



 **Nagamohan Gollangi\***

## Fintech Challenges for Banking Industry

Most of the technology disruptions across the globe so far, have happened in the service sector, be it Amazon, Uber, OLX, Wikipedia or Google, they have made easier the process of retail buying, availing taxi services, selling/buying of used goods, replacing Encyclopedia Britannica and providing searching tools for information. One consistent common characteristic one may find in all these disruptors is 'easing of process to obtain service', which is the key behind their stellar success.

On similar lines, by making easier the process of obtaining financial services by way of fast, efficient and customer-friendly means, Financial Technology (Fintech) firms have lately gained popularity and eventually started mushrooming across the globe. Thanks to Fintech, it is no longer about who is the biggest, but who is the fastest and the most responsive at effectively addressing the ever-changing consumer demands. The solutions offered by Fintech companies are no longer "one size fits all". Instead, they offer targeted – often niche – services that fill the gap of a particular financial need, sometimes at much lower costs than those offered by traditional financial providers.

Thus, becoming so popular in a short time, Fintech startups are significantly disrupting the financial industry. They have a number of advantages over traditional banking institutions that let them be more creative and offer customers services quicker and more affordable. People are speculating as to whether

this spells the end of conventional financing. To quote Bill Gates, "Banking is necessary, banks are not." And that may be true. Digital financial technology is all about improving the lives of users and Fintech is disrupting financial industry.

Traditional financial institutions are at present not able to catch up with Fintechs on account of their slower adoption to change, legacy issues as well as regulatory limitations. Bourgeoning proliferation of Fintechs is now posing a serious challenge to traditional financial sector and hence, has ignited the urgent need for latter for faster change management.

In India, there are more than 2000 fintech companies right now and, according to 'The Economic Times', their market capital totals up to 31 billion US Dollars in 2021. More than two-thirds of Fintechs have been set up during the last five years itself.

There are currently about 200 Fintech 'Unicorns' worldwide, and about 10% of them are based in India (A Unicorn company is a start-up valued at a minimum of one billion US Dollars). Some of the popular examples are Acko, BharatPe, BillDesk, Coin DCX, Cred Avenue, Groww, MobiKwik, Oxyzo, Open, Paytm, PhonePe, Pine Labs, Policy Bazaar, Razorpay, and Zerodha.

### **Different Fintech segments in India**

Peer-to-peer lending, real-time payments, quicker loan disbursement, investment advice, transparent

---

\*Former Chief Information & Security Officer (CISO), Bank of India.

insurance advisory and distribution, and a number of other services that previously required human capital are now quickly integrating into the digital-native Fintech landscape. Now that lending to consumers and MSMEs is a priority, the Indian Fintech ecosystem has started covering these segments too. The sector also includes more conventional financial services like insurance, personal finance, and gold lending. Let's have a look at some of the popular Fintech segments in India.

**PayTechs:** Payment security, card networks, Application Programming Interface (API)/White label solutions, and payment gateways are all examples of PayTechs. Paytm, PhonePe, MobiKwik, and Google Pay are the leading competitors in this market.

**LendTechs:** Provide business and consumer-focused services, including corporate cards, fixed term finance, and trade finance, as well as Buy Now Pay Later (BNPL), personal loans, salary loans, gold loans, auto loans, education loans, and P2P lending. Among the Fintech services used in this market are collections management, credit bureau, alternative credit scoring, lending as a service, Loan Origination System (LOS), and Loan Management System (LMS). Leading lending platforms for both customers and businesses are emerging, including Google Pay, M-Swipe, and Razor Pay.

**Digital banking:** In this segment, technology is being leveraged through the establishment of digital subsidiaries of banks, retail neobanks, and Small and Medium Enterprise (SME) neobanks. Neobanks are essentially digital platforms for commercial banks. Conversational platforms, account aggregators, API providers and aggregators, banks with open APIs, Banking as a Service (BaaS), and core banking are examples of Fintech services used in digital banking. YONO of SBI, Khatabook, and Crazybee are a few of

the major companies involved in digital banking.

**InsurTechs:** Provide services including employee insurance, digital insurance, electronic insurance, and insurance comparison platforms. By providing services like claims management, sales platforms, underwriting risk management, insurance infrastructure API, insurance product configurator, and policy admin system, fintech can be utilised in this market. One of the prominent market player in this niche is Policy Bazaar.

**WealthTechs:** Through discount brokers, robo advisors, mutual fund investment platforms, research platforms, and alternative investment platforms, WealthTechs offer wealth and expense management services. Examples of Fintech services applicable in this market include white label robo advisors, portfolio management suites, and CapTable management. In this market, two well-known companies are Zerodha and Smallcase.

**RegTechs or Regulation Techs:** AML, KYC, digital onboarding, fraud detection, Anti-Money Laundering (AML), and banking compliances and risk management solutions are just a few of the compliance and regulatory requirements that are met in the financial sector by using Fintech.

*It is interesting to note that Payment and Lending segments contribute to more than three-fourths of Fintech business.*

**What are the major challenges affecting Fintech adoption in India?**

While Fintech adoption in India has been unprecedented, it continues to face challenges such as the risk of data security and privacy leaks, platform downtimes, a lack of financial literacy and awareness in India, and disparities in adoption rates among MSMEs, which dominate the Indian economy.

Furthermore, the changing nature of the sector's regulations creates cost-related challenges for users and businesses. For Fintechs, regulations for investment exist whereas cryptocurrency, payment regulations, data security, infrastructure security, and consumer protection are still evolving.

As per the findings of the Working Group on Digital Lending (WGDL) constituted by RBI, there are approximately 1100 lending apps available for Indian android users across 80+ application stores and around 600 are illegal lending apps. These digital lending apps were discovered to charge high interest rates, use unethical and harsh recovery methods, and operate in an opaque manner.

Lack of timely enactment of regulatory controls may pose some serious consequences, like it happened in China. Let's have a look at these.

### **Regulatory challenges – China's example**

The extent of disruption 'unregulated' Fintechs may cause in an economy has been witnessed in China by the acts of two internet giants, Jack Ma's Alibaba and Tencent, the arch rivals in Fintech industry. These two, the then unregulated giant Fintechs of China, became bigger than any of the local banks and could dominate the whole banking sector in the country especially in the segments of retail banking and retail payment. The rise of the two companies has been both a blessing and a curse for China. In the meantime, another two Fintech biggies, Baidu and JD.com joined the wagon. While the investment and innovation they offer have helped the economy, the sway Fintechs held over China's people and economy was a concern for the Government.

In late 2020, the Chinese Government shocked financial markets when it suspended the most anticipated IPO of the year, i.e. Jack Ma's Ant Group.

Following this, in early 2021, the Chinese Government issued a ban on banks selling deposit products via online platforms, fearing that the rapid expansion of the largely unregulated and uncontrolled Fintech sector could increase risks in the wider financial and social system.

As a result of this ban, the deposits of a few lakh customers were locked up and it resulted in unrest among the common bank customers fearing extension of ban to other institutions. Due to the scale of the challenges, there are signs that the Chinese Government will reverse its antagonistic policy towards Fintech companies in China, embracing and collaborating with them as opposed to vilifying them. Reforms intended to centralize control of fintech companies will have to be made long-term aim as opposed to short-term measures, and confrontation with said companies and business leaders will have to reduce if China hopes to reignite its economic growth and fortunes in the industries of the future.

### **RBI's regulation of August 10, 2022**

The Reserve Bank of India (RBI) issued the first set of long-awaited regulatory framework for digital lending on August 10, 2022. The central bank has taken a position on key issues and provided clarity on topics such as direct loan disbursement to borrower account and borrowers' consent before increasing credit limit, among others.

The process of developing guidelines for the burgeoning sector had begun a long time ago. The initial work began in January 2022, after the RBI formed a Working Group on Digital Lending (WGDL).

The RBI has addressed malpractices committed by illegal Chinese apps in the digital lending rules, putting a stop to activities such as data scraping from consumer phones, obtaining explicit consent for data

collected for lending, and upfront disclosure on all costs involved and a cooling-off period for borrowers to exit digital loans

The regulator has also barred automatic increase in credit limits.

The majority of participants see the new lending framework as a positive step, with digital lending Fintechs finally being recognised as an agent of banks/NBFCs and legally permitted to do business. On the other hand, the new framework is expected to increase regulatory pressure on Fintechs, which will have to collaborate with the existing lending infrastructure.

The guidelines, on the other hand, will result in the emergence of newer banking solutions, with Fintechs collaborating with banks and NBFCs for underwriting, loan disbursement, and collection.

As opposed to what happened in China, RBI has taken timely measures in Fintech regulation, neither too early nor too late. Had the regulator's action been too early in the nascent stage of Fintech evolution, it would have hampered innovation and if it had waited too long to initiate regulations, it would have hurt the Fintech firms as they would have already evolved to the extent where it would have been a painful path of return.

Having understood the present day scenario of Fintechs in India, let us try to answer the following questions.

### **Do Fintech startups pose a significant threat to traditional banks?**

Fintech startups are unlikely to displace established banks for a number of reasons. First, consumers continue to put their faith in established banks rather than new businesses to responsibly manage their

money. Banks have developed a solid foundation of customer loyalty over many years, whereas Fintech startups will need to be patient and gain customers' trust over time.

The significant exchange between banks and Fintech startups through collaboration is a crucial factor to take into account. Through mergers, the purchase of startup companies, and mentorship programs, banks acquire technology and insights. These partnerships help Fintech startups expand their customer base and market share. This collaboration over market competition will be beneficial for both banks and Fintech startups.

### **Is it worthwhile for banks to invest in fintech?**

Certainly, there are expenses and difficulties to take into account when implementing and maintaining Fintech. Fintech, however, offers tremendous opportunity for banks to reduce operating expenses and increase efficiency, which will ultimately result in better services for their clients. Those who do not keep up with the growing demand for Fintech run the risk of being left behind by their rivals' technological advancements. The financial services sector will soon be impacted by fintech; it is up to the banks to decide how they will adapt to meet customer expectations.

### **Conclusion**

Former Chairperson of State Bank of India (SBI), Smt. Arundhati Bhattacharya, having been at the helm for four years, shared her views in one of her recent interviews in this respect. According to her, the banks have a long history, a sizable clientele, a comprehensive understanding of who their clients are, and have amassed sizable portfolios over time, whether it be of deposits or credit, in addition to having a strong balance sheet. In contrast to Fintechs, the liability side of banks' balance sheets

has a variety of sources. In that sense, the banking industry as a whole is stable, which is very difficult to say for smaller players like Fintech startups.

Because the banking system offers stability, customers will continue to use it. All things considered, the customer might receive either quicker service from Fintechs or a lower interest rate from banks. Fintech startups cannot charge lower interest rates due to the lack of more affordable funding, but they can deliver faster service.

Therefore, collaboration is the best solution in these circumstances. Collaboration between Fintech companies with innovative, good-quality ideas that improve the lives of customers and deal with their

problems, something that banks have not yet done. If they collaborate, they will have the concepts and answers, and the banks will have the clients and their confidence. If both are combined, you find a win-win solution.

Many Fintech startups are eager to collaborate with banks because it provides them with stability. It allows them to enter an already established market. They simply enter the market with their solutions. As a result, a good collaboration between the two would be the best outcome.

If this occurs, the consumer would be the ultimate winner.



### फिनटेक नवोन्मेष को सुगम बनाना: रिजर्व बैंक का दृष्टिकोण

पिछले दशक में प्रौद्योगिकी के व्यापक प्रयोग के कारण, पारंपरिक वित्तीय क्षेत्र की संरचना और कामकाज के तरीके में मूलभूत परिवर्तन हुआ है। फिनटेक ने अपनी उत्पाद संरचना, बैंक-एंड एनालिटिक्स, सेवाओं की आपूर्ति, आदि के तरीकों से, बैंकिंग, वित्तीय सेवाएँ और बीमा (बीएफएसआई) क्षेत्र में, बाधाएँ उत्पन्न की हैं। जैसा कि अपेक्षित है, इस तरह के नवोन्मेष पहले बाजार को परेशान करते हैं और जब एक बार अपनी रचनात्मक भूमिका स्थापित कर लेते हैं तो विनियामक और प्राधिकरण, नवोन्मेष को सतत पोषित करने और संबद्ध जोखिमों को कम करने के लिए इसे विनियमित करते हैं। नवोन्मेष भले ही अविनियमित होकर मुक्त विकास का दावा करते हैं परंतु, किसी क्षेत्र की सतत संवृद्धि के लिए नियमों, विनियमों/विधियों की आवश्यकता होती है।

समष्टि (वित्तीय स्थिरता और साइबर सुरक्षा) और व्यक्ति (उपभोक्ता संरक्षण और वित्तीय समावेश) दोनों स्तरों पर फिनटेक क्षेत्र के बढ़ते प्रभाव के कारण, फिनटेक स्पेस में विनियामक आदेश लाने के अलावा नवोन्मेष को सुविधाजनक बनाना जरूरी हो जाता है। इस तरह के नवोन्मेष को विनियमन के साथ संतुलित करना, रिजर्व बैंक का सूक्ष्म दृष्टिकोण रहा है और यह बाजार के विकास के साथ-साथ सचेत रूप से विकसित हो रहा है।

इस क्षेत्र के नये घटनाक्रमों से निपटने के लिए, रिजर्व बैंक ने नवोन्मेष सुगमकर्ता की प्राथमिक भूमिका के रूप में भी सचेत प्रयास किए हैं। रिजर्व बैंक द्वारा फिनटेक के प्रत्यक्ष विनियमन के कुछ उदाहरण - गैर-बैंकिंग वित्तीय कंपनी - पीयर टू पीयर (एनबीएफसी-पी 2 पी) प्लेटफॉर्म, अकाउंट एग्रीगेटर्स, ट्रेड रिसीवेबल्स डिस्काउंटिंग सिस्टम (टीआरडीडीएस) प्लेटफॉर्म आदि हैं। डिजिटल उधार पर कार्य-दल की

नवीनतम रिपोर्ट (18 नवंबर 2021) डिजिटल स्पेस के लिए एक व्यापक विनियामक ढांचा निर्माण का एक और प्रयास है।

रिजर्व बैंक ने अपने प्रयास, जैसे - विनियामक सैंडबॉक्स, रिजर्व बैंक नवोन्मेष केंद्र की स्थापना, हैकार्थॉन, आदि के माध्यम से गैर-पारंपरिक केंद्रीय बैंकिंग की भूमिका का निर्वहन भी किया है। अपनी पहल पर ध्यान केंद्रित करने और बदलते वित्तीय परिदृश्य में उभरती समस्याओं से निपटने के लिए रिजर्व बैंक ने फिनटेक विभाग की स्थापना की है। फिनटेक क्षेत्र में, रचनात्मक नवाचार और नवोन्मेष की सुविधा से संबंधित सभी समस्याओं के लिए एकल संपर्क-बिंदु होने से निश्चित रूप से इस क्षेत्र में एकीकृत दृष्टिकोण अपनाया सरल होगा।

केंद्रीय बैंक, नवोन्मेष को प्रोत्साहित करते हुए, फिनटेक क्षेत्र में उभरते जोखिमों पर भी समानांतर रूप से ध्यान दे रहा है। प्रौद्योगिकी का अधिक उपयोग साइबर सुरक्षा से संबंधित चिंताएँ बढ़ाता है। इसके अलावा, बीएफएसआई सेगमेंट में दिग्गज तकनीकी कंपनियों की भागीदारी प्रणालीगत जोखिम भी लाती है। उपर्युक्त सभी का वित्तीय स्थिरता पर असर पड़ता है। रिजर्व बैंक का कार्य, वित्तीय सेवा उद्योग में उपयोगी एप्लिकेशनों की बहुलता के बीच फिनटेक को प्रोत्साहन देते हुए, प्रौद्योगिकी और फ्रेमवर्क (ढांचे) के सावधानीपूर्वक चयन के माध्यम से, ऐसे जोखिमों को कम करना है।

उपर्युक्त मुद्दों से निपटने के लिए, रिजर्व बैंक का दृष्टिकोण जोखिम प्रबंधन के किसी भी सिद्धांत से समझौता किए बिना, विनियमन और नवोन्मेष के बीच संतुलन स्थापित करना होगा।

स्रोत: वार्षिक रिपोर्ट, 2021 - 22, भारतीय रिजर्व बैंक (आरबीआई)।