



# Shaping The Future Of Finance: An In-Depth Overview Of India's Fintech Startup Ecosystem

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## Abstract

Startups represent the primary driver of innovation and technological advancement. India's fintech startup ecosystem has developed into one of the most vibrant and quickly transforming areas in the worldwide financial landscape. Financial technology (Fintech) refers to the use of technology to deliver innovative offerings within the financial industry. It represents a new market disruption that influences traditional business models and financial frameworks by merging modern technology with finance. Fintech encompasses the “financial, insurance, and regulatory dimensions of the financial services sector, transforming business models, operational practices, and product offerings through technological advancements”. This paper examines the fintech startup ecosystem landscape in India. this paper finds that the DPIIT registered startups, at the scaling stages, the fintech startups are very few compared to the ideation stage and the validation stage. This paper also finds that the fintech startups are not evenly spread across the different states of India and also finds that the funding in the fintech startups is more at the late stage of the startups instead of the seed stage and the growth stage.

**Keywords: Startups, Fintech, Sustainable Development, Fintech Startup Ecosystem**

## 1. Introduction

Startups represent a worldwide trend, being the fastest-growing enterprises in every nation. Startups are new business ventures that arise from innovative concepts aimed at addressing existing market demands. Startups play a crucial role in fostering innovation and technological advancement, aiding in national economic growth and providing value to consumers (Franco et al., 2021). Over the globe, the Indian startup ecosystem is the third largest ecosystem (Inc42 Media, 2024). Governments and organizations have launched several social initiatives and programs to foster and cultivate entrepreneurial ambitions both locally and internationally (Kaur et al., 2024). The Indian government has launched the "Startup India" initiative to

enhance entrepreneurial activities across the country. This initiative seeks to create a supportive and thriving ecosystem for Indian Startups, fostering their growth and progress in a positive environment (Bindal et al., 2018). According to StartupBlink (2024), the fintech sector has the second-largest number of unicorns worldwide. India stands as the biggest market for technology corporations globally (Inc42 Media, 2024).

The phrase "FinTech" was initially introduced by a banker in New York in 1972 (Vijai, 2019). Fintech, which combines finance with technology, is transforming the worldwide financial environment (Kaur et al., 2024). Financial technology (Fintech) refers to the use of technology to deliver innovative financial products and services. It represents a disruptive force in the market, affecting traditional business models and financial systems by merging modern technology with finance (Muthukannan et al., 2020). The Fintech ecosystem comprises five interrelated components that collaborate effectively to uplift the economy, improve customer experiences, and foster social integration: start-ups, technology companies, government, consumers, and conventional financial entities such as banks (Lee & Shin, 2018).

Fintech, which combines finance and technology, is transforming the worldwide financial environment. This rapidly developing sector is promoting financial inclusion and allowing for more affordable and efficient financial intermediation (Kaur et al., 2024). For sustainable development of the world, the United Nations General Assembly provides seventeen sustainable development goals (SDGs) (Sharma & Garg, 2024). Financial inclusion plays a significant role in advancing eight out of the seventeen SDGs, and the availability of digital financial intermediation via Fintech will improve inclusion (Allen et al., 2016). The incorporation of financial technology in agriculture is revolutionizing agribusiness and also helping to achieve sustainable development goals in emerging nations (Hinson et al., 2019).

India is home to the third-largest fintech ecosystem in the world. Recently, there has been considerable attention given to the fintech sector in India. In 2021, funding for fintech surged dramatically by 183.39%. The fintech industry experienced a rise in financial investment from USD 2.83 billion in 2020 to USD 8.02 billion in 2021 (Ghosh, 2021). Government initiatives such as 'Digital India, Startup India, and Make in India,' introduced from 2014 to 2015, had an important part to play in fostering entrepreneurship in the country. At the same time, SEBI, and IRDAI have promoted fintech innovations through regulatory sandboxes and related initiatives. Additionally, various government programs like the "Mumbai Fintech Hub", "Vizag Fintech Valley", "Gujarat International Finance Tec-City (GIFT City)", and the establishment of numerous incubation centers, along with coordinated structural changes in the financial sector such as demonetization and the implementation of the GST, followed by the onset of the "Covid-19 pandemic", resulted in the swift adoption of fintech practices (Kaur et al., 2024). This study explains the fintech startup landscape in India.

## 2. Literature Review

Entrepreneurship plays a vital role in generating employment, fostering innovation, and enhancing product development in India. It supports economic progress by boosting per capita income, facilitating capital formation, promoting balanced regional development, and improving living standards. The research concludes that entrepreneurship significantly contributes to employment generation, innovation, and

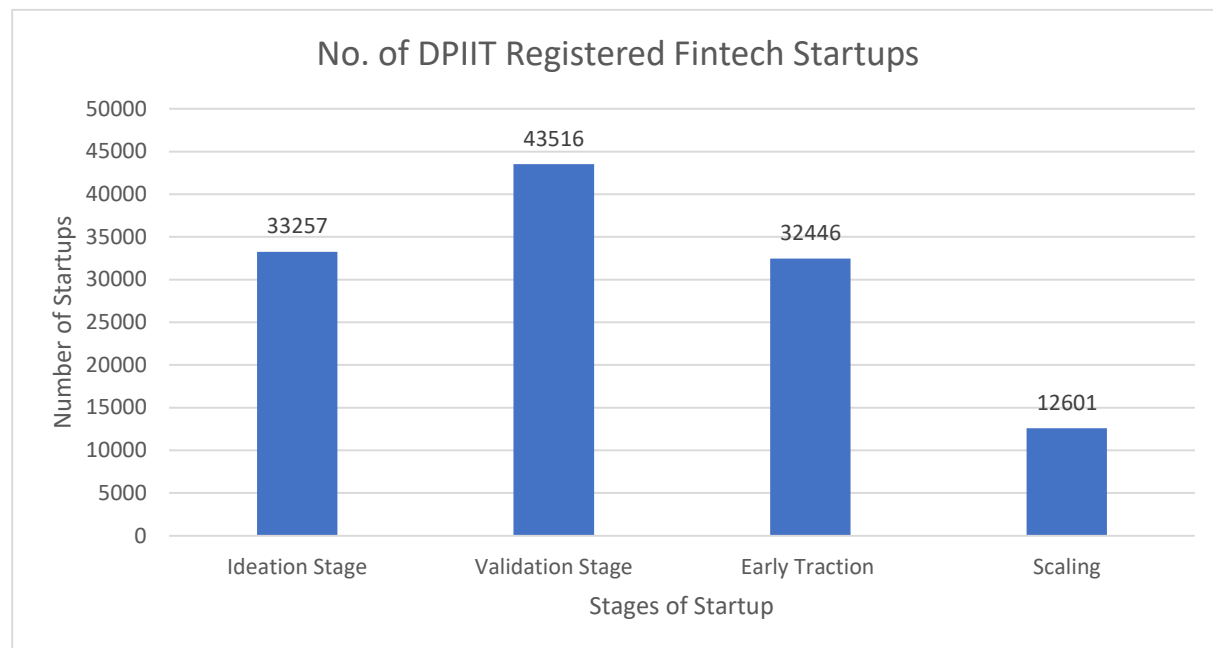
product development in India (Kumar & Raj, 2019). The Indian government implements various measures to enhance stakeholders' interest in startups. There are numerous challenges that the government encounters in promoting the startup revolution. A review of the Government of India's Startup Action Plan reveals a positive impact on the proliferation of startups, indicating that the startup ecosystem has begun to gain initial momentum (Singh, 2016). Some startups have thrived following the launch of their products and services and have kept generating profits. In India, startups primarily go through four funding phases: “early stage, growth stage, expansion stage, and bridge funding”. During the expansion stage, startups typically secure more funding than in any other phase, and there is no notable correlation between the type of funding stage and the professional backgrounds of the startup founders (Narayan et al., 2019). The Indian market presents numerous opportunities for new ventures, and in turn, these startups hold great potential to drive growth and generate jobs. However, startups in India encounter considerable obstacles. To tackle these challenges, collaboration among all stakeholders—including ecosystem participants, government agencies, and the startups themselves—will be essential (Korreck, 2019). The fintech sector is rapidly changing and promoting financial inclusion while allowing for “cost-effective and efficient financial intermediation”. The entrepreneurial ecosystem within an economy plays a crucial role in determining the potential for innovation. The Indian fintech industry is analyzed to assess the impact of social capital and the characteristics of founding teams on startup funding. Factors such as the entrepreneurial signals from founders, their networks, and their experience have also been shown to affect the funding received by fintech startups in India (Kaur et al., 2024). Fintech ecosystems (FE) consist of a diverse, dynamic, non-linear, and intricate network of agents that engage with one another to deliver a broad range of financial products and services to end users. As numerous complementary technologies continue to emerge, the complexity of Fintech ecosystems is growing exponentially with the introduction of new participants and the formation of new connections (Muthukannan et al., 2020). The fintech sector offers digital transactions that enhance security for users. The advantages of fintech services include lower operational costs and a user-friendly experience. The Indian fintech services are the fastest growing all over the world. These fintech services are set to transform the habits and behaviors of the Indian financial sector (Vijai, 2019). The most recent advancement in Fintech, spearheaded by startups, presents challenges for both regulators and market participants, particularly in finding a balance between the potential advantages of innovation and the risks associated with new financial strategies. Fintech has transformed conventional financial institutions. The term FinTech refers to the increasing technological advancements within the financial industry (Rajeswari & Vijai, 2021).

### 3. Research Methodology

The research design used in this study is descriptive. Secondary data is used in this study. Information has been sourced from Inc42 reports, a credible platform that offers pertinent insights on startups in India. Additionally, the official website for startups (startupindia.gov.in) has been referenced. For the data analysis, charts are used.

## 4. Findings

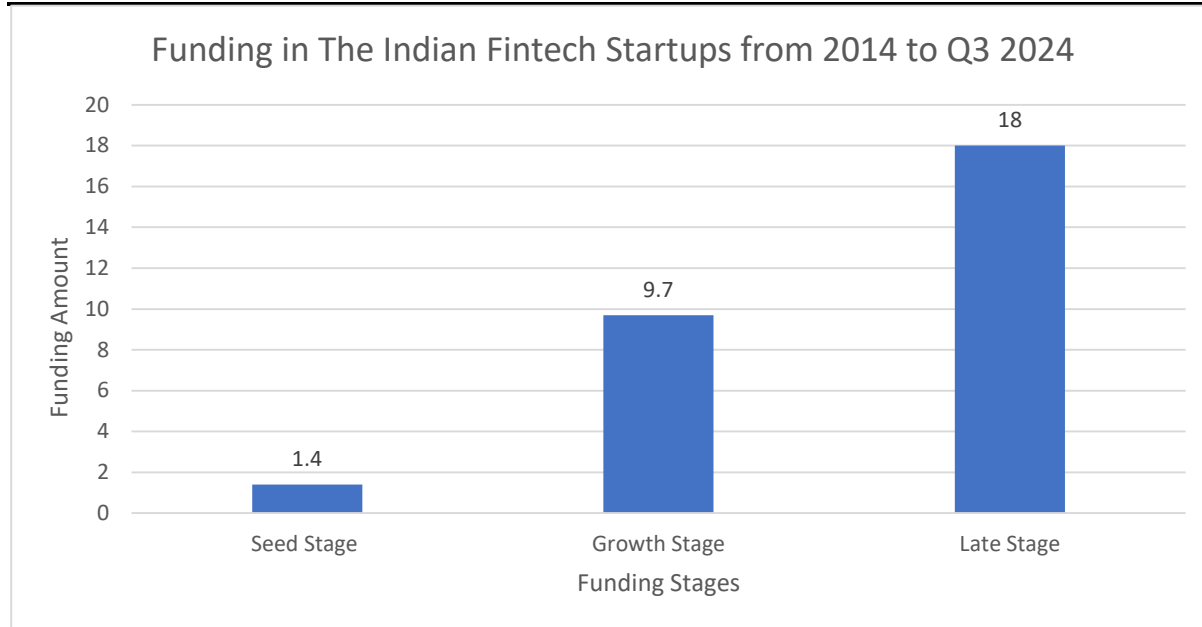
This research examines the ecosystem of fintech startups in India. At present, India has a total of 1,51,808 startups listed on the StartupIndia platform, out of which 1,21,823 are fintech startups in various stages of development.



Source: Author's work using data from the StartupIndia website.

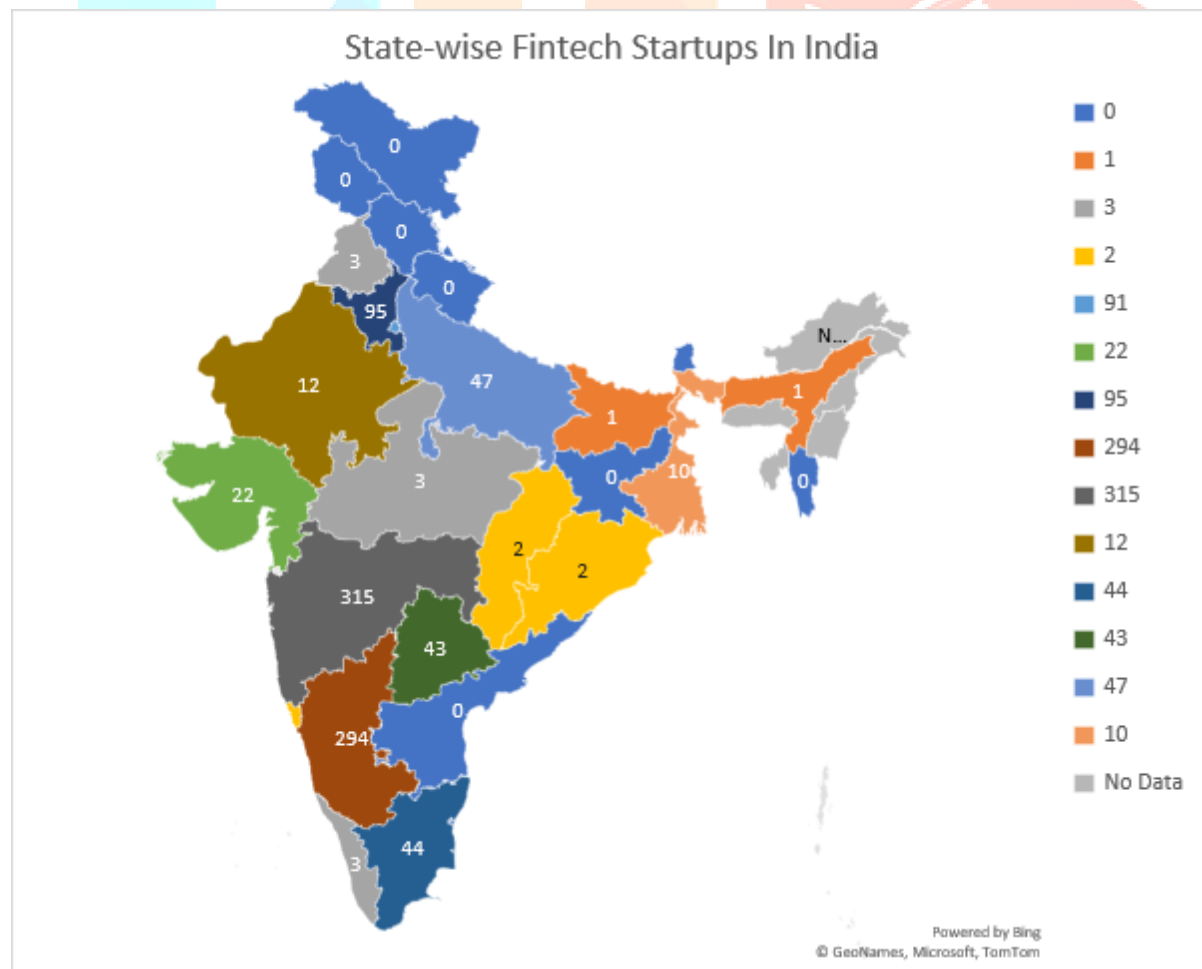
The above charts show the total number of fintech startups at different stages of startup development. A startup's development in the business world is categorized into four phases: the ideation stage, validation stage, and early traction stage. The ideation phase marks the initial step of a startup, where the entrepreneur has developed an idea or concept and begins to actively pursue bringing it to fruition. The validation phase follows the ideation phase, during which the concept developed by the startup evolves into a workable product or service. The startup must present user testimonials, gather feedback, and document their iteration journey, demonstrating initial engagement with early users and how their insights have contributed to refining the product. The third most critical phase in a startup's entrepreneurial journey occurs when the products or services are introduced to the market and users begin to engage with them. During this phase, the startup starts to attract its first customers or users, produces revenue that signifies market acceptance and increasing demand, and gathers data that supports scaling efforts. During the Scaling phase, startups emphasize swift revenue growth while enhancing their operational efficiency. At this stage, the startup broadens its operations and market presence, optimizes its processes, and prepares to obtain further funding (Setindiabiz Team, 2024).

In India, there are 33257 startups registered on the StartupIndia website at the ideation stage. At the validation stage, 43516 startups have registered on the StartupIndia website. In the early traction stage, 32446 startups are listed on the StartupIndia website. Finally, at the scaling stage, 12601 startups have registered on the StartupIndia website to date (DPIIT StartupIndia, n.d.).



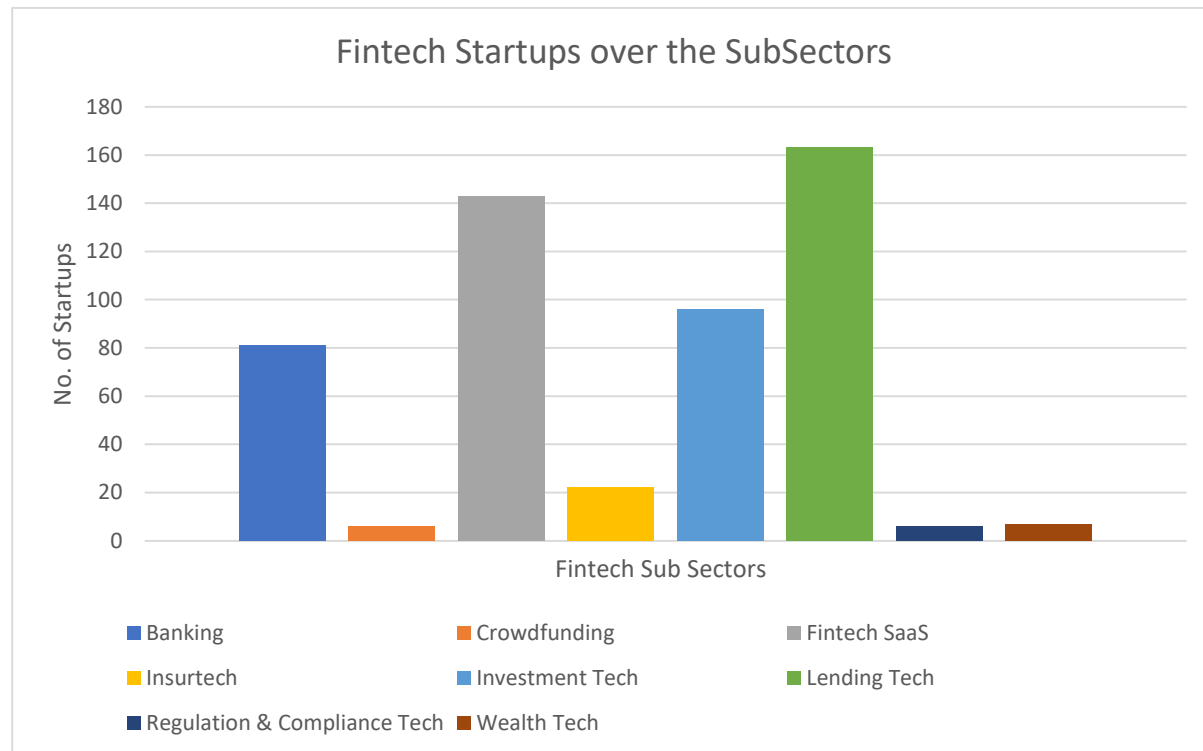
Source: Author's work using data from the Fintech report of Inc42 Media.

This diagram depicts the investment in fintech startups at various stages from 2014 until the third quarter of 2024. As per Inc42 Media (2024a), the total funding raised by the fintech startups from 2014 to Q3 2024 is \$29.1 Bn+. The late stage of the fintech startups raised higher funding in comparison to the growth stage and seed stage. In India, most investors invest in the late stage compared to the seed and growth stages. Investors hesitate to invest in the seed stage because it is the riskiest stage in startups (Preuss, 2024).



Source: Author's work using data from Inc42 Datalabs.

This map illustrates the number of fintech startups across different states in India. The distribution of fintech startups in India is not uniform across various states. In the northeastern states, there are very few fintech startups. The primary reason for this is the limited availability of financial information in the region. Additionally, the banking services and programs aimed at promoting financial literacy have a track record of failure, as they often fail to take regional cultural differences into account (Kalra, 2024).



Source: Author's work using data from Inc42 Datalabs.

The graph illustrates the various subsectors of fintech startups. Overall, there are primarily eight subsectors within the fintech industry (Inc42 Datalabs, n.d.). Within the lending technology subsector, fintech startups are the most numerous. The Fintech SaaS sector is the second-highest subsector in the Fintech sector.

## 5. Conclusion

Each year, 100 million new startups begin operations globally, significantly influencing the economies where they operate (Ehsan, 2021). India has the third-largest fintech ecosystem globally. Fintech startups are recently founded companies that concentrate on creating and providing innovative financial services or products by utilizing technology. These startups seek to challenge conventional financial systems and present more efficient, accessible, and user-friendly options. Recently, there has been considerable attention given to the fintech industry in India. In 2021, funding for fintech saw an impressive increase of 183.39% (Ghosh, 2021). According to the DPIIT StartupIndia, the number of fintech startups that are registered at the scaling stage is lower than that of the other three stages of startups. The late stage of fintech startups attracts greater funding compared to the growth and seed stages because, in India, a majority of investors prefer to invest in the late stage rather than the seed and growth stages. Investors are reluctant to put their money into the seed stage since it represents the highest level of risk in startups. Additionally, fintech startups in India are not present in every state of the nation. Fintech startups are mainly concentrated in a



limited number of states, including Maharashtra, Karnataka, Haryana, Telangana, Uttar Pradesh, and Tamil Nadu etc. In the northeastern states, there are very few fintech startups because of the limited availability of financial information in the region. The government ought to be more proactive in supporting fintech startups in regions where they are currently less prevalent. This is important because fintech startups enhance financial inclusion and facilitate more cost-effective and efficient financial intermediation, which contributes to achieving the Sustainable Development Goals (SDGs).

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