



Fintechs Leading India's Start-up Ecosystem

For Prelims: Fintech industry, Internet, [Crypto-currencies](#), [Micro, Small and Medium Enterprises \(MSME\)](#), 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.

[Source: TH](#)

Why in News?

[Fintech Companies](#) continue to be an attractive option for entrepreneurs in the [Start-Up](#) ecosystem.

- As per the data from **Tracxn** (a company that provides market intelligence data for private companies), fintechs have received over 15% of the total [equity](#) funding into start-ups in FY24 so far.

What are Fintechs?

- **About:**
 - Fintech, a combination of the terms “**financial**” and “**technology**,” refers to businesses that **use technology to enhance or automate financial services** and processes.
- **Types:**
 - **Digital Payments:** These offer digital payment solutions, such as mobile wallets, online payment gateways, and [peer-to-peer \(P2P\) payments](#). Ex-Phonepe, Paytm etc.
 - **Alternative Lending:** They are also known as **marketplace lending** or **Peer-2-Peer (P2P lending)**, occurring on online platforms that connect borrowers overlooked by traditional lenders with investors looking for high-yield investments. Ex: Lending Club, Prosper, PayPal Working Capital, GoFundMe etc.
 - **Insurance:** These offer digital insurance solutions, such as health insurance, life insurance, and car insurance. Ex-Digit Insurance, Policybazaar etc.
 - **InvestmentTech:** These offer digital investment solutions, such as stock trading, mutual funds, and [cryptocurrency](#) trading. Ex-Zerodha, Groww etc.
 - **Others types include** Crop loan risk management (Eg: Satsure), online fraud detection (e.g. Tutelar), debt management (Debt Nirvana) and Banking-as-a-Service Platform (e.g., FidPay)

What is the State of Fintech Industry in India?

- **FinTech Ecosystem:** India remains a global leader in fintech, 3rd highest globally after the US and UK, having a combined valuation of over USD 155 billion.
 - Nearly a third of the **soonicorn universe** (soon to be unicorns) comprises fintechs.
 - As per **Startup India**, an initiative by the Ministry of Commerce and Industry, the market

size of India's fintech industry is expected to reach USD 150 billion by 2025.

- **High Adoption Rate:** As per the [Economic Survey 2022-23](#), fintech companies in India witnessed an **87%** adoption rate across varied user bases as opposed to the global average rate of 64%.
- **Driving Digital Payments:** Fintech companies in India account for 70% of digital payment transactions, marking a two fold rise in their share during FY22 compared to FY19.
- **Financial Inclusion:** More than 10 million people and small businesses gained access to savings accounts, insurance, investment options, and credit facilities through mobile-based services and digital platforms.
- **Democratising Lending Process:** Peer-to-peer lending platforms are democratising lending, providing individuals and small businesses with access to funds without the need for traditional financial institutions.
- **Rise in Public Investment:** Investment platforms and robo-advisors are making investments in stocks, mutual funds, and other financial instruments more accessible.

What are the Government Initiatives Driving the Growth of FinTech?

- **Digital Identity Infrastructure (JAM Trinity):**
 - [Jan Dhan Yojana \(PMJDY\)](#): This world's largest financial inclusion program has provided bank accounts to over 450 million people creating a massive base for FinTech companies to offer new financial products and services like remittances, credit, insurance, and pensions directly through these accounts.
 - **Aadhaar:** According to a [World Bank](#) study, Aadhaar has facilitated bank account opening for over 570 million previously unbanked adults in India.
 - [Aadhaar Enabled Payment System \(AePS\)](#) has allowed Aadhaar card holders to conduct financial transactions using their Aadhaar number and biometric authentication (fingerprint or iris scan).
 - **Unified Payments Interface: UPI** transaction volume has surged by 49% year-on-year.
 - More banks are embracing UPI, with the number of integrated banks increasing from 414 in April 2023 to 581 in April 2024. This wider availability is fueling the overall growth in UPI transactions.
- **Regulatory Support and Innovation:**
 - In 2017, the RBI granted recognition to **Peer-to-Peer (P2P) lending** platforms as [Non-Banking Financial Companies \(NBFCs\)](#) providing legitimacy and facilitated growth within the P2P lending segment, **expanding credit access** for individuals and small businesses.
- **Regulatory Sandbox (RS) and Fintech Repository:**
 - RS is an infrastructure that helps Fintech players to **live test their products or solutions, before getting the necessary regulatory approvals** for a mass launch, saving start-ups time and cost. The RBI established a [Regulatory Sandbox in 2017](#).
 - Additionally, the **Fintech Repository** launched in 2021 serves as a centralised information hub for fintech companies, promoting transparency and streamlining regulatory compliance.
- **Self-Regulatory Organisations (SRO) Framework:**
 - To promote responsible growth, and recognizing the need for industry-led self-regulation, the RBI introduced a framework for [Self-Regulatory Organizations \(SROs\)](#) in the FinTech sector in **2023**.
 - These SROs act like **guardians** within the industry, **establishing and enforcing a code of conduct, grievance redressal mechanisms, and consumer protection standards**.



What are Potential Growth Areas for the Fintech Sector in India?

- **SME Lending:** Small and medium enterprises (SMEs) often face challenges accessing traditional credit channels.
 - Fintech solutions leveraging alternative data sources and AI-powered credit scoring can streamline lending processes and make credit more accessible for SMEs.
- **Supply Chain Financing:** Traditional supply chain financing methods are often cumbersome and lack transparency.
 - Blockchain-based fintech solutions can streamline payments, improve traceability, and enhance working capital management for businesses within the supply chain.
- **AgriTech:** Solutions for crop loan risk management, micro-insurance for farmers, and digital marketplaces for agricultural products can provide much-needed support and empower rural communities.
- **Regulatory Landscape and Long-Term Stability:** The RBI's framework for managing "**user harm**" within the fintech sector, while potentially creating a cautious investment climate in the short term, is a positive development in the long run.
 - **Clear and well-defined regulations will enhance consumer protection and build trust in the ecosystem, attracting long-term investors and fostering sustainable growth.**

Steering Committee Recommendations Related to Fintech

- **About:**
 - The **Steering Committee, chaired by Subhash Chandra Garg**, on Fintech Related Issues submitted its report to the Finance Minister in **2019**.
 - The Committee was constituted with the objective of making Fintech related regulations

more flexible and enhancing entrepreneurship.

▪ **Key Observations regarding Fintechs:**

- Banking entities have an advantage in accessing crucial payment infrastructure like Aadhaar-enabled payment systems. This hinders a **level playing field for non-banking Fintech companies**.
- The **lack of a regulatory sandbox**, a controlled environment for testing innovative products, stifles experimentation and slows growth.
- The rise of Fintech introduces **new data privacy and security risks**. Existing regulations and the [Data Protection Act](#) might need adjustments to foster a secure and growth-oriented environment.

▪ **Recommendations:**

- **Expanding Fintech Services:** Encourage the use of Fintech for bolstering cybersecurity, fraud control, and money laundering prevention. Explore virtual banking and dematerialisation of financial instruments (converting physical certificates to electronic form).
- **Policy Actions for Promotion:**
 - Government and public sector institutions should leverage **AI for back-end automation**.
 - Collaborate with MSMEs to **implement blockchain solutions** in trade finance.
- **Financial Inclusion:**
 - Develop a **credit registry** for farmers using **AI/ML** based credit scoring to enable easier loan access.
 - Utilise Fintech for managing claims and premium payments in agricultural crop insurance schemes.
 - Create a common digital platform for small savings products, micro-pension schemes, and government pensions, facilitating digital subscriptions.
- **Collaboration and Coordination:**
 - Form an **advisory council** on Fintech with industry experts for each financial sector regulator.
 - Establish an **inter-regulatory technical group** for better coordination between regulatory bodies.
 - Set up an **inter-ministerial group** to explore potential applications of Fintech-enabling technologies.
 - **Collaborate with other countries to share knowledge** on Fintech risks and benefits.
- **Data Protection:** Establish a **task force** within the Ministry of Finance to address data protection challenges specific to the financial sector.

Drishti Mains Question:

Discuss the growing prominence of fintechs in the Indian startup ecosystem, highlighting the key drivers and the regulatory challenges faced by the sector.

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims

Q. With reference to “Blockchain Technology”, consider the following statements: (2020)

1. It is a public ledger that everyone can inspect, but which no single user controls.
2. The structure and design of the blockchain is such that all the data in it are about cryptocurrency only.
3. Applications that depend on basic features of blockchain can be developed without anybody's permission.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 1 and 2 only
- (c) 2 only
- (d) 1 and 3 only

Ans: (d)

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)

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