



The Challenges for Fintech Adoption in India

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(The editorial is based on the article “The challenges for fintech adoption in India” which appeared in LiveMint on 15th October 2018. It analyses the challenges and opportunities for fintech in India.)

New digital technologies have been playing an important role in transforming economies through inclusion across the globe. Fintech (Financial technology) is one among those technologies.

The International Monetary Fund and the World Bank Group recently launched the Bali Fintech Agenda, a set of 12 policy elements aimed at helping member countries to harness the benefits and opportunities of rapid advances in financial technology that are transforming the provision of banking services, while at the same time managing the inherent risks. Bali Fintech Agenda provides a framework to support the Sustainable Development Goals, particularly in low-income countries, where access to financial services is low,

What is fintech?

Fintech describes an emerging financial services sector in the 21st century. Originally, the term applied to technology applied to the back-end of established consumer and trade financial institutions. Since the end of the first decade of the 21st century, 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.

Bali Fintech Agenda

- **Embrace the Promise of Fintech** with its far-reaching social and economic impact, particularly in low-income countries, small states, and for the underserved, and prepare to capture its possible wide-ranging benefits, including: increasing access to financial services and financial inclusion; deepening financial markets; and improving cross-border payments and remittance transfer systems.
- **Enable New Technologies to Enhance Financial Service** Provision by facilitating foundational infrastructures, fostering their open and affordable access, and ensuring a conducive policy environment.
- **Reinforce Competition and Commitment** to Open, Free, and Contestable Markets to ensure a level playing field and to promote innovation, consumer choice, and access to high-quality financial services.

- **Foster Fintech to Promote Financial Inclusion and Develop Financial Markets** by overcoming challenges related to reach, customer information, and commercial viability, and by improving infrastructure.
- **Monitor Developments** Closely to Deepen Understanding of Evolving Financial Systems to support the formulation of policies that foster the benefits of fintech and mitigate potential risks.
- **Adapt Regulatory Framework and Supervisory Practices** for Orderly Development and Stability of the Financial System and facilitate the safe entry of new products, activities, and intermediaries; sustain trust and confidence; and respond to risks.
- **Safeguard the Integrity of Financial Systems** by identifying, understanding, assessing, and mitigating the risks of criminal misuse of fintech, and by using technologies that strengthen compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) measures.
- **Modernize Legal Frameworks** to Provide an Enabling Legal Landscape with greater legal clarity and certainty regarding key aspects of fintech activities.
- **Ensure the Stability of Domestic Monetary and Financial Systems** by considering the implications of fintech innovations to central banking services and market structure.
- **Develop Robust Financial and Data Infrastructure to Sustain Fintech** benefits that are resilient to disruptions—including from cyber-attacks—and that support trust and confidence in the financial system by protecting the integrity of data and financial services.
- **Encourage International Cooperation and Information-Sharing** across the global regulatory community to share knowledge, experience, and best practices to support an effective regulatory framework.
- **Enhance Collective Surveillance** of the International Monetary and Financial System and the adaptation and development of policies to support inclusive global growth.

In India, government efforts at the Centre and in the states have used fintech to push for inclusion, aided by the concurrent growth in internet and smartphone penetration. Demonetization and digital India moves gave boost for the adoption of fintechs in India. India's interoperable payment infrastructure through the Unified Payment Interface (UPI) continues to provide a strong business case. According to EY's Fintech Adoption Index 2017 (Ernst & Young), India has the second highest fintech adoption rate in the world.

Since the fintech is one among fast-moving technologies, it comes with challenges.

- Going digital for payments can be complicated in an economy like India's which is dominated by micro, small and medium enterprises (MSMEs) as they cannot bear the costs.
- The adoption of fintech is skewed in India but because of lower margin per transaction, larger payment gateways target only handful of large retailers. MSMEs account for only about 5% of \$12-14 billion spent.
- Coming up with sustainable business models which does not overload consumers with extra charges is also one of the challenges.
- Regulatory uncertainty in the fintech sector is making things complicated for both fintech service providers and consumers..
- Lack of clarity and legality among fintech companies about KYCs itself is another major challenge.

- Knowledge of these digital payments platforms is restricted to the bigger cities of India while rural India struggles to make its way through.
- There is a gap regarding people's current ability, desire, and need for fintech services. Filling up the gap and making the ends meet is a task for fintech product providers.
- Cyber security threats and lack of regulatory mechanisms comes as a major problem for the expansion of services.
- The fintech sector is still regulated by banking regulations. Although RBI has allowed small banks and payment banks in the recent past, a lot of impediments still remain in the path of innovative fintech players. It's like asking them to operate with one hand tied behind their backs.
- Relatively weak infrastructure such as underdeveloped payment systems, lack of customer credit data, legal enforcement mechanisms for payment obligations, power, weak Internet coverage is also a drawback.
- Underdeveloped technology and venture capital ecosystems, shortage of skilled tech/finance entrepreneurs, small markets, limited revenue potential is also one of the major challenges.
- Cash dominance in transactions, informal credit and savings and lack of digital literacy is also a hindrance.

Way Forward

- Fintech providers have to consider the need of customers while developing a payment solution.
- The availability of small change, which is often refused by banks owing to high storage and transportation costs, inevitably finds its way to small merchants and households, and is used for low-value transactions such as the daily purchase of milk. Payment gateways can address the issue taking it as an opportunity.
- Fintech providers should work towards the last mile digitization of cash.
- Infrastructure development is the need of hour and it should be addressed for the expansion of services.
- Awareness should be created and digital literacy must be improved to understand and analyse the pros and cons of these services. It will help customers to make choices.
- Fintechs should come up with sustainable business models. It is important not to impose further costs on the end customer or create a solution that merely pushes the consumer issues further down the value chain.
- There is need to support the formulation of policies that foster the benefits of fintech and mitigate potential risks.
- Government should set the platform for smooth operations of start-ups with favourable policies and tax incentives specific to the fintech sector.

The success or failure of digitizing rests on demonstrating personal value to the end consumer in switching from cash to digital payments. Reaping these benefits requires strengthening of institutional capacity, expanding outreach to stakeholders, and adopting a cross-agency approach involving relevant ministries and agencies. So that the fast moving technology which is a boon for growing economy does not turn into a curse.

