many Fin Tech firms are now lending loans directly to consumers. They can seek loans through online and get them approved quickly. Firms assess the borrowers' credit worthiness and automate the underwriting process quickly.

There are two ways of financing. They are Crowd funding and Credit & Factoring.

Crowd Funding

There are different types of crowd funding options. Each one of them has their own distinct benefits for businesses and investors. Customer has to choose one of them according to his/her needs

Donation based crowd funding

Donation crowd funding is used for charities or for a particular cause. Here donations are given in expectation to nothing in return except satisfaction.

Reward based crowd funding

It is one kind of a source for funding small businesses. This is mostly used for creative projects. This permits investors to fund the venture for non-financial benefits.
It is like a tired system. The more he donates the greater will be the reward (Reward are like tickets to an event, coupons, free gifts etc.).The reward given is not going to cost much to deliver. This is going to be the benefit to the business.

Crowd investing

It is the term given where a large group of people or the crowd, co-invest in people or business through online. Crowd investing comprises of both equity and debt forms.

Those investing together need not know each other before they have decided to invest. They either get interest with their investment or shares in return.

Crowd lending

Crowd lending helps businesses and private individuals to secure loans from the public. It provides a platform for both the lenders and borrowers. Through an efficient and powerful it brings both the investors and borrowers come together and lend and borrow money. The lender will be receiving certain percentage of money as interest for the money lended. This platform perform various functions performed by the banks

CREDIT & FACTORING

As such like lending, factoring also has moved to the internet. Fin tech companies are offering online applications with just a simple mouse click. This is providing a new way to get access to working capital for small business entrepreneurs. With a simple button push companies can sell the account receivables and have money in their accounts within a very short period of time. In short, factoring is a lending option where a seller can avail loan on his receivables.

II. PAYMENTS

Financial technology market comprises the other popular category 'payments'. Companies of this category allow people to send money to each other without relying on banks. Banks are levying huge fees for a simple payment like peer-to-peer transfer.

Fintech companies allow consumers to send money cost effectively and quickly. A few technologies like block chain are making this possible for the companies to process payments in a more cost effective manner than banks.

Alternative payment methods

Normally we log into the bank account if we want to make a payment and manage from there. Bu now Fintech companies developed alternative payment channels for the convenience of the customer. In majority of the customers they facilitate payment without logging into their bank accounts. A few companies even allow customers to make payments through social media accounts like twitter and face book messenger. The customer need not log out of the app and log in to the banks app

Block chain technology and crypto currency

Banking and financing industry was made disrupt through block chain technology by the Fintech companies. Today, block chain is used to keep a better track of one's asset movement and also to record transactions as a shared digital ledger. It is impossible to steal th information as it is been stored across a network of personal devices. So the security problem which is the biggest problem today is being solved. It is more affordable and also helps you in quick payments. They don't have intermediaries like banks.

III. ASSET MANAGEMENT

Financial and investment advisory services are been provided to high-net worth individuals as a part of Asset Management. Individuals can directly contact the wealth managers and plan their financial needs like insurance planning, retirement planning, portfolio management etc. They need not seek the help of multiple people or firms.

Social trading

Social trading, a relatively new term is built on the concept that thousands of traders collective wisdom is better rather than the wisdom of one. Traders from different parts of the globe are connected by social trading hubs. They create a network where the views and trades of different people are being shared. Investors can make use of the information to make important social decisions rather than depending on quantitative data, broker recommendations or company fundamentals.

Robo advice

To help in managing your investments a new kind of software has been emerged. It is largely automated investment advice based on algorithm. It acts as a good financial advisor for the one who doesn't want to take the help of financial advisor or for the one who doesn't have enough assets and can't afford to pay for the financial advisor. Robo advisors build customers a diversified portfolio.

Personal financial management (PFM)

It refers to the software which helps in managing the money of the individuals. It is just an acronym for technology based budgeting. It adds accounts from multiple institutions and helps you in budgeting. It helps the customers have a check on their income and costs and stick to the budget and avoid debt.

Investment and Banking

Automation is showing a great impact on the world of finance like any other industry. Fintech's are now ready to disrupt traditional investment banking models with lower cost banking and financial planning websites. The firms started targeting and invading big investment bank's business models. They started probing into private investment, wealth management and small business lending.

IV. OTHER FINTECHS

The Fintech businesses which are providing other services apart from traditional banking functions like financing, payments and asset management are described as other Fintech's. It includes insurance, Search engines & comparison sites, Technology, and IT & Infrastructure.

Insurance

Insurance market was also been captured by the financial technology companies. Majority of the companies are focussing on distribution in this category. These companies are trying to reach the customers through different apps.

They are very flexible rather than the traditional insurers. The companies are trying to partner with traditional insurance provides as the insurance market is highly regulated. These Fintech's are regarded as InsurTech's.

Search engines & comparison sites

This is a sub segment which comprises of search engines enabling comparison of various financial products and services available from various service providers.

Technology, IT & Infrastructure

Technology, IT and Infrastructure sub segment comprises of Fintech's which provide necessary technical solutions for different financial services providers

VIII. CHALLENGES OF FINTECH IN INDIA

Fintech despite of having huge opportunities has still a tough path to walk on. Below is the probable roadblocks list in the path of Fintech enterprises

1. It is not very easy to enter into the Indian market and perform due to the restrictive regulatory framework designed to prevent frauds. It acts as a huge barrier for the new entrants. They need to fulfil lot of formalities before the start of its operations itself

2. Unbanked population, Poor infrastructure in terms of Internet Connectivity and low literacy level are the other hindrances. Still a huge Indian population (48 percent) do not have bank accounts which are a must for conducting online transactions. Even though the people have bank accounts they still face the issues of poor internet connectivity which takes more processing time to finish the transaction. So people tend to prefer a cash transaction rather than online transaction. Keeping aside, the point of having a bank account and internet connectivity the majority of the Indian population still do not have enough financial literacy level suitable to go for it.

3. It is very tough to change the conservative approach of merchants and users who deal the daily transactions with cash. Majority of the aged people have been doing these transactions in cash from a long time and it's hard to suddenly change their old habits and introduce them to new avenues at this age.

4. Different frauds leading to loss of money in online transactions is a very hard bite to swallow for the customers. People's money is looted by the fraudsters by using technology and this has been a great challenge in front of the fin tech firms. So the firms indeed have to work hard for bringing improvements in infrastructure and being more consumer friendly.

5. Fin tech in India is deprived of lack of government support and Incentives for protecting their interests. At a very basic level this demoralizes the entrepreneurs. They were not provided the right guidance and support to start though it is something for the betterment of the country's economy as well.

6. Like in any industry gaining investors trust is very difficult in these days for the Fin tech industry too. Getting the required seed capital and other investment on time is becoming very difficult and this is going to reflect negative on the operations and functioning.

IX. CONCLUSION

In all segments of financial services there is a plethora of Fin Techs emerging in India. By observing the pace of fin techs emergence, the fact that India has enormous entrepreneurial potential cannot be denied. There are around 1500 Fin Tech startup firms operating in India, and of these, nearly half were started in the past two years. Both technically and financially the fin tech firms need to be groomed well. We can see a majority of successful startups in a payments space and it is expected the same with the other financial segments as well. The fin tech industry need to be encouraged further with different initiatives by the government and other regulatory bodies.

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