

# Impact of Fintech Startups on the Indian Economy

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## **Abstract:**

*This paper examines the impact of fintech startups on the Indian economy. Through this paper, we can know about the growth, trend, and forecast of fintech in our economy. All the activities and information related to finance has updated to an electronic mode. Fintech companies integrate technologies like AI, blockchain and data science into traditional financial sector to make them safer, faster, and more efficient. Fintech act as a mediator between banks, customer, trade, business, and its customer as service provider. It is like a backbone to encourage banking and financial industries.*

**Keywords:** technologies, traditional finance market, trend, forecast, credit worthiness, lending system, easy availability of capital, impact of pandemic

## **Introduction:**

Technology has been growing as hard as nails day by day. It has an impact on all the sectors of the economy, including (education, retail, business, industries, also on the finance sector. The word 'Fintech' has become accustomed. 'Fin' means 'Finance' and 'tech' means 'technology'. It refers to a coalescence of "Financial Technology."

Fintech is a mediator between banks and customers, trade, business, and its customers as service providers. Fintech firms have become negotiators to know customer wants and needs. It is like a

backbone to encourage banking and financial industries. As we know earlier, all the activities involved in banking and financial industries were place physically that includes creating a bank account, lending, payments, insurance, trading of stocks, investments, selling and buying of financial services and products. But now all the activities and information related to finance have been updated to an electronic mode which is easier through websites and mobile applications.

All the financial activities are taking place from the comfort of our place with our fingertips. All the procedures can be completed without any physical assistance. The procedures required minimal documents and qualifications. The Creditworthiness of an individual can be known from their credit score. The higher the credit score, the chances of getting credit are higher and lower credit score, the chances of getting credit are lower. All the EMI's and insurance premium quotes are calculated with the help of financial applications.

It has become eye-catching after demonetization in India. With the usage of the internet, transactions as become easier and more comfortable. As these raises, the government [RBI, stock, and commodity exchanges] must take safety measures for a transaction to avoid fraud and exploitation. Fintech companies integrate technologies like AI, blockchain, and data science into the traditional financial sector to make them safer, faster, and more efficient.

In recent years, India has emerged as one of the fastest-growing FinTech hubs. According to India FinTech Report 2020 by MEDICI, between 2010 and 2015, India saw 1216 new FinTech startups founded in this period. India currently operating around 2565 FinTech hubs. India's largest share from fintech startups is through payments and is followed by lending, wealth tech, personal finance, Insure-tech, reg-tech, and others. In January 2020, the RBI gave its nod to video-based KYC as an alternative to physical verification. The video-KYC process allows due diligence of the customer and identifying documents via video chat.

Some examples of fintech startups are Paytm, Policy Bazaar, Lending kart, Pine Labs, Money tap, E-pay Later, Easy home finance, Shiksha Finance. Etc.

### **Importance:**

Fintech uses government-friendly policies, rules, and regulations. Which made the easy access to credit, loans, payments, and lending with a step-to-steps guide. The transfer of payments in business has become simple and can be made directly from a bank account linked to the payee. Which is safe and secure. It has replaced the traditional market with the electronic market. This helps in contributing to the economic growth of the country. The procedures and technologies are universally applicable. EMI's, premium quotes are offered with low discount rates and can be compared with various other financial firms, bank's websites, Apps, trading and investment websites, and other services. The Development of fintech has made easy availability of capital to entrepreneurs, funds to startups, retailers, small and medium scale businesses.

### **Objectives:**

- To study impacts on the traditional financial system of the economy
- To study major changes that happened in lending with the advent of fintech.
- To analyze India's FinTech market growth, trends, and forecast.
- To study impacts of pandemics on fintech.

### **Literature Review:**

The evolution of technology has positive benefits towards economic growth. Fintech has been multiplying. It is cost-efficient and user-friendly. It includes AI, blockchain, and data science to secure transactions of users. It includes assorted opportunities and challenges. These services are going to change the habits and behaviors of the Indian finance sector. There are numerous opportunities as well as challenges that fintech must undergo. Vijai (2019) has an opinion that Fintech will be an alternatives solution for the banking and non-banking financial sector.

A Lending mechanism, transfer of payments, portfolio investments has become uncomplicated as a proverb "Nothing can be impossible". The study on three distinct aspects of household finance has shown that consumption of finance has become smoother. "Agarwal" and Chua

(2020) have examined the impact of digital payments, mobile money, Fintech lending, marketplace lending, Robo-advising, and crowdfunding and found evidence that certain households overconsume and borrow beyond their means. Expand of Fintech has a positive benefit on consumption and borrowing.

The new initiatives have led our economy from cash to a cashless system in 2015. An increase in cashless transactions also led to an increase in cyber-fraud. These innovative technologies have posed different challenges to the bank and regulators, so they have produced a solution which was innovative called mobile-based banking solutions. The new initiatives by the government have driven the economy into innovation and new entrants into the industries. Government, industries, businesses, and other users must build trust with fintech so it will lead to contribute towards economic growth. With the support of the government, fintech has led towards rural masses and educate them about the various financial products, thus ensuring that their hard-earned income is rightly invested, (Kandial and Mehrotra, 2019).

"All's well that ends well" is a proverb that means "As long as the outcome is good, problems on the way don't matter. Fintech startups have challenges in developing countries but adopting it has a good outcome for the economy. Guild (2017) has compared technology in developing countries (like Kenya, India, China) mentioned sustainable economic growth which is strongly linked with financial inclusion. It also includes digital cash transactions services, their advantages, and disadvantages in adapting to economic conditions in developing countries. Peer-to-peer lending platforms in China and the proper benefits and drawbacks.

There should be proper technology that is lower in cost, policy and regulation should be user friendly and well - built Author argues that adoption of regulatory approach must be sustainable rather than adopting for exploitation, this helps in creating a proper framework for boosting financial inclusion through technological innovation.

Digitalization services have been replacing the traditional market, which is easier to access, faster, and cheaper. Adopting technologies not only benefits an individual but also among businesses, especially micro, small, and medium enterprises. .Heba Tallah and Adam (2021)

focus on developing countries for comparative study to find that how digitalizing of services can benefit in growth and entrepreneurship in India and Egypt. All the information has been collected from secondary data. The data has been used to highlight the digital financial services ecosystem in both countries and their challenges with the different possible opportunities. It shows that technologies are benefitted in developing countries for their economic growth and entrepreneurship opportunities. Adoption of these technologies and experiences is successful in implementing fintech in India which has saw drastic development than Egypt as it is facing a major shortfall.

Electronic payment systems have developed drastically. this is also supported by the government of India by launching the scheme 'Jan Dhan Yojana' which aims to open a bank account for every citizen. To popularize digitalization, the government has offered tax breaks to merchants who accept payments through the electronic payment system. It also concerns issues like investment and disruption in fintech. Srinivasan and Raja Rajeswari (2021) has analysis Indian markets, challenges, and growth. have used qualitative research method to collect data from secondary sources, various websites, articles, reports, online journals, news articles, and other internet sources. Examines the evolution in global markets, challenges such as investment, customer management, the role of regulations.

The Digital movement in 2015 was the reason which boosted the growth of fintech in India. Digitalization was a boon to citizens. Financial literacy plays a key role among users and their opinion about digital wallets... The study has been conducted to know financial literacy about digital wallets among different generations i.e., X, Y, and Z. 'Mathew, George, and Khanna' (2020) have the survey online in October and November 2019. They have 322 responses in total, 103 from gen x, 105 from gen y, and 114 from gen z.

There was a total of 27 questions in the questionnaire, in that 6 questions were considered to measure the independent variable and 20 questions for measuring the 6 dependent variables. The Likert scale was also used to record other responses. Dynamic change in technology should be adopted by all different generations for fruit outcome.

Business, education, retail, and all the sectors must adapt to dynamic changes in technology, trends, economic, social, and other legal issues. Broadband connectivity by telecommunications has bridged the availability of basic infrastructure which supported fintech growth. Pant (2020) used qualitative research methodology to review literature, discussions, the selection criteria were based on top-cited research papers on google scholar websites, international monetary fund websites, some key data, and trends for future innovations in fintech were taken from websites of leading market research organizations. Digital finance will become the backbone for businesses with its faster-growing technology that can replace the traditional finance sector irrespective of pandemics faced globally.

With the expansion of Fintech, the lending mechanism was also changed. Online lending platforms are simple when compared to physical. Kaur (2020) focused on the P2P lending system in India. It shows borrowing and lending mechanisms under P2P lending, guidelines by RBI, growth, and challenges faced in this sector. Secondary sources like (internet, newspapers, journals) have been used to describe the paper for understanding the concept. The development of technologies has provided services by operating on an online platform. Fintech is posing a threat to the traditional finance sector.

There have been a lot of pandemic crises since 2019 universe has been going through. Irrespective of the pandemic, all the countries had trust in technology for their safe transaction. Fintech has been boosting and blooming by creating opportunities for start-ups. Gains from this benefit for 'Bigtech' companies and recent fintech startups. 'FU and Mishra' (2020) has highlighted key trends in terms of fintech adoption and usage, covid spread, policy, characteristics of companies, and effects on different countries. Data has been collected through App tweak platforms, OxGRT (Oxford Covid-19 Government Responses Tracker, Google Play and Apple's app play stores, World Banks World Development Indicator Database, and the 2017 Global Findex Database.

### **Discussions:**

India is not an emerging economy but a re-emerging economy. India was the second-largest contributor to the world's gross domestic product up until the mid-1800s, due to a well-established entrepreneurial ecosystem. In 1995 Indians were exposed to the world wide web and gave birth to new-age businesses like a well-established matrimonial site due to the advent of the internet in India with VSNL launching its first commercial internet service. The recently re-elected government of India has set itself an ambitious goal of making India a USD 5 trillion economies in the next 5 years. It was a promise first made during election campaigns. To reach the USD trillion-mark Indian economy would need to rise at a rapid pace of 12% CAGR, up from less than 6% currently. Fintech companies are playing a vital role by providing easy credit options to micro, small and medium enterprises (MSMEs) which is the second-largest employment sector in India after the agricultural sector.

Today India is placed at third position in the global start-up ecosystem as of 2018 per NASSCOM and has seen the emergence of 'Unicorns' or companies that are valued at upward of USD 1 billion. There are 29 unicorns and 32 soonicorns as of Q3 2019. "Startups in e-commerce, health care, and food delivery, are all offspring of the booming start-up ecosystem. As per the start-up India 2018 report, startups are expected to generate over 1.25 lakh direct jobs. The 16105 DPIIT registered start-ups have created over 187000 direct jobs and each direct job has created an additional three indirect jobs. According to Data Labs by Inc42's research 2019, till Q3 2019 a total of 2773 start-ups have raised USD51 billion across 4273 deals. In the first half of 2019 alone, USD4.7 billion were invested in start-ups across 346 deals. This is despite a visible slowdown in the Indian economy.

### **Conclusion:**

As we know, some habits cannot change in our life, the same way our routine life is blended with technology which cannot be inseparable. We know the proverb "Slow and steady wins race," this can also be related to the growth of Fintech in our economy. As we know before 2015, we had the traditional financial system in our economy, in which we had more corruption and illegal

activities, transaction of money was difficult. But after demonetization in India all our bank transactions, payments, transfer of money, buying and selling financial products, and lending became easy with digital transformation. Hence, we can assume that our traditional market is slowly replacing. Apart from this, there is a crucial shift in the lending system. Increase of fintech companies has made lending of finance easier to everyone. All the process and documents verification will be done online and by knowing individual credit scores. For example, Peer to peer lending system, in this system even individual with low credit score can obtain loan. During 2019-20 there was vital shift in consumer behavior due to COVID-19, in this period there was increasing in online shopping, buying, lending, payment, and transaction, even business opted online for its future functions. After studying Indian Fintech market, we can predict that Indian Fintech market is currently valued at \$31 Bin and is expected to grow to \$84 Bin by 2025, at a CAGR of 22%. Startups have disadvantages like slow of server, limit to payment and hacking despite of this we have advantages like employment generation, Boost Economic growth, increase in foreign investment. Etc.. Through this we can know that fintech won customers satisfaction and loyalty. In near future fintech will grow tremendously

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