



OPPORTUNITIES IN INDIA FOR FINTECH COMPANIES



Newsletter

INDIA's financial technology (Fintech) sector is new and is developing faster, geared up by a huge market base, an innovative and technology driven startup landscape, and government friendly policies, rules and regulations.

Many startups colonize this emerging and dynamic sector, while both traditional banking institutions and non-banking financial companies (NBFCs) are playing alongside.

According to the report published by National Association of Software and Services Companies, around 400 Fintech firms have operated in India, developed in huge part by foreign investments in Fintech.

National Association of Software and Services Companies have predicted that India's Fintech software market alone can touch US\$ 2.4 billion by 2020, doubling on the current rate of growth.

TECHNOLOGY and the financial services in the Indian market

Fintech refers to the scope of financial services driven by technological developments on digital platforms. This new interference in the banking and financial services sector has a wide impact on the market. Following few service offered digitally include:

Peer-to-Peer (P2P) Lending Services:

Peer to peer lending is a crowd funding online model where people looking to invest their money with the people who want to borrow can do so. This concept comes with the purpose that the people who have surplus fund can earn more interest than

saving or depositing in FD account and reduce the complex procedure of documents subject to risk. Examples are Lend box, Faircent, i2iFunding, Shiksha Financial, GyanDhan, and Market Finance.



Payment Services:

Post demonetization digital wallet business model has seen remarkable growth in past few months in early 2017.

The explosion in the field of digital payment wallets is not very surprising and is showing no sign of slowing down while continuously competing with other online players in the market; such as network operators, device vendors, application developers etc.

Companies allow both private individuals and businesses to accept payments over the web and on mobile without needing merchant accounts. Transfers are made directly to the bank account linked to the payee in order to secure against fraud. Examples are Mobikwik, Pay tm, and Oxygen Wallet.

Remittance Services: A few foreign startup ventures, are trying to address the gaps in remittance transactions(both inbound and outbound) in India as the current process is burdensome and expensive. These startups aim to interrupt the current monopoly held by firms like Western Union and Money

Gram. Examples are Instarem, FX, and Remotely.

Personal Finance or Retail Investment Services:

Fintech companies are growing to provide customized financial information and services to individuals. Many Companies provide an online digital platform to save, manage, and invest one's personal finances based on one's specific needs. Examples are FundsIndia.com, Scrip box, Policy Bazaar, and Bank Bazaar.

Software Services:

Companies are offering a range of cloud storage, cloud computing and technology solutions to improve access to financial products, financial services and in turn increasing the efficiency in day to day business operations.

The FintechCompanies are speedily diversifying their scope from providing online accounting software to create specialized digital platforms connecting buyers and sellers in specific industries.

Crowd funding:

Crowd funding platforms facilitate the funding of a project by raising funds from public at large. Such platforms are gaining popularity across the world due to their accessibility as contacting venture capital is often difficult to secure. In the initial stage of a businesses' operation these services are particularly targeted at.

SCOPE for growth in India

There is an exemplary growth for Fintech Companies in a Country like India. Currently the Fintech firms are redefining

the way companies and consumers undertake financial transactions on a daily basis.

This is why global investments into Fintech ventures have been increasing at record speed – tripling to US\$ 12.2 billion in 2014 from US\$ 4.05 billion in 2013, and reaching US\$ 19.1 billion in 2015.

Investment in India's Fintech industry grew 282 percent between 2013 and 2014, and reached US\$ 450 million in 2015.

Global Fintech Investments (\$ in Billion)

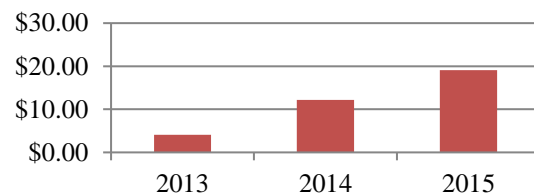


FIGURE 1

Fintech Investment in India (\$ in Million)

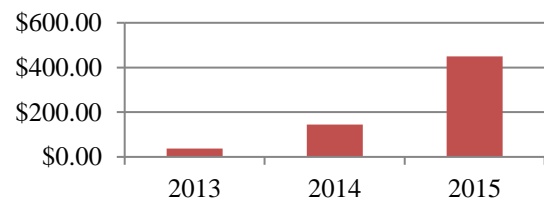


FIGURE 2

DISRUPTIVE potential in the finance and banking sector:

Fintech Companies are breaking new ground in the formal finance sector through innovative and dynamic use of technology in the lending process.

For instance, while there are around 100 traditional banks, the number of NBFCs is around 1100 in India. The use of technology in simplifying the calculation of credit scores, Fintech Companies use machine learning algorithms and alternative data points such as social media footprints, call records, shopping histories, and payments to utility service providers to increase efficiency and provide greater access to credit.

Also the Loan approval and disbursal of loan amount is much faster by Fintech firms rather than Banks.

The average turnaround time period by Fintech startups and banks has been depicted in the below image:

Average Turnaround Time	
Banks	FinTech Start-ups
Usual average time taken to process loans= 28.5 days	Average time taken to process loans=1-10 minutes
Average time taken after digitization=1 day	

CHALLENGES and Opportunities for Fintech Companies

As Indians are known for their conservative approach the Fintech startups have to encourage greater confidence among Indian customers in their financial preferences in order to become successful.

While government's pro-startup policies and flexible regulatory conditions imposed by the Reserve Bank of India (RBI), have benefited the digital Fintech Companies to operate in the market but the formal institutions possess an established infrastructure and legacy that is not easily replaceable.

There are certain key challenges before the Fintech Venturist like to figure out how to influence the financial behavior of the Indian Markets also setting up a strong and responsive regulatory infrastructure to keep pace with the speed of technological innovation.

On the other hand, it is easy for the traditional banking houses and financial institutions to control their existing customer base and adopt digital products to look after strong financial relationships while improving service efficiency and broadening access to meet the changing requirements.

Some of the developments made by existing players in the market are as follows:

- HDFC and Axis Bank have launched mobile phone applications to ease digital transactions;
- Federal Bank have announced a partnership with Startup Village to develop innovative banking products;
- Goldman Sachs Principal Strategic Investments Group (GSPSI), is a leading global investment banking, securities and investment management firm, is looking to invest in Bangalore's fintech startup scene.
- U.K. gigantic Barclays is set to open its fifth global fintech innovation center in India;

Thus, the growth prospects in technological innovation may not necessarily produce a mutually exclusive relationship between traditional institutions and fintech firms in India.

RIGHT combination of incentives, policies, and regulation

RBI has been taking initiatives to foster the growth of Fintech sectors and continuous parallel government reforms have been taken for focused and fostering financial inclusion.

This has resulted into encouraged competition and innovation in India's nascent Fintech sector on a more or less even playing field.

Role of Reserve Bank of India: The RBI has recently set up a multi-disciplinary committee to study the opportunities for Fintech business in India. The goal is to understand the risks involved and emergence of new models, and assess how the banking system could then adapt and respond to them. So far the RBI has promoted the Unified Payments Interface and the Bharat Bill Payments System, as well as digital payments, P2P lending, and the use of automated algorithms to offer financial advice. Moreover, the RBI has granted licenses to 11 Fintech entities to establish payment banks that provide savings, deposit, and remittance services.

Government Schemes: The Govt. has introduced following schemes such as the Jan Dhan Yojana, Digital India program, and Aadhar's Unique Identification system that have provided important enabling platforms for technology innovators.

Also, e-governance systems promoted by the government facilitate transparency by removing the involvement of middlemen. The removal of surcharges on electronic transactions, tax benefits for consumers and businesses using e-payments, and changes in

authentication requirements are other examples of the government's efforts to encourage the growth of a Fintech system in India.

Startup Fintech Sector: This may be the greatest empowering incentive towards the expansion of Fintech ventures in India. In 2015 alone, as per data Analytics Company, Traxcn, an encouraging regulatory environment has enabled the launching of 174 Fintech startups. Several national and international banks and investment groups are also investing in India's Fintech startups and funding Fintech solutions.



Observations

A revolution has been driven by the digital and technological innovation that has transformed the business operations across all industries, including the financial and banking sector.

The Indian government and regulatory institutions have also welcomed the new developmental changes and have promoted an entrepreneurial rather than creating an obstructive climate for Fintech in India.

However, the policies and governance still need to match the speed of innovation in this sector, particularly to ensure secure and transparent growth.

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