



## 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)**