

Opportunities and challenges in FinTech

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Manifest Pedagogy

Fintech and other emerging technologies such as blockchain, data analytics are key terms of particular importance both on the conceptual level and applications of the same. Also, a candidate might find suitable examples to quote the use of such technologies in improving the lives of the poor through better governance and opportunities for financial inclusion.

In news

Niti Aayog conclave on Fintech

Placing it in the syllabus

Indian Economy: Inclusive growth and issues arising from it

Static dimensions

- What is Fintech?
- Types of Fintech

Current dimensions

- FinTech Experience in India
- Opportunities and risks
- Way forward

Content

What is Fintech?

FinTech stands for financial technology and describes

technologically enabled financial innovations.

It is applied in financial services or used to help companies manage the financial aspects of their business, including new software and applications, processes and business models. It is an emerging industry that uses technology to improve activities in finance.

Types of Fintech (examples)

- **Paytm:** It is a payment processor built specifically for India's mobile shoppers.
- **Policy bazaar:** It is a portal that brings an unbiased comparison of financial services from all major insurance companies.
- **Pine Labs:** It is a provider of retail POS(point of sale) solutions that simplify payment acceptance while creating business opportunities for issuers, merchants, and brands to connect with consumers.
- **PhonePe:** It is a mobile payment app that allows its users to transfer money.
- **Lendingkart Technologies:** It is a fintech startup in the working capital space that developed technology tools based on big data analysis which facilitates lenders to evaluate borrower's creditworthiness and provides other related services.
- **FreeCharge:** It is India's digital payments platform where one can make prepaid, post-paid, DTH, and electricity bill payments.
- **ClearTax:** It offers taxation and financial solutions to individuals, businesses, organizations and chartered accountants in India.

FinTech Experience in India

- **India has been at the forefront of this revolution.** In terms of FinTech adoption, a recent global survey **ranks India second with an adoption rate of 52 per cent.** It is

reported that in India there are as many as 1218 FinTech firms that have **created a large number of jobs**. They are also **generating a healthy appetite for investment**.

- The Reserve Bank has over the years encouraged greater use of electronic payments so as to achieve a “less-cash” society. The objective has been to provide a payment system that combines the attributes of safety, security, enhanced convenience and accessibility, leveraging technology solutions that enable faster processing. Affordability, interoperability, and customer awareness and protection have also been other focus areas. Banks have been the traditional gateway to payment services.
- However, with the fast pace of technological changes, this domain is no longer the monopoly of banks. **Non-bank entities are cooperating as well as competing with banks, either as technology service providers to banks or by directly providing retail electronic payment services**. The regulatory framework has also encouraged this enhanced participation of non-bank entities in the payments domain.
- In recent years, a focussed effort has been made to develop a **state of the art national payments infrastructure and technology platforms**, be it Immediate Payments Service (IMPS), Unified Payments Interface (UPI), Bharat Interface for Money (BHIM), Bharat Bill Pay System (BBPS), or Aadhaar-Enabled Payment System (AePS). This has changed the retail payments scenario of the country. The total volume of **retail electronic payments witnessed about nine-fold increase over the last five years**.
- The RBI has **granted licenses and permitted some purely digital loan companies (NBFCs) to commence operations**. **These technology-led banks use FinTech**, both while onboarding customers as well as while carrying out operations.
- **Invoice trading is another nascent area of FinTech**

application in India. It assists MSMEs which often have working capital and cash flow problems due to delayed payments. The Reserve Bank has set up the **Trade Receivables Discounting System (TReDs)**, which is an innovative financing arrangement where technology is leveraged for discounting bills and invoices. Three entities have been authorised for this purpose and the volumes are slowly gaining traction.

- **To further deepen digital payments and enhance financial inclusion through FinTech,** the Reserve Bank of India (RBI) has also appointed a five-member committee under the chairmanship of Shri Nandan Nilekani.

Opportunities and risks

While opening a new world of opportunities, the FinTech revolution has its own share of risks and challenges for the regulators and supervisors. Early recognition of these risks and initiating action to mitigate the related regulatory and supervisory challenges is key to harnessing the full potential of these developments

Opportunities in the area of digital onboarding and financial inclusion

There are **two broad areas that merit attention** in the Indian context: the first is regarding **improving the accessibility of financial platforms using FinTech**, and the second is about **analysing potential risks that may arise out of FinTech adoption**. Designing suitable financial products that cater to specific needs of the financially excluded population, digital onboarding and boosting the quantum of investments are vital in achieving the first objective. Effective utilisation of Aadhaar eco-system may provide incentives for the people to adopt digital platforms as it is happening in the case of direct benefits transfer (DBT). The central KYC registry is a significant step in this regard – about 100 million KYC records have already been uploaded onto this platform.

Reg Tech and Sup Tech

As regards potential risks and their mitigation, **RegTech² and SupTech³** have an important role. Regulators and supervisors have to undertake **accelerated off-site surveillance**. This also brings in the need for a transparent, technology and data-driven approach. To serve this need, new fields called RegTech and SupTech are coming up. Both the technologies aim at improving efficiency through the use of automation, introducing new capabilities and streamlining workflows. Reserve Bank, have been using SupTech for data collection and analysis.

A strong risk culture – in which risk detection, assessment and mitigation are part of the daily job of bank staff – will be central to the success of managing the emerging risks.

- Similarly, **systemic risks may arise from unsustainable credit growth, increased inter-connectedness, procyclicality**, development of new activities beyond the supervisory framework and financial risks manifested by lower profitability.
- **Risks for FinTech products may also arise from cross border legal and regulatory issues**. Data confidentiality and customer protection are major areas that also need to be addressed.

Way forward

The Reserve Bank has encouraged banks to explore the possibility of establishing new alliances with **FinTech firms** as it could be pivotal in accelerating the agenda of financial inclusion through innovation. It is essential that **the flow of investments in this sector is unimpeded to realise its full potential**. It is imperative **to create an ecosystem which promotes collaboration** while carefully paying attention to the implications that it has for the macroeconomy.

In order **to ensure the orderly development of FinTech**, to

streamline their influence into the financial system, to protect the customers and to safeguard the interest of all the stakeholders, **it is necessary to have appropriate regulatory and supervisory frameworks**. Such frameworks should address associated risks while keeping in mind the growing requirements of this sector.

The Reserve Bank's working group on FinTech and digital banking suggested the **introduction of a 'regulatory sandbox/innovation hub'** within a well-defined space and duration to experiment with FinTech solutions, where the consequences of failure can be contained and reasons for failure analysed. **A 'Regulatory Sandbox' would benefit FinTech companies by way of a reduced time to launch innovative products at a lower cost.**