



India's Growing FinTech Market

This editorial is based on [“Four challenges that fintechs face in practising responsible innovation & how to fix them”](#) which was published in **Economic Times** on 21/12/2022. It talks about the **Fintech Industry in India** and challenges related to it.

For Prelims: Fintech industry, Internet, Crypto-currencies, Micro, Small and Medium Enterprises, Jan Dhan Yojna, Direct Benefits Transfer, IndiaStack, Unified Payments Interface, Central Bank Digital Currency (CBDC), Reserve Bank of India, Digital Rupee, Digital lending.

For Mains: Significance of Fintech in Indian Context, Growth of FinTech Being Driven by Government Initiatives, Issues Associated with the Fintech Industry.

The **Fintech industry** has seen tremendous growth in India over the last decade since it caught pace after the **expansion of internet services in the country**. With a fintech adoption rate of **87% against the global average of 64%**, India is **one of the fastest growing fintech markets in the world**.

However, despite registering unprecedented growth in the last few years bolstered by the rapid **internet penetration**, India **still has the second largest population without access to banking services** with 190 million unbanked people. Therefore, there is a need to **extend technology-based financial services across the length and breadth** of the country in a secured manner.

What is Fintech?

- **Financial technology (better known as Fintech)** is used to describe new tech that seeks to improve and **automate the delivery and use of financial services**.
- It includes any technological innovation in the financial sector like **retail banking, investment and even crypto-currencies (Decentralised Finance (DeFi))** that seeks to enhance financial literacy and education.

What is the Significance of Fintech in Indian Context?

- **Promoting Financial Inclusion in India:** A large number of Indians remain outside the formal financial system, and the use of financial technologies **can help close the gap left by traditional banking and finance models**.
- **Finance for Micro, Small and Medium Enterprises (MSME) :** One of the biggest threats to **MSME** existence is a lack of capital. According to the IFC Report, the **MSME credit gap is estimated at USD 400 billion**, which is where **FinTech can play a key role, and solve the issue of credit** availability.
 - With several FinTech start-ups offering easier and quicker access to loans, **MSMEs are no longer required to go through the tedious process** of documentation, paperwork and multiple visits to a bank.

- **Improved Customer Experience:** FinTech start-ups provide **convenience, personalisation, transparency, accessibility, and ease-of-use to their customers**, empowering them to a high degree.
 - **Developing credit scores** and underwriting credit for customers with limited credit histories will improve financial services penetration in India by leveraging **big data, machine learning, and alternative data**.

How is the Growth of FinTech Being Driven by Government Initiatives?

- **Jan Dhan Yojana:** The world's largest financial inclusion initiative, "[Jan Dhan Yojna](#)", has helped in **new bank account enrolment of over 450 Mn beneficiaries** for **direct benefits transfer** and accessibility to a host of financial services applications such as remittances, credit, insurance, and pensions.
 - This has **enabled FinTech players** to build technology products to penetrate the large consumer-base in India.
- **India Stack:** [IndiaStack](#) 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.
 - The India Stack has been the **driving force behind the accelerated evolution of Fintechs**.
- **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**.
 - UPI, with over 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**.

What are the Issues Associated with the Fintech Industry?

- **Cyber-Attacks:** Fintech systems are vulnerable to hackers because of automation of processes and **digitization of data**. Recent **hacks by debit card companies and banks demonstrate the ease with which hackers can gain access** to systems and damage them irreparably.
- **Regulatory Challenges:** Regulation is also a problem in the emerging world of FinTech, especially **cryptocurrencies**. The Indian government is following a **wait and watch policy towards cryptocurrencies**. 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.
- **Financial Illiteracy:** The lack of financial literacy is also a problem. **Only 27% of Indian adults** - and 24% of women meet the **minimum level of financial literacy** as defined by the [Reserve Bank of India](#).
- **Illegal Digital Lending:** During the pandemic, **digital lending** through mobile apps became popular, but many problems accompanied it.
 - It was found that **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%.

What Should be the Way Forward?

- **Consumer Awareness:** In addition to establishing **technological safeguards, educating and training customers will also help in democratising fintech** and guarding against cyberattacks.
- **Effective Regulatory Framework:** **Transparency and sound regulation** will strengthen the fintech sector over time and facilitate the Indian economy's growth at its potential rate by fuelling the engine of economic growth.
 - There is a need for a more constructive approach towards **recognizing the role FinTechs**

play in India's financial inclusion agenda and setting up financial targets that removes current ambiguities while allowing **FinTechs sufficient flexibility to come up with new propositions.**

- **Maintaining Data Privacy:** The **regulatory framework for Fintech** companies to manage their data can be framed through joint collaboration between **Ministries of Corporate Affairs and Electronics and Information technology.**
 - 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.

Drishti Mains Question

Discuss how the Fintech industry is driving financial inclusion in India. And cite recent government initiatives responsible for the growth of Fintech.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. With reference to India, consider the following: (2010)

1. Nationalisation of Banks
2. Formation of Regional Rural Banks
3. Adoption of village by Bank Branches

Which of the above can be considered as steps taken to achieve the “financial inclusion” in India?

- (a)** 1 and 2 only
- (b)** 2 and 3 only
- (c)** 3 only
- (d)** 1, 2 and 3

Ans: (d)