

The Role Of Fintech In India's Digital Economy

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Abstract

Over the past few years, India's digital economy has experienced an incredible development trajectory that has changed the traditional financial environment and the way businesses function. Millions of Indians are benefiting from the new solutions being developed by fintech, or financial technology, which is making financial services more convenient, affordable, and accessible. Peer-to-peer lending platforms and mobile payments are just two examples of how fintech is transforming traditional banking practices. A decade ago, these practices were unthinkable. In this article, we examine some of the major themes influencing the future of the Indian digital economy and go deeper into the role of fintech in it.

Keywords: Fintech, Economy, E-Commerce

INTRODUCTION

FinTech, short for "financial technology," is a general term describing software, mobile applications, and associated solutions designed to improve and automate traditional financial forms for businesses and private users.

Fintech, an acronym for financial technology, is a

swiftly expanding sector that denotes the application of technology in providing financial services. Fintech has been at the forefront of several financial breakthroughs in the last several years, including peer-to-peer lending, robo-advisors, blockchain, and mobile payments.

Although the fintech sector is still in its infancy, it has already had a significant influence on how we bank, invest, and send money. Furthermore, fintech

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is expected to play an even larger role in India's digital economy given the growth of mobile commerce and digital banking there.

Fintech plays a crucial role in India's digital economy for a variety of reasons. Fintech, among other things, gives Indians access to financial services that they might not have otherwise. This is particularly true for underbanked and rural people, who frequently lack access to typical banking services and products.

Fintech contributes to lower financial services costs as well. Fintech companies are facilitating greater accessibility to financial services for all people by lowering the cost and simplifying the process of sending money, making payments, or applying for a loan.

Lastly, India's remarkable rise to prominence in the world economy is largely due to fintech. India is a market that many foreign firms find appealing due to its enormous population and developing economy.

Any company that uses technology to alter, enhance, or mechanize financial services for people or companies is considered a fintech. These financial technologies include trading platforms, automated portfolio managers, peer-to-peer payment systems, and mobile transactions. It also covers the development of cryptocurrencies and their exchange.

It is possible to have a strong understanding of fintech even though it is a challenging topic. Therefore, the greater accessibility and decreased overall costs brought about by FinTech's streamlining of financial transactions benefit both businesses and consumers.

Fintech's overarching objective is to streamline transaction processing by eliminating needless steps for all participating financial technology partners. For example, one can pay other people with mobile transfers, and the money goes directly into the recipient's bank account. In contrast, the recipient

will have to physically credit the funds at the bank if the item is paid for with cash or a check.

Objective of the study: -

1. To study the types of Financial Technology used in the Indian economy.
2. To analyze the various roles and benefits available for Fintech concerning the Indian digital economy
3. To study the challenges faced by Fintech concerning Indian Economy.

Types of Financial Technology: - Let us have a look at the types of financial technology.

1. Peer-to-peer lending: - When people borrow money from one another, they can participate in peer-to-peer lending or P2P lending. Likewise, peer-to-business lending, or P2B lending, describes the practice of one or more people lending money to a firm. These lending methods make it easier for investors to earn larger returns than those provided by bond markets by allocating their capital to borrowers with good credit scores.
2. Payment Gateways: - Payment gateways are online systems that let clients make payments directly on a retailer's website for goods or services. These days, there are numerous ways to pay for goods, including cryptocurrency, digital wallets, debit cards, and credit cards. FinTech companies are combining these many modes of payment into convenient applications that internet retailers can easily integrate into their websites at a reasonable cost. Financial technology businesses are merging all of these payment ways and doing away with the exorbitant fees that banks typically charge to handle transactions from all of these different methods.
3. Electronic wallets: - An online payment processor and a simple checking account are combined into a digital wallet. Using this business model, a user can pre-load a certain

quantity of virtual currencies into their wallets and use this virtual money to transact with businesses that accept digital wallets as a form of payment. These exchanges might happen offline or on the internet. A digital wallet's business concept includes allowing customers to transfer money comfortably for a small fee. Wallets are mostly used by businesses that use retail locations to sell their services directly to consumers.

4. Online shopping: - Customers can use the licensed bank service to make purchases with the "buy now, pay later" strategy. Consumers can pay for their items with interest-free or low-cost installment arrangements. When the transaction is divided up in this way, the customer can pay for the merchandise gradually rather than all at once.
5. Investing in Stocks: - The standard broker-client relationship can be easily accessed via digital platforms for online communication. The founders saw that even if transactions didn't require a large amount of money, the majority of investing platforms charged their users exorbitant fees. As a result, a lot of companies launched their fee-free platforms, enabling unrestricted phone trading.

For instance: - Let's examine each of the fintech categories mentioned above with an example.

Peer-to-peer lending technology companies such as Funding Circle offer internet platforms that facilitate the connection between borrowers and lenders. Frequently, these businesses take a fee from the amount that the borrower repays.

Payment gateway apps like Stripe, Alipay, and iZettle are frequently utilized by companies that sell their goods or offer their services to clients directly.

Payment processing for online purchases and any other digital transaction is provided by Klarna, an e-commerce financial technology company. Klarna provides several payment options, such as web store

payments, pay-post delivery options, and direct transactions.

Among the numerous apps that enable digital stock trading is Robinhood. In addition to commission-free trading and exchange-traded fund trading, the company just started providing cryptocurrency trading to its clientele.

Role of Fintech in India's Digital Economy: -

India is not an exception when it comes to the new slogan for economic growth and development: the digital economy. The nation is making a significant effort to go digital, and fintech is essential to this effort. Financial technology, or fintech for short, is the use of technology to deliver financial services. Fintech businesses in India are offering creative solutions that are assisting in the development of the nation's digital economy.

One area where fintech is having a significant impact is payments. In India, cash remains the primary form of payment for a sizable portion of the unbanked population. With the emergence of fintech businesses offering digital payment options, this is beginning to change. These solutions support financial inclusion and are safe in addition to being convenient.

Fintech is also having a significant impact on lending. It's challenging for a lot of small firms in India to obtain conventional bank financing. Fintech firms are developing novel loan solutions tailored to these enterprises' particular requirements. These goods not only support company expansion but also generate employment.

Fintech is also becoming more noticeable in the field of investment management. The majority of Indian investors still place their money in tangible assets like gold and real estate. However, individuals can now invest in financial assets like stocks, mutual funds, and ETFs (exchange-traded funds) thanks to fintech.

Benefits of Fintech in India: -

Businesses in India will inevitably undergo digital transformation. This shift is being made possible in large part by the fintech sector, which is offering cutting-edge solutions that support companies in increasing their productivity, growth, and operational agility.

Here are a few of the main advantages of fintech for Indian companies:

1. **Better Customer Experience:** Fintech solutions empower Indian companies to offer better customer experiences by integrating mobile wallets, enabling real-time payments, and utilizing AI-powered chatbots, among other benefits. Increased client pleasure and loyalty are the outcome of this.
2. **Cost Reduction:** By automating procedures and removing manual interventions, fintech solutions assist companies in cutting costs. Time and resource costs are being reduced as a result of this. Fintech companies also provide competitive pricing structures, which help organizations cut expenses even more.
3. **Enhanced Security:** Businesses are shielded from cyberattacks and data breaches by the sophisticated security features that fintech solutions offer. By doing this, companies can function with confidence, knowing that their information and business processes are safe and secure.
4. **Enhanced Regulatory Compliance:** Fintech solutions are making it easier for companies to comply with the constantly evolving regulatory regulations. By doing this, companies may stay out of trouble and keep up a solid compliance record.

Challenges of Fintech in India: - The fintech industry in India is currently facing several challenges that are hindering its growth.

- **Problems with Accessibility:** - Fintech businesses typically only conduct business online; therefore,

they don't have physical locations where customers may go to get assistance. Customers who prefer face-to-face encounters or need help with complicated financial matters may find this troublesome. Fintech may also be a factor in financial exclusion, depriving some people of access to financial services.

- **Threats to Security:** - Digital technology plays a major role in the financial services offered by fintech companies. Although there are numerous advantages to this technology, there are also serious security dangers. Consumers' financial and personal information can be compromised by cyberattacks and data thefts, which can cause significant financial harm. For security breaches, fintech companies can also be held liable on a personal and professional level, which can be expensive and hurt their brand. Moreover, these dangers may be made worse by the fintech industry's lack of regulation.
- **Reliance on Electronic Devices:** - Fintech depends on the internet and other digital technologies to deliver financial services, so service interruptions may arise from technical issues. Fintech businesses also frequently gather enormous volumes of data to offer individualized financial services. Although this may be advantageous, it may also jeopardize consumer privacy and result in data breaches.
- **Worldwide Unbalance:** - Fintech holds promise for democratizing finance and fostering economic expansion. It may, however, also exacerbate global imbalances by displacing some people and geographical areas. Fintech companies, for instance, frequently target high-income clients, depriving low-income clients of access to financial services. In addition to its potential to have serious negative effects on the economy and society, fintech can also exacerbate social marginalization and environmental damage.
- **Risks Associated with Operations:** - Finally, because the fintech industry moves quickly and requires real-time operations management, fintech companies are exposed to severe

operational risks. These risks include unforeseen events in the market, failing to follow legal and regulatory standards, being held personally and professionally liable, cyberattacks and data theft, and a rise in international competitiveness. To reduce these risks, fintech companies need to carefully choose their strategic partners and appoint knowledgeable IT security and cyber risk management teams. Fintech is anticipated to keep expanding and innovating in the banking sector despite these drawbacks. We will go into greater depth about each of these drawbacks and look into possible fixes in the sections that follow.

Fintech's prospects in India: - Fintech is one of the Indian economy's fastest-growing sectors in recent years. Today, India is home to several globally recognized fintech startups and companies, and the industry is contributing significantly to the growth of the nation's digital economy. Looking ahead, a lot of variables are probably going to influence how fintech develops in India. First off, the government's efforts to create a world without currency are probably going to increase demand for fintech goods and services. Second, there is a sizable untapped market that fintech companies can enter as more and more Indians gain access to cell phones and internet connectivity.

Eventually, there will be a rise in the requirement for financial services to meet the needs of India's growing middle class. It follows that fintech in India has a very promising future. With its enormous potential, the industry is expected to grow quickly in the upcoming years.

CONCLUSION

In conclusion, India's digital economy has benefited greatly from fintech. It has played a significant role in the development of more effective financial services and systems for both individuals and corporations. Fintech is currently positioned to completely transform the banking and finance

sectors thanks to its cutting-edge technology that provides those who need it most with improved access to financial services. India's fintech industry will expand and contribute to the nation's increased economic prosperity with ongoing government assistance.

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