

# Role of FinTech and digital literacy in Sustainable Development in India

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## Abstract

FinTech has had a significant impact on the global financial services industry over the last decade. India is recognized as a strong FinTech hub globally, and as the Indian entrepreneurial landscape continues to evolve, more FinTech use cases-led businesses will be developed and more investors back these businesses. FinTech now describes a variety of financial activities, such as money transfers, depositing a check with your smartphone, bypassing a bank branch to apply for credit, raising money for a business startup, or managing your investments, generally without the assistance of a person.

**Keywords:** FinTech, Cryptocurrency, Digital Technologies, Regulators

## Introduction

“We need banking, but not banks”, Bill Gates.

## India FinTech Market Landscape

The market has seen high valuations on the back of large untapped market opportunity. The promising India FinTech market is expected to reach \$1 Tn in throughput and \$200 Bn in revenue by 2030. The FinTech funding recorded a 3X jump in 2021. This growth has been driven by an organic and collaborative ecosystem, while being supported by key government initiatives.

To conclude, due to emerging technology, changing cultural trends and a favourable regulatory landscape, FinTech has been growing beyond boundaries. FinTechs can expect future technology breakthroughs to propel the expansion of the market even further and revolutionize the manufacturing, delivery, and consumption of financial products and services in the coming years.

- Buy Now Pay Later has become mainstream and is on an accelerated growth trajectory, emerging strong, not only in B2C but also B2B, payments space.

- Innovation happening in wealth tech to serve new class of investors; new asset classes, NFTs and Cryptos will continue to drive more investor interest.
- Owing to significant untapped insurance opportunities and innovative InsurTech (Insurance Technologies) models, the space is seeing growth in funding and is expected to hit \$88 Bn in size by 2030. Innovation in health insurance coupled with the government's digital efforts will fuel market growth.
- Regulators are actively encouraging innovation through regulatory sandboxes, new distribution models, and the launch of innovative products.
- India stack and innovation by FinTechs have powered the financial inclusion revolution being witnessed across the country. Innovative solutions are being deployed to serve Tier 3+ market.
- Due to emerging technologies, changing cultural trends and a favourable regulatory landscape, FinTech has been growing beyond boundaries. Agri+FinTech and Prop+FinTech are both big bets.

Financial technology (better known as FinTech) is used to describe new tech that seeks to improve and automate the delivery and use of financial services. At its core, FinTech is utilized to help companies, business owners, and consumers better manage their financial operations, processes, and lives by utilizing specialized software and algorithms that are used on computers and, increasingly, smartphones. FinTech, the word, is a combination of "financial technology".

FinTech now describes a variety of financial activities, such as money transfers, depositing a check with your smartphone, bypassing a bank branch to apply for credit, raising money for a business startup, or managing your investments, generally without the assistance of a person.

### **1. FinTech and New Technologies**

New technologies, like Machine Learning (ML) / Artificial Intelligence (AI), predictive behavioral analytics, and data-driven marketing, will take the guesswork and habit out of financial decisions. "Learning" apps will not only learn the habits of users, often hidden to themselves, but will engage users in learning games to make their automatic, unconscious spending and saving decisions better.

Some of the most active areas of FinTech innovation include or revolve around the following areas (among others):

Cryptocurrency (Bitcoin, Ethereum, etc.), digital tokens (e.g., NFTs), and digital cash often rely on blockchain technology, which is a distributed ledger technology (DLT) that maintains records on a network of computers but has no central ledger. Blockchain also allows for so-called smart contracts, which utilize code to automatically execute contracts between parties such as buyers and sellers.

Open banking, which is a concept that proposes all people should have access to bank data to build applications that create a connected network of financial institutions and third-party providers. An example is the all-in-one money management tool Mint.

InsurTech, which seeks to use technology to simplify and streamline the insurance industry.

RegTech (Regulatory Technology), which seeks to help financial service firms meet industry compliance rules, especially those covering Anti-Money Laundering and Know Your Customer protocols which fight fraud.

Robo-advisors, such as Betterment, utilize algorithms to automate investment advice to lower its cost and increase accessibility.

Unbanked and underbanked services that seek to serve disadvantaged or low-income individuals who are ignored or underserved by traditional banks or mainstream financial services companies. These applications promote financial inclusion. Cybersecurity. Given the proliferation of cybercrime and the decentralized storage of data, cybersecurity and FinTech are intertwined.

## **2. FinTech Users**

There are four broad categories of users for FinTech: (1) B2B for banks and (2) their business clients, as well as (3) B2C for small businesses, and (4) consumers. Trends toward mobile banking, increased information, data, more accurate analytics, and decentralization of access will create opportunities for all four groups to interact in heretofore unprecedented ways.

## **3. Innovative Digital Technologies Disrupting the Traditional Payments Value Chain**

Globally, banks are moving from their traditional conservative mindsets, to align their strategies and better collaborate with FinTech players in the payments space. They have realized that failure to do so might leave them with a risk of being swayed away by nimble competitors. To achieve this, banks are collaborating with FinTech through a number of ways such as venture capital investments, incubator programmes, innovation labs, strategic partnerships and accelerator programmes.

A major breakthrough in payments transformation has been due to the support of regulators in laying down the foundation for technology companies and non-payment providers in innovating momentarily in this field. Undoubtedly retail and consumer payments are leading the way in adoption of innovative payments capabilities. This has been aided by the growth in e-commerce and the increased penetration of mobiles. The following graph shows some of the mobile payment revenue numbers globally.

Due to the factors of innovation, convenience and less cost, FinTech is getting popular at a fast rate (Goldstein et al., 2019; Leong et al., 2017; Milian et al., 2019; Lee & Shin, 2018). Thus, low cost leads to higher profitability (Gomber et al., 2018). One another reason behind this popularity is the lack of trust in the incumbent (banks) (Leong et al., 2017). Therefore, transparency is identified as one important key to the success of FinTech (Gomber et al., 2018). Also, FinTech has eliminated intermediation, for example - in crowdfunding, the lenders and borrowers can meet more directly on different electronic platforms with very small service charges compared to banks (Au & Kauffman, 2008). Services by FinTech are cheap due to fewer regulations in this industry (Au & Kauffman, 2008).

Over time the competition is getting intense between FinTech and the incumbents as the incumbents have started in-house research and are transforming their offerings (Alt et al., 2018; Goldstein et al., 2019; Leong et al., 2017). FinTech is risky due to a lack of collateral (Lee & Shin, 2018; Gomber et al., 2017; Anagnostopoulos, 2018; Goldstein et al., 2019; Leong et al., 2017) as their target audience is very risky (Jagtiani & Lemieux, 2018) and FinTech lacks financial data required to measure credit risk correctly (Leong et al., 2017).

## **4. Regulators in India**

RBI has been instrumental in enabling the development of FinTech sector and espousing a cautious approach in addressing concerns around consumer protection and law enforcement. The key objective of

the regulator has been around creating an environment for unhindered innovations by FinTech, expanding the reach of banking services for unbanked population, regulating an efficient electronic payment and providing alternative options to the consumers.

FinTech enablement in India has been seen primarily across payments, lending, security/biometrics and wealth management. These have been the prime focus areas for RBI and we have seen significant approaches published for encouraging FinTech participations. Examples:

Introduction of “Unified Payment Interface” with NPCI, which holds the potential to revolutionize digital payments and take India closer to objective of “Less Cash” society, approval to 11 entities for setting up Payments Bank and approval to 10 entities for setting up Small Finance Banks that can significantly run in favour of cause for Financial Inclusion.

### 5. Limitation of the Study

- The search query is conducted at one point in time, i.e., 17 March 2021; this is a limitation because these studies may change as new literature may be added on future dates.
- There is limited literature available on FinTech related to social and environmental sciences. More literature will refine the concept.

### 6. Conclusions

The study suggests that FinTech is the future of business, economy, and information technology, and will help preserve the world’s environment.

We further conceptually differentiate the FinTech literature in terms of emerging, basic, isolated, and motor themes. The digital economy, internet of things, and financial industry in FinTech are emerging and dropping themes. Crowdfunding and RegTech are motor themes with high centrality and high importance

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