



Revolutionizing Payments: The Strategic Role Of Financial Technology In India's Digital Economy

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Abstract

Financial technology, or fintech for short, is the application of technology to innovative financial services and solutions. The fintech sector uses technological innovations in blockchain, artificial intelligence, software, mobile apps, and other areas to improve and streamline a range of financial operations. India has been regarded as a major global hotspot for financial technology innovation throughout the past ten years. Governments, investors, and multinational corporations are interested in investing in this space and interacting with the ecosystem to create a Fintech-enabled India. Despite the global economic issues, India's digital payment industry has experienced exceptional growth, demonstrating the resilience and promise of its fintech-driven ecosystem. According to a recent report from Matrix Partners and Boston Consulting Group, as market demand grows based on financial inclusion, Indian fintechs are predicted to generate revenue to the tune of \$190 billion by 2030. Building more inclusive and effective financial services and fostering economic development are made possible by the continuous digitization of financial services and money. The study endeavors to examine the key components of fintech, highlight its relevance, and explore the connection between financial technology and digital payments.

Keywords: Fintech, Financial Services, Digitization, Digital Payment

Introduction

The terms "financial" and "technology" are combined to form the term "fintech". In order to improve and automate financial services and procedures, technology is used, frequently in the form of software, applications, and other digital tools. Technology that lowers or does away with the expenses associated with financial intermediation is referred to as fintech (Das, 2019). Innovative solutions in banking, payments, lending, insurance, investing, and other areas are offered by fintech companies through the use of technology. The efficiency, affordability, and accessibility of financial services are the three main objectives of fintech. Through the provision of technologically sophisticated and user-friendly alternatives, fintech companies frequently pose a threat to established financial institutions. Digital

payments, peer-to-peer lending, robo-advisors, peer-to-peer lending, blockchain technology, insurtech (insurance technology), and regtech (regulatory technology) are some of the major fintech fields.

With its ability to drive quick innovation and transform how individuals and organisations handle their finances, fintech has grown to be a major influence in the financial industry. It includes a wide range of services and technological advancements aimed at improving the convenience, transparency, and inclusivity of financial services and transactions. As technology and innovation began to infiltrate the financial services industry, FinTech emerged as a significant financial innovation trend (Alber & Dabour, 2020). Numerous factors contribute to the fintech market's growth. Firstly, as smartphones and the internet become more widely used, customers have greater access to digital solutions, which has increased demand for financial services. Secondly, the COVID-19 pandemic has expedited the transition towards digital investments and payments, as customers have been forced to adjust to remote and contactless transactions. Thirdly, regulatory reforms have created a more level playing field for fintech businesses to compete against established financial institutions. Technology breakthroughs like blockchain and artificial intelligence have also created new avenues for fintech innovation, which is propelling the market's further expansion. The study intends to detail the essential components of fintech, highlight its significance for the nation, and explore the relationship between financial technology and digital payments.

Key Components of Fintech:

- **Digital Payments:** Facilitating online and mobile payments, including digital wallets, peer-to-peer transfers, and contactless payments.
- **Lending and Crowdfunding:** Providing digital platforms for lending, crowdfunding, and peer-to-peer lending, making it easier for individuals and businesses to access capital.
- **Insurtech:** Using technology to streamline and modernize the insurance industry, including online policy management, claims processing, and risk assessment.
- **Robo-Advisors:** Offering automated, algorithm-driven financial planning and investment services, often with lower fees compared to traditional financial advisors.
- **Blockchain and Cryptocurrency:** Exploring the applications of blockchain technology and cryptocurrencies to enhance security, transparency, and efficiency in financial transactions.
- **Regtech:** Using technology to address regulatory compliance challenges, including risk management, fraud detection, and reporting.

According to the report of (KPMG 2016), India is transitioning into a dynamic ecosystem offering fintech start-ups a platform to potentially grow into billion-dollar unicorns. From tapping new segments to exploring foreign markets, fintech start-ups in India are pursuing multiple aspirations. The primary requirement for any Fintech start-up to settle will be a consumer base, a high internet penetration, and more minds to work on the project. Fintech companies can help boost competition and accelerate financial inclusion in India by lowering costs and enhancing access to financial services for people in low-income groups, rural areas, and other underserved sectors of the Indian economy (Asif, 2023). India is growing at a fast pace, and due to many changes in the economy, a great revolution is coming in the financial sector

with the emergence of Fintech (Kandpal, & Mehrotra, 2019). Quoting the latest Global FinTech Adoption Index, it said that while the world average stands at 64 percent, India has achieved 87 percent fintech adoption. The Government of India along with regulators such as SEBI and RBI are aggressively supporting the ambition of the Indian economy to become a cashless digital economy and emerge as a strong fintech ecosystem via both funding and promotional initiatives (Fintech in India KPMG report 2016).

Importance of Fintech in India:

- ❖ **Financial Inclusion:** Fintech has played a crucial role in promoting financial inclusion by reaching underserved and unbanked populations. Digital platforms and mobile banking services have made financial services accessible to a larger segment of the population.
- ❖ **Digital Payments Revolution:** The growth of fintech has driven a significant shift towards digital payments in India. Innovations like the Unified Payments Interface (UPI) have made transactions faster, more convenient, and less reliant on cash.
- ❖ **Access to Credit:** Fintech lending platforms have provided alternative sources of credit to individuals and small businesses that may have faced challenges in obtaining loans through traditional banking channels.
- ❖ **Efficiency and Cost Reduction:** Fintech solutions have improved the efficiency of financial processes, reducing costs and making services more affordable for both consumers and businesses.
- ❖ **Innovation and Startups:** The fintech sector has become a hub of innovation, with numerous startups exploring new ways to deliver financial services. This has created a dynamic ecosystem that fosters competition and drives continuous improvement.
- ❖ **Government Support:** The Indian government has actively supported the growth of fintech through initiatives such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) and the promotion of digital payments to create a more inclusive and less-cash-dependent economy.
- ❖ **Job Creation:** The expansion of the fintech industry has contributed to job creation, with increasing demand for skilled professionals in areas such as software development, data analytics, cybersecurity, and financial services.
- ❖ **Adoption of Technology:** Fintech has encouraged the widespread adoption of technology in financial services, encouraging traditional financial institutions to modernize their processes and offerings.

Digitization has a strong impact on the financial services industry (Puschmann, 2017). The global spread and use of the internet and mobile phones have contributed to the development of digital payments (Sahi et. al., 2021). The adoption of platform-based (mainly digital) services is expected to witness exponential growth in the near future, particularly in countries where government intervention has been inadequate (Kumar et. al., 2020). Digital payments have been picking up rapidly in India since 2014 due to “Digital India” initiatives of the government, internet penetration, smart-phone penetration, and adoption of the technologies by the people (Ravikumar et. al, 2019).The relationship between fintech

(financial technology) and digital payments is symbiotic, with fintech playing a significant role in driving the growth and evolution of digital payment systems. Here's how the two are interconnected:

➤ **Innovation in Digital Payments:**

Fintech companies are at the forefront of innovating and creating new digital payment solutions. They leverage technology to develop user-friendly platforms and applications that enable individuals and businesses to make electronic transactions seamlessly.

➤ **Development of Payment Apps and Wallets:**

Fintech firms have been instrumental in the creation of digital wallets and payment apps. These applications, such as Paytm, PhonePe, Google Pay, and others, provide users with convenient and secure ways to make transactions, pay bills, and transfer money digitally.

➤ **Unified Payments Interface (UPI):**

Fintech innovation played a crucial role in the development and success of UPI in India. UPI is a real-time payment system that facilitates interbank transactions, allowing users to link multiple bank accounts to a single mobile app. It has become a popular and widely adopted digital payment method.

➤ **Enhanced Security and Fraud Prevention:**

Fintech companies focus on incorporating advanced security features into digital payment systems. This includes encryption technologies, biometric authentication, and real-time fraud detection, ensuring that digital transactions are secure and trustworthy.

➤ **Financial Inclusion through Digital Payments:**

Fintech contributes to financial inclusion by expanding access to digital payment services. Through mobile apps and online platforms, individuals who were previously underserved or excluded from traditional banking systems can now participate in the digital economy.

➤ **Seamless Cross-Border Transactions:**

Fintech has played a role in improving cross-border digital payments. Blockchain and other technologies are being explored to make international transactions faster, more transparent, and cost-effective.

➤ **P2P Lending and Borrowing:**

Some fintech platforms facilitate peer-to-peer (P2P) lending and borrowing, creating alternative channels for individuals and businesses to access funds. Digital payments are often integrated into these platforms for seamless financial transactions between lenders and borrowers.

➤ **Integration of AI and Machine Learning:**

Fintech companies use artificial intelligence (AI) and machine learning (ML) to analyze user behavior, detect patterns, and personalize the user experience. This enhances the efficiency and user-friendliness of digital payment systems.

➤ **Regulatory Compliance:**

Fintech firms work closely with regulatory bodies to ensure compliance with financial regulations. This collaboration is essential for the stability and security of digital payment systems.

➤ Economic Impact:

The growth of fintech and digital payments contributes to economic development by reducing the reliance on cash, promoting transparency, and fostering a more efficient and inclusive financial ecosystem.

In summary, fintech and digital payments are intertwined, with fintech driving innovation and technology adoption in the payments sector. The collaboration between these two realms has led to transformative changes in the way individuals and businesses manage and transfer funds.

Conclusion

India's evolution as a progressive FinTech nation is not a miracle and during the COVID times the investment done by Government, Regulators and Industry reap its benefits and lead to the emergence of next level Fintech environment in India. In a recent report, by Research and Markets, as of March 2020, India, alongside China, accounted for the highest fintech adoption rate (87%), out of all the emerging markets in the world. At present, fintech companies account for 70 per cent of digital payment transactions, marking a 2.3-fold rise in their share during FY22 compared to FY19. With more than 9,000 fintechs, India is home to the third-highest number of fintechs globally and holds a 14 per cent share of Indian start-up funding. Furthermore, the report forecasts that the fintech sector is poised to generate \$400 billion in value creation by 2030, indicating a 4X increase from its current level. The fintech market is expected to continue its rapid growth trajectory, driven by ongoing technological advancements, changing consumer behavior, and regulatory support. Digital payments are likely to remain a dominant trend, as consumers increasingly prefer the convenience and speed of mobile payment solutions. Overall, the fintech market is expected to remain dynamic and innovative, with new solutions and services emerging to meet evolving consumer needs.

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