

INDIA'S TRILLION DOLLARS DIGITAL OPPORTUNITY IN THE AGE OF FINTECH

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Abstract

Digital transformation has a multi-fold impact on every industry and Fintech is not an exception. This unicorns and fintech companies have transformed the modes and methods of payment, lending, insurance and have drastically changed the wealth management system of India. Covid pandemic acted as a trigger in the development of these companies. India, the biggest destination of investment deals worldwide has the highest fintech adoption rate round the world i.e., 87% as compared to the average of just 67% of the world. As against this backdrop, this study analyses whether these unicorns have grown up and are leading to digital transformation towards the opportunity of trillion dollar economy. This quantitative study based on secondary sources uses percentage and trend analysis. It clearly analyses that fintech, insurance tech and lending tech are leading towards digital transformation and thus towards the reality of India being the trillion dollar economy.

Keywords: Financial Technology (Fintech), Digital Transformation, Lending -tech, Insurance-tech, Trillion Dollar Economy

INTRODUCTION

Coming up of digital technologies is making almost every sector including financing service sector more and more customer centric and totally dependent upon technology resulting in the financial organizations delivering the end desires of their customers and stakeholders leading to growth in employee satisfaction, customer engagement and business innovation and development. This digital opportunity is making every individual, every firm, every sector, every industry and thereby the whole economy to grow up progressively on the path of India being the trillion dollar economy by 2025.

Over the last couple of years, especially after pandemic, India has witnessed many fintech startups and has supported financial inclusion by providing paperless transactions, digital payments, neo-banking, internet banking, mobile banking services, different mobile wallets, digital lending by different mobile applications etc. Fintech has revolutionized every sphere of old banking system in India. The banks which used to be the payment gateways in earlier days are now omnipresent because of various fintech startups like Google Pay, Amazon Pay, Paytm, PhonePe, Razorpay, , MobiKwik, etc. This in turn is increasing the number and frequency of banking transactions and thereby providing a golden opportunity for the growth and development of the economy by increasing its

GDP and thus making the dream of trillion dollar economy come true.

LITERATURE REVIEW

The impact of fintech firms on traditional banks was explained using consumer theory and disruptive innovation theory (Phan et al., 2020). Aaker and Keller's (1990) Consumer Theory: According to the consumer theory, new services (such as those provided by FinTech firms) can replace old services (such as those provided by traditional banks) by meeting the same consumer demand.

Theorem of disruptive innovation (Christensen, 1997): According to Christensen, there are two types of innovations: sustaining and disruptive. To achieve growth, companies continuously improve product/service features that their mainstream customers demand through sustaining innovations. Sustaining innovations thus incrementally or dramatically improve the product along the primary performance dimension that established customer segments value. Disruptive innovations, on the other hand, appear inferior to mainstream customers at first but are appealing to emerging customers in the low-end or new niche segments because they perform better on an alternative dimension. As these innovations improve over time, their performance is adequate to satisfy the market's more mainstream customers.

Rani Suman (2016) concluded that the digital India project provides a huge opportunity to use cutting-edge technology to reshape India's service industry paradigms. It also stated that many projects may necessitate some form of transformational process, reengineering, or refinement in order to achieve the desired service level objectives.

Fintech is a hybrid of finance and information technology. Financial technology has aided and transformed the financial system. It is both a challenge and a threat to the current system (Zavolokina, Liudmila, et al., 2016), and it is poised to transform not only the business world but also the way consumers transact (Pollari, 2016). Furthermore, it has the potential to connect even low-income individuals who do not have bank accounts (Michael Zucarro, 2016).

Fintech firms have proliferated in recent years, attracting increased interest from venture capitalists. Fintech companies received \$17.4 billion in global investment in 2016, 11% more than the previous year, and this figure is expected to rise further (Wintermeyer 2017).

The entire world revolves around money transfers. Around the world, cash accounts for 85% of all transactions. This trend can be attributed to a few obvious reasons: the opaqueness of cash-related transactions, the inability to trace the source of its origin, and the holder's sense of security (Mazzotta, B. C. 2017, October 05)

Dibyendu Maiti (2018) investigated the impact of information and communication technologies (ICTs) on development and well-being beyond economic benefits, highlighting some emerging issues relating to realities, constraints, and digital divides in India.

He looks into how ICT affects governance, users, well-being, and social outcomes. Combining findings from analyses of various socioeconomic aspects of digitalization

OBJECTIVES

- To investigate the opportunities for Fintech sustenance and growth in India.
- Identifying the obstacles that would impede its growth.
- To know the growth of Fintech Companies.
- To study the growth of digital lending in India.
- Examine the performance of digitalization in India.

METHODOLOGY

The study is based on the literature review and data collected from various secondary sources.

GROWTH OF FINTECH COMPANIES IN INDIA

In India, there are over 2100 Fintech companies, with more than 67 percent established in the last five years. India's Fintech sector has also seen exponential growth in funding, with more than US\$8 billion invested across various stages in 2021. India will have 21 Fintech unicorns by June 2022. According to reports, the Fintech sector will produce the most unicorns in India over the next few years. India has a fintech adoption rate of 87 percent, compared to a global average of 64 percent. India is one of the world's fastest growing Fintech markets, with 6,636 FinTech startups. Indian FinTech industry's market size is \$50 Bn in 2021 and is estimated at ~\$150 Bn by 2025 (investindia.gov.in) Since 2018, fintech has sparked the most interest among venture capitalists looking to invest in Indian startups. The primary reason for sustained investor confidence in fintech startups over the last four years has been rising demand for technology-enabled fintech products across a rapidly growing addressable market. In 2021, the country's fintech startups raised approximately \$8 billion (\$7.97 billion, to be precise) across 280 funding deals, a record high in both cases, with the average investment ticket size standing at \$33 million. Lending technology and digital payment startups received the most venture capital inflows among fintech subsectors in 2021. They accounted for 68 percent of total funding and 44 percent of total deal count. Fintech is expected to have \$1 trillion in AUM and \$200 billion in revenue by 2030; FinTech funding in India increased threefold in 2021. Over the last five years, more than \$9 billion has been invested in digital lending, and the market is expected to grow to \$515 billion inbook size by 2030. By 2025, India will have a trillion-dollar fintech market.

Table 1: Market Size of Fintech Market in India (Tn in \$)

Fintech Industry	2021	2022	2023	2024	2025
Neo banking	31	48	67	84	97

FintechSaaS	3.3	4.6	6.4	9	12.6
Insurance Tech	56	87	137	216	339

According to the above table, Neo- banking will play an important role in the year 2021-2022 for \$31 Tn to \$48 Tn and will grow to \$ 97 (+213%) Tn by 2025, indicating an enormous opportunity for bankers. Payments between 2021 and 2025 range from \$139 trillion to \$208 trillion. It is important to note that Neo-banking and lending technology will play an important role in the future, and financial institutions (FIs) can grow with the partnership of Neo-banks (Chan et al., 2022). It is worth noting that between 2021 and 2022, Neo-banking and Insurance tech will have a combined market share of 55%. Between 2021 and 2022, the overall market size increased by 34%, from \$435 trillion to \$584 trillion. Lending technology is expected to account for 47 percent of the overall fintech market (\$616 billion), followed by Insurtech at 26 percent (\$339 billion), and digital payments at 10.6 percent (\$208 billion). It demonstrates that the overall market size of fintech, lending tech, and insurance tech is important. The RBI will streamline policy to strengthen the Fintech market in order to achieve India's digital vision and financial inclusion.

Table 2: Overall estimates of growth opportunity by 2025 (CAGR)

Fintech Industry	Growth (2021-2025) %	CAGR (%)
Neo banking	213	33
Fintech SaaS	282	40
Insurance Tech	505	57
Investment Tech	329.69	44
Lending Tech	208	32.48
Payments	49.64	10.6

According to the above table, India's overall fintech market opportunity is estimated to be \$1.3 Tn by 2025, with a CAGR of 31%. During the period 2021-2025, of 31% Among these three, insurance tech is the fastest-growing fintech sub-segment in terms of the market opportunity is growing at a CAGR of 57(%), followed by investment technology (44%) and fintech SaaS (40%).

GROWTH OF DIGITAL LENDING IN INDIA

In the coming years, digital credit will transform India's lending system by bringing millions more MSMEs into the market. With its unique open infrastructure, untapped customer demand, and high digital consumption, India has the potential to be a significant market for digital lending (Damodaran et al. 2020). According to the report (www.researchandmarkets.com), India has the highest fintech adoption rate (87%) and is the most popular destination for investment deals worldwide. In 2020, the fintech market was estimated to be worth INR 2.30 trillion. Between 2021 and 2026, it is expected to grow at a compound annual growth rate (CAGR) of 24.56 percent, reaching INR 8.35 trillion.

Table 3: Trend value of Digital lending in India (INR. In Billion)

Year	Value of lending	of Increase/(Decrease)	Growth (%)	Trend
2012	9	-	-	-44.04
2013	14	5	55.56	-15.76
2014	23	9	64.29	12.52
2015	33	10	43.48	40.80
2016	46	13	39.40	69.08
2017	58	12	26.09	97.36
2018	75	17	29.31	125.64
2019	110	35	46.67	153.92
2020	150	40	36.36	182.20
2021	200	50	33.33	210.48
2022	270	70	35	238.76
2023	350	80	29.63	267.04

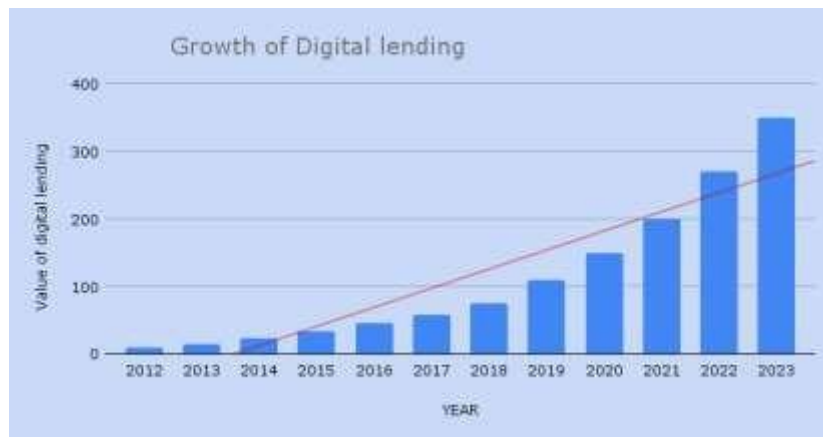


Fig: 1 Growth value of Digital lending in India

According to the above table, digital lending is one of the fastest-growing fintech segments in India, having grown from nine billion US dollars in 2012 to 270 billion dollars in 2022. It is reported that between 2012 and 2017, the growth was around 544 percent, and between 2017 and 2022, the growth was around 366 percent, 58 billion to 270 billion INR. The lending market is expected to grow to a value of around 350 billion dollars by 2023.

It is predicted that digital lending will experience explosive growth. Fintech start-ups and non-banking financial companies dominated this market. The RBI should encourage and implement appropriate policies for Fintech companies, banks, and NBFCs in order to achieve digital transformation for **digital India**.

PERFORMANCE OF DIGITALIZATION IN INDIA

1. In 2017, India ranked ninth in e-commerce sales, with total sales of \$400 billion, or 15% of GDP. B2B accounted for 91% of total sales, accounting for \$369 billion.
2. Global ICT employment increased from 34 million in 2010 to 39 million in 2015, with computer services accounting for the lion's share (38 percent).
3. Computer services were employed by more than 50% of ICT sector employees in three developing countries: Brazil, India, and Moldova.
4. Some countries have developed a successful export industry in ICT services.
5. The relative importance of ICT services in total services exports varies significantly among the top exporters. This figure is higher than 25% in Finland, India, Ireland, and Israel.
7. India, which came in second place, is the largest developing country exporter of such services, with nearly a third of them being computer services.
8. China and India are the region's leaders in startup creation, accounting for 58% of the total.

9. The degree to which Internet users are concerned about their online privacy varies by country.

10. Facebook is the most popular social media platform in more than 90% of countries.

According to a 2020 survey conducted on Internet security and trust conducted by the Centre for International Governance Innovation (CIGI) and Ipsos in collaboration with UNCTAD and the Internet Society, 78% of Internet users in 25 economies were concerned about their online privacy. According to the study, wealth and power in the digital sphere are increasingly concentrated in the hands of a small group of so-called "super platforms," which include the seven global brands Microsoft, Apple, Amazon, Google, Facebook, Tencent, and Alibaba.

DIGITAL ECONOMY A \$1-TRILLION OPPORTUNITY FOR INDIA

According to an IT Ministry report, the digital revolution will create numerous opportunities. According to a report from the Ministry of Electronics and Information Technology in collaboration with McKinsey, India can generate over \$1 trillion in economic value from the digital economy by 2025, with half of the opportunity originating in new digital ecosystems that can spring up in diverse sectors.

"The trillion-dollar economy report is a symbol of the opportunities available in India," said Ravi Shankar Prasad, Minister of Information Technology. "Digital India also provides an opportunity for people working in the digital space to do business in India."

"The size and scale that India provides is a significant business opportunity for global corporations," he added.

CONTRIBUTION TO GDP

According to the report, India's digital economy currently generates about \$200 billion in economic value annually, accounting for 8% of India's GVA in 2017-18. This is largely due to the existing digital ecosystem, which includes information technology and business process management (IT-BPM), digital communication services (including telecom), e-commerce, domestic electronics manufacturing, digital payments, and direct subsidy transfers.

"By 2025, India could have a digital economy worth \$800 billion to \$1 trillion (equivalent to 18-23% of nominal GDP)." The existing digital ecosystem could contribute up to \$500 billion in economic value, but India's potential economic value could be nearly \$1 trillion if digital technologies are used to unlock productivity, savings, and efficiency across more diverse sectors such as agriculture, education, energy, financial services, government services, healthcare, logistics, manufacturing, trade, and transportation, according to the report.

According to Prasad, while India's e-commerce market increased by 17% year on year to \$35 billion in 2018. Because "they don't have malls," catchment areas in rural India accounted for up to two-thirds of that growth. He stated that the data protection policy is nearly complete, and that the government is also working on a software product policy.

The digital economy of India's future-

- The Indian digital economy will reach \$1 trillion by 2022: Garg
- Voice, video, and vernacular: India's internet landscape is changing to attract new users
- NASSCOM report: India has the world's third largest startup base
- Voice, video, and vernacular: India's internet landscape is changing to attract new users
- Digital payments will be a trillion-dollar industry by 2023; Digital payments will be a trillion-dollar industry by 2023;
- India's IT services market will reach USD 13.2 billion by 2023
- India's e-commerce market will triple to \$100 billion in the next four years: Report

DISADVANTAGES OF DIGITAL ECONOMY

It had to happen sooner or later: Digital India. The majority of the disadvantages that we can identify stem from issues with digital literacy rates and malicious individuals-

- 1) Online Fraud: While the elderly and uneducated are vulnerable to this scam, others are not immune. Prizes, free goods, ATM PINs, and one-time passwords are just a few of the methods used to entice potential victims.
- 2) Fake news: people believe almost anything on the internet, from unicorns to UNESCO awards bestowed upon our country.
- 3) Hatred: doctored clips and photo-shopped images are currently popular in propaganda policy. Once an idea has taken root in your mind, no amount of logical reasoning can easily shake it off.
- 4) Cyberbullying: Children who are new to social media platforms become prey to predators, resulting in immediate consequences. The Blue Whale Game is a recent example.
- 5) Viral Videos: This is one of the most egregious examples of internet misuse. Making videos and photos go viral is seen as a tool for defaming and shaming the victim. Another tragic aspect is when children are involved in sexual activities.
- 6) Digital Currency: This is one step toward reducing the use of hard currency, but its abrupt implementation has left people unable to buy goods or pay (demonetization!).
- 7) Distraction students: due to dirt cheap data packs, they have distanced themselves from books. Not long ago, we used the internet with caution so as not to exceed our monthly limit. That's only a day's quota.
- 8) Social Life: Families are spending much less quality time together than they used to when we used to watch TV together or do any other activity. Everyone now wants to keep up with the world but not with their loved ones.
- 9) Hype beast: there's this false pride in flaunting the latest brands and enjoying being the centre of attention while being hollow on the inside.

10) Identity theft is a major unresolved issue that looms over us. Security measures do not meet international standards, and we make a mistake in not recognizing this as a major issue.

CONCLUDING REMARKS

To summarize, the majority of Indian fintech start-ups are less than a decade old, but the progress and growth demonstrated by these firms, particularly lending tech and Insurtech, has been exponential in recent years. Because of emerging technology, Neo banks, changing cultural trends, growing fintech market size, and a favourable regulatory landscape, the industry has expanded beyond its borders. Future technological breakthroughs are expected to propel the market's expansion even further and revolutionise the manufacturing, delivery, and consumption of financial products and services in the coming years, according to FinTechs.

Digitalization fosters innovation, ease of operation, new job opportunities, and economic growth. It contributes to system transparency and a lot of clear area unit the flow of funds within the economy, which reduces the downside of non-payment, parallel economy, and so on. However, with these benefits available, it also makes it necessary for people to have basic financial knowledge and a push towards the importance of financial attainment.

Understanding the various aspects of digital transformation initiatives was aided by digital transformation. To remain competitive and better serve their constituents, every enterprise and organisation must eventually make digitalization a strategic cornerstone. Implementing digital transformation initiatives is a wise decision in the context of digital India and financial inclusion.

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