



## FinTech Conclave 2019

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**FinTech Conclave-2019** to be inaugurated by **Governor, Reserve Bank of India (RBI)** in New Delhi on **25<sup>th</sup> March, 2019**.

- The conclave, whose objective is to **shape India's continued ascendancy in Financial Technology (FinTech)**, build the narrative for future strategy and policy efforts, and to deliberate steps for comprehensive financial inclusion is **organised by the NITI Aayog**.
- The Reserve Bank of India has categorised these **financial technology (or fintech) companies as peer-to-peer (P2P) lenders**.

### Peer-to-Peer (P2P) Lending

- Peer to Peer lending, also known as **P2P Lending**, is a financial innovation which **connects verified borrowers** seeking unsecured personal loans **with investors looking to earn higher returns** on their investments.
- P2P lending service providers have been in business in India since early 2014. However, it was in **September 2017**, RBI notified that these will be **registered as non-banking financial companies (NBFCs)** and subsequently came out with **guidelines for P2P lending**.

### Background

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- India is one of the **fastest growing FinTech markets globally** and industry research has projected that USD 1 Trillion or 60% of retail and SME credit, will be digitally disbursed by 2029.
- The Indian FinTech ecosystem is the **third largest in the globe**, attracting nearly USD 6 billion in investments since 2014.
- The Indian FinTech industry is creating cutting edge intellectual property assets in advanced risk management and artificial intelligence that will propel India forward in the global digital economy while simultaneously enabling paperless access to finance for every Indian.

## Fintech Sector

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- Fintech (Financial technology) describes an emerging financial services sector.
- Originally, the term referred to computer technology applied to the back office of banks or trading firms, and now the term has **expanded to include any technological innovation in the financial sector** including innovations in financial literacy and education, retail banking, investment and even crypto-currencies like bitcoin.
- **Potential benefits of FinTech**
  - **Efficiency** improvements,
  - **Risk reduction** and **greater financial inclusion**.
  - They can **address the unmet demand from Indian micro, small and medium enterprises (MSMEs)**, as well as consumers, for credit.
    - E.g.: According to the **India Fintech Report 2019**, the traditional ways of banking approve only 25-40% of the loan applications.
    - However, with access to more data for credit scoring such as transaction behaviour, app-based data, location information, social data and others, these new lending models can increase this threshold by additional 10–15%.
- With tech-enabled underwriting, FinTechs can provide **tailor-made loans** to various merchants as per their industry segments ranging from food and beverage, apparel, salon, petrol pumps, automobile dealers etc. with quick turnaround times to meet their urgent funding needs
- The rural population (which is new to credit) can benefit from this since the urban population is likely to leverage fintech lending services to avoid heavy documentation.
- **Challenges**
  - Difficulty of **regulating an evolving technology**,
  - Monitoring activity **outside the regulated sector**.
  - Since, there is no connect with customer as the application is completely processed online there is **higher risks of non-performing assets (NPAs)**.
- Few countries have taken a variety of regulatory and supervisory initiatives such as **regulatory sandboxes, innovation hubs, innovation incubators or accelerators, etc.**

## Regulatory Sandbox

- A regulatory sandbox is an **entity hosted by the regulators that enables temporary, limited-scale testing** of a new product that may involve some regulatory ambiguity.
- It allows businesses to **test innovative products, services, business models and delivery mechanisms** in the real market, with real consumers.
- Inside this **controlled environment**, regulators relax applicable laws or deploy new ones specific to the applications being tested and then observe how the software functions in the new framework.

## Way Forward

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- The MSME lending landscape is evolving and is set to be disrupted by digital lenders, backed by **continuous thrust by Government of India towards digitisation through demonetisation, Unified Payments Interface launch, and the introduction of GST.**
- Moreover, it is estimated that by 2023, MSME digital lending has the **potential to increase between 10 and 15 fold creating immense opportunity for both traditional lenders and digital start-ups.** Therefore, the initiatives like FinTech conclave is in right direction which aims to evolve future strategy.