



Think Ahead

FINTECH AS A CATALYST FOR GROWTH: **LESSONS FROM INDIA**



Executive summary

Financial technology – fintech – has improved money circulation by making financial transactions faster and easier, enabling easy access to credit, tokenisation of assets and similar developments. By addressing inefficiencies in the traditional financial system, fintech has enhanced productivity, boosting economic growth. India's fintech has set an example globally, providing zero transaction costs and high-speed transactions, both essential for emerging economies. Government-provided digital ID (Aadhaar) for every resident has become part of the foundational infrastructure for access to financial services.

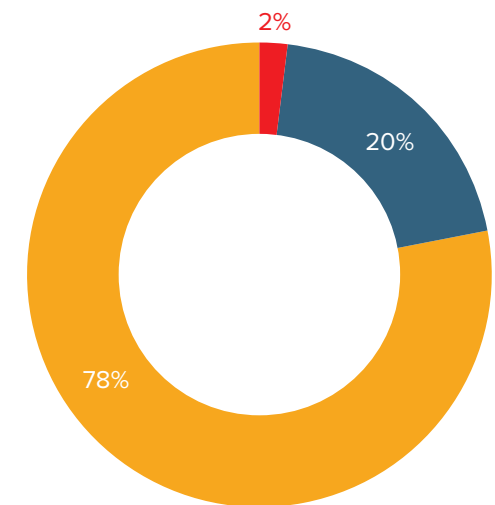
What makes fintech so disruptive? The answer lies largely in the ability of fintech-based companies ('fintechs') to innovate and differentiate. Fintechs are not burdened by legacy systems and processes, and can adopt emerging technologies to anticipate and satisfy customer needs. This report explores this growth, and the current and future uses of fintech, across three sectors: education, energy and financial services. It highlights opportunities, challenges and the way forward for policy and practice (for fintech providers and finance professionals).

With the digital public infrastructure at its core, user confidence in fintech is high and growing. India Stack¹, increasing internet penetration and favourable demography are the key enablers. An ACCA survey reveals confidence in fintech as a driver of economic growth (Figure ES1). Almost all (95%) respondents use fintech platforms frequently. Over 70% say their use has increased in the past one to two years and will further increase in the coming one to two years. Over two-thirds of respondents (78%) believe fintech will significantly contribute to economic growth in the medium to long term. Respondents expect fintech to enhance financial inclusion, expand the banking base, and democratise access to alternative investments. Over 80% recognise fintech's role in enabling finance access for small and medium enterprises (SMEs) (88%) and banking the unbanked (84%), integrating underserved rural populations into the financial system. Additionally, 88% believe fintech will make equities and alternative investments available to retail investors.

Opportunities are numerous, including artificial intelligence (AI) integration in fintech to improve transaction security and speed (cited by 72%), followed by reduced complications in payments using fintech platforms (eg nominal fees/easy processes for cross-border transactions) though over half wanted stronger guardrails to ensure security and privacy. Experts interviewed cited as examples advancements in cross-border transactions, and the financialisation and tokenisation of assets to transform credit systems.

Figure ES1: To what extent will fintech contribute to the growth of the economy in India in the next 3-5 years?

■ Quite a lot/ a significant amount
 ■ Neutral
 ■ Not at all/ not a lot

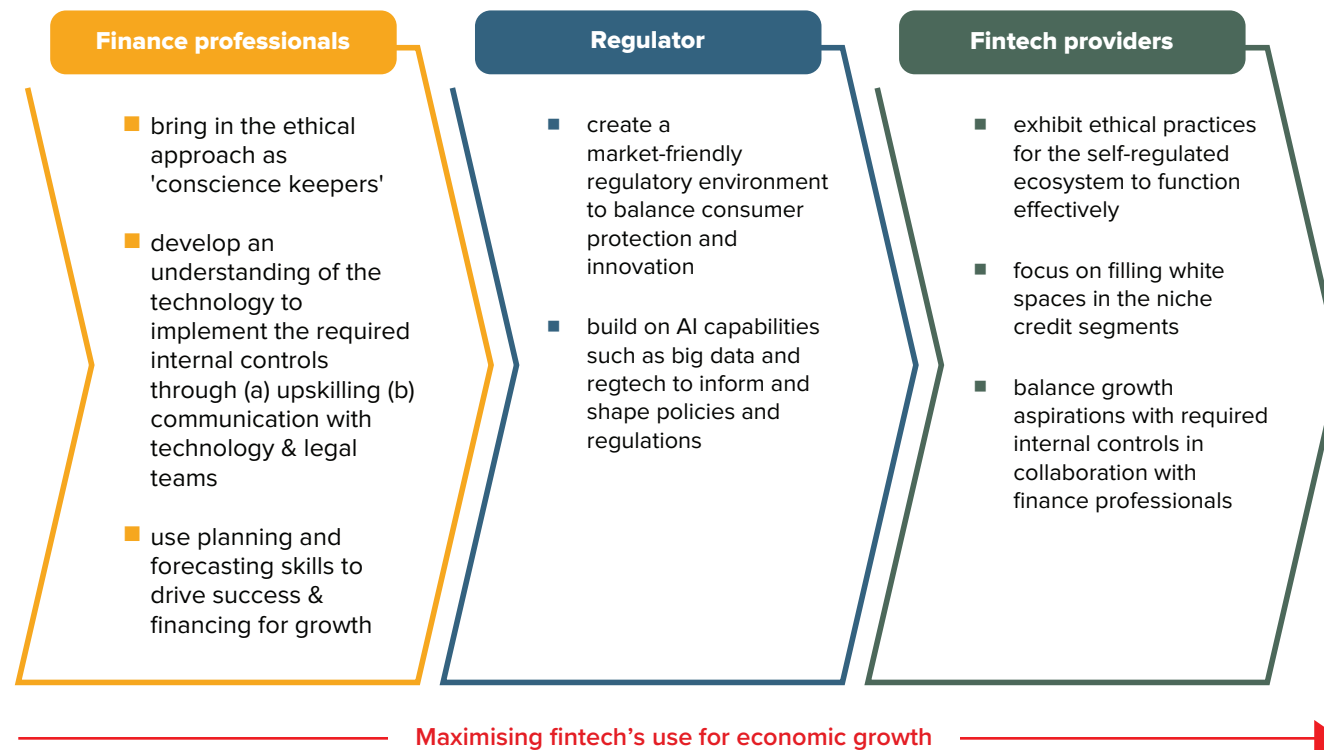


¹ '[A] set of open APIs [application programming interfaces] and digital public goods that aim to unlock the economic primitives of identity, data, and payments at population scale'(India Stack n.d.)

With opportunities come challenges: 60% of respondents cited privacy and data security concerns. Over half cited the need for stronger regulatory processes (58%, implying a robust regulatory and data security framework), and the lack of required knowledge, skills, and capabilities (52%, indicating the need for building capacity).

Everyone – including fintech providers, finance professionals and regulators – has a role to play in harnessing opportunities and managing risks. Industry experts envision a future where fintech will evolve into a ‘finternet’: multiple financial systems interconnected with each other, much like the internet, putting individuals and businesses at the centre of their financial lives. They advocate a user-centric approach that lowers barriers between financial services and systems, thus promoting access for all. All parties have a role in achieving an inclusive future for fintech (Figure ES2).

Figure ES2: The role of different parties in fintech



There is potential value in following a ‘principles-based approach’ to regulation, where all parties involved follow ethical practices and self-regulate. As fintech evolves, a balance between innovation and consumer protection can be attained only if all parties recognise and fulfil their respective responsibilities.

