Fintech Sector – Catalyst to growth

(Special Keynote Address delivered by Shri Ajay Kumar Choudhary, Non-Executive Chairman and Independent Director, National Payments Corporation of India – July 18, 2024 at ASSOCHAM's 2nd India International Fintech Festival in New Delhi)

Good morning! Distinguished guests from FinTech Industries, financial institutions, academia, research prodigies, press & media, office bearers of ASSOCHAM and Ladies and Gentlemen

It gives me immense pleasure to be with all of you to address this esteemed gathering in the second edition of the prestigious **India International Fintech Festival**. The theme of the festival – **Fintech- Powering India's USD 5 Trillion economy and building a sustainable future innovation**, is quite relevant in today's context. My compliments to the organisers (ASSOCHAM) for bringing all the stakeholders of the FinTech ecosystem under one roof to celebrate the role of FinTech and FinTech entities.

We stand at a pivotal moment in the history of financial technology, witnessing its rapid revolution over the past few years and contemplating its transformative potential for the future. Today, I will explore the trajectory of Fintech's evolution, its future projections, its positive contributions, associated risks, and key elements to achieve a sustainable FinTech eco system.

Fintech Growth: Past, Present and Future

In the last few years, the Fintech industry has experienced exponential growth. According to a report by KPMG, Global fintech investment has reached the level of USD 58.2 billion in H2'23. This sector, currently holding a mere 2 percet share of global financial services revenue, is estimated to reach USD 1.5 Trillion in annual revenue by 2030, constituting almost 25 percentage of all banking valuations worldwide. Payments and the AI-focused fintech solutions remained the top areas of interest for investors.

India is amongst the fastest growing FinTech Markets in the world. As of 2024, it is estimated to be around USD 110 billion, and by 2029, it is projected to reach an impressive around USD 420 billion at a CAGR of 31 percentage. Boasting over 9000 fintech entities, India ranks third globally in terms of the highest number of Fintech entities and commands 14 percentage of startup funding in the country. The adoption rate of Fintech in India is 87 percent, which is well above the global average of 67 percent.

The Indian fintech ecosystem is expected to continue to proliferate, driven by factors like favourable policies, development and existence of enabling DPIs, Institutional support, and technological innovations. The government's push towards a digital economy, coupled with a young and tech-savvy population, is likely to propel the Fintech sector to new heights. NPCI has set an ambitious target of achieving 1 billion UPI transactions per day in coming years.

Future Ahead

The coming years will witness significant trends in areas such as embedded finance, decentralized finance (DeFi), integration of Artificial Intelligence (AI) & Machine Learning (ML), Distributed Ledger Technology (DLT), adoption of Application Programming Interface (API), Cloud Computing, Big Data, interconnection of multiple financial ecosystems with the help of technologies like tokenisation, unified ledger etc. (FINTERNET) in financial services- all are set to redefine the sector. Embedded finance, where financial services are seamlessly integrated into non-financial platforms, is expected to drive significant growth. Further, the concept of Tokenisation, Unified Ledger, Blockchain, FINTERNET and Quantum Computing is gaining traction and has the potential to disrupt as also propel our economy to new heights.

While the payments led the last era, we expect B2B (serving small businesses) and B2B2X (B2B to any user) will lead the next. FinTech serving B2B have ample room to disrupt, as small to mid-sized enterprises (SMEs) worldwide have annual credit need of an estimated USD 5 trillion.

Fin Techs – Net Gain post Adjustment of Associated Risks

The advent of the FinTech ecosystem, driven by technology-linked innovation, has revolutionized traditional financial services and led to improvement in the efficiency of delivery of financial products and services by way of making it swifter, cost effective and with the enhanced customer experiences. However, these innovations have come with their own set of risks and can create new vulnerabilities and amplify existing risks, including risks to customers, enhanced risks to data privacy and security breaches, integrity of financial services especially linked to money laundering and terrorist financing, model biases due to incomplete and biased data selection in building of models, and the systemic risk and risk to financial stability due to greater interconnection nodes across financial entities, a heightened degree of contagion in times of stress and the amplification of procyclical behaviour.

Therefore, the challenge is to maximize the benefits of fintech while minimizing potential risks for the financial system. To achieve this, the FinTech sector would have to focus on two key elements, viz. customer centricity and governance. By bringing customers right at the centre of innovation and following the standards of good governance, the true and natural balance can be achieved.

On the customer centricity, we must remember what Steve jobs once famously said, "*you have got to start with the customer experience and work backward to the technology*". The success of any enterprise is intricately tied to the satisfaction, loyalty, and trust of their customers. This stands truer for young businesses like FinTech entities. They must note that in a world with fierce competition and abundant options, customer loyalty can make all the difference.

Now on governance, effective governance structure and risk management processes are fundamental to identifying, monitoring, and mitigating any risks, including risks associated with digitalisation of finance. Similarly, data related risks can be mitigated through robust data governance structure and enhanced security protocols. I would like to emphasise that good governance system and practices can be achieved by inculcating the values of accountability, fairness, transparency and independence in the processes. The culture itself should reinforce appropriate norms for responsible and ethical behaviour.

Competition, Collaboration and Regulations

The Fin Tech entities can act both as competitors and collaborators. Competition is necessary to create incentives for Fin Tech entities to invest in innovations and to push the traditional banks to innovate and adapt to change. Collaboration between traditional players and FinTech entities helps absorb innovations in the financial system. Traditional players offer strength and stability through robust balance sheets, capital strength, and good risk management practices while FinTech entities bring agility, innovation, efficiency, affordability, enhanced customer experiences, and expanded access.

It is always a challenge to strike a balance between policy objectives such as fostering innovation on one hand while managing risks. Achieving this balance is the key for allowing innovation that can provide benefits to the society without compromising the soundness of financial system. Therefore, the sustainable financial world would not depend on how the regulators design the regulation for Fin Tech entities, it would largely depend on how the Fin Tech sector balances its own wants against the need of customer centricity and good governance. It is thus, desirable that true balance between innovation and managing risks comes from within the FinTech entities, which may reduce the need for regulation. In this context, as mentioned by the Governor, Reserve Bank of India, the role of Self-Regulatory Organisation (SRO) assumes importance in the Fin Tech sector. SRO may provide responsible practices and standards as also pro-active monitoring of the developments to achieve the objectives of sustainable FinTech eco system and meaningfully contribute to the development of the economy. In the overall context, I would also like to highlight here from one of his interviews that banks and all Fin Tech entities must create adequate IT investments to address the vulnearabilities relating to digitalisations.

Conclusion

To conclude, the growth of Fintech sector over the last few years has been nothing short of remarkable. As fintech entities continue to innovate and expand exponentially, it will drive the financial industry towards more digitalisation and bring enhanced efficiency, affordability, inclusivity and sustainability, and has the potential to reshape our financial landscape. The transformative potential of Fintech and Fin Tech entities extends beyond the financial sector and has the power to propel our economy to new heights.

The Indian government's vision of a USD 5 trillion economy is within reach, and Fintech entities will play a crucial role in achieving much beyond this. By leveraging the power of digital payments, CBDCs, tokenization, and unified ledgers, we can create a more efficient and inclusive financial system, which, in turn, will drive economic growth, enhance productivity, and create new avenues for investment and entrepreneurship.

However, with great power comes great responsibility. We must navigate the associated risks carefully and ensure that our dynamic Fin Tech sector is mindful of challenges and continue to work towards developing a consensus of responsible innovation.

Allow me to conclude by quoting Mahatma Gandhi which is apt for sustainable development "*The future depends on what we do in the present.*"

Thank You for your undivided attention and I look forward to the exciting discussions and insights that will emerge from this festival.

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Reference:

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