



Fintech ecosystem in India: Current status and emerging trends

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Abstract

Indian FinTech ecosystem has emerged as a formidable global force and continues to grow as one of the largest FinTech markets globally. One of the best digital payments ecosystems in terms of value and volume, phenomenal growth in the consumer and SME digital credit access, and towering participation of the retail investors in the stock market are testimonials that Indian FinTech companies are on the right trajectory. Fintech is an emerging concept in the financial industry. The fintech provides digitalization transaction and more secure for the user. The benefits of fintech services reducing operation costs and friendly user. The fintech services India fastest growing in the world. The fintech services are going to change the habits and behaviour of the Indian finance sector. FinTech is now inclusive of a spectrum of financial services such as Investment management, Crypto currency, retail banking, education, fundraising and non-profit organizations, etc. The first global FinTech which was popularly in use even today is PayPal. As indicated by EY's 2017 FinTech Adoption Index, One-Third of purchasers use no less than at least two FinTech administrations and those customers are likewise progressively mindful of FinTech as a piece of their day by day lives. The study aims to provide the opportunities available, and the challenges faced by Indian industries in fintech.

Keywords: Digital Payments, Financial Ecosystem, Fintech, Indian Economy, Unified Payments Interface

Introduction

The term —FinTechl was first coined by a New York banker in 1972. While there is no widely accepted definition of what lies under the term FinTech, companies considered to belong to that sector provide services including payment options, online marketplace lending, mobile apps, financing, foreign exchange and remittances, investments, distributed ledger tech, digital currencies, mobile wallets, artificial intelligence and robotics in finance, crowd funding, insurance, and wealth management, with an expanded definition considered to include ancillary technology solutions targeted at financial services, such as digital identity, biometrics, wearables, and technology to assist with Regulatory Compliance (RegTech) (Digital Finance Institute, 2016). As such, the financial services sector has become significantly impacted and influenced by emerging technology-enabled trends that support innovation.

It transcendently works by unbundling contributions by such firms and making new business sectors for finance industry by extending monetary consideration and utilizing innovation to reduce on functional expenses. The financial business use FinTech for both Back-end measures and Behind-the-scenes observing of record exercises, for instance, the application used to check the bank balance. Organizations utilize these mechanical administrations for the installments handling, internet business exchanges, and bookkeeping. In the light of the current worldwide pandemic an ever-increasing number of organizations are adjusting FinTech to empower highlights like contactless installments and comparative other monetary capacities.

India has arisen as Asia's greatest objective for FinTech bargains, trailed by China. With around 33 arrangements esteemed at \$647.5 million. India has the most elevated interest in the FinTech fragment. The accessibility of a talented labor force and the presence of most pieces of monetary administrations and innovation eco-framework

makes Bangalore and Mumbai the main two settled urban areas for FinTech organizations in India. A recent report by Boston Consulting Group (BCG) that states India will realize a FinTech sector valuation of USD 150-160 Billion by 2025, further reinstates India's strong growth potential in the coming years. India has seen an extensive rise in the number of FinTech firms in a very short period. Currently around 2100 FinTech firms exist from which 67% have been set up in the past 5 years.

The future of FinTech in India is optimistic, as noted in the Mc Kinsey Report "The future of India will continue to see both vertical and horizontal growth". The horizontal growth will involve existing technologies becoming more accessible to the greater part of the country, thereby can be used by several people, whereas the vertical growth will implicate the emergence of new financial technologies that can give people new platforms to trade, invest, save money, and restructure their finances. Some the major Indian Fintech Start-ups are Paytm, Policybazaar, MobiKwik, Zebpay, etc.

Fintech in India

The fintech industry has seen tremendous growth in India over the last decade since it caught pace after the expansion of internet services in the country. With a fintech adoption rate of 87% against the global average of 64%, India is one of the fastest-growing fintech markets in the world. More than 6,636 fintech startups in India meant that the industry had a market size of \$50 billion in 2021, and it is estimated to reach \$150 billion by 2025. With the introduction of innovative reforms and technological advancements in the digital payment landscape, India's fintech industry is expected to grow at a CAGR of 20% to reach a transaction value of \$138 billion in 2023.

UPI (Unified Payments Interface), an advanced mobile app-based payment system to transfer funds between bank

accounts developed by the National Payments Corporation of India in 2016, is the multiplier force behind the Fintech revolution in India. UPI, with over 338 banks registered under the platform, recorded more than 6.28 billion transactions in July 2022 worth 10.62 lakh crore. However, despite registering unprecedented growth in the last few years bolstered by the rapid internet penetration, India still has the second largest population without access to banking services with 190 million unbanked people. To cover all populations under the ambit of financial inclusion, the Indian government has taken several major steps to ease regulatory compliance for traditional banks as well as fintech organizations. It has led to the rise of technology-based financial services providers disbursing banking services across the length and breadth of the country. Leveraging the technology, fintech startups are providing banking services to a big chunk of the population by partnering with existing banks at minimal cost and paperwork.

Home to 23+ fintech unicorns, India has emerged as a strong fintech hub globally in a very short span of time. However, the rapid expansion of fintech services has also raised several risks and regularity concerns across the industry. Rapid digitization of financial services has led to the rise of privacy breaches, cyber-attacks, and cross-border legal and regulatory issues, which are the major causes of concern for the federal financial regulatory authority. Data confidentiality and customer protection are also important issues that the fintech sector encounters.

Fintech ecosystem in India

FinTech services can influence financial institutions, regulators, customers and retailers in a wide range of industries [7]. New trends and needs related to the financial services delivery have been driving the development of an entirely new ecosystem, affecting both FinTechs and non-financial firms [1]. From a Service-Dominant Logic perspective, the service ecosystem can be understood as a structure in which the actors co-create value and exchange service [11].

This ecosystem is of paramount importance to ensure that technological innovation is created to make financial services more efficient and to improve customer experience [12].

According to Lee and Shin [4], the ecosystem of a FinTech comprises five elements: FinTech startups; government; traditional financial institutions; financial customers; and, technology developers. A well-developed ecosystem can stimulate the local economy and generate opportunities for growth [12]. In order to understand the dynamic of a FinTech and how it develops, it is necessary to comprehend in detail this ecosystem [4].

The FinTech are characterized as follows:

- **FinTech Startups:** FinTech startups are new technology-based companies that offer innovative solutions in the financial industry [3]. These companies are responsible for the innovation leaps in that industry, so they should be considered the central piece of the ecosystem [4]. Fintech startups' businesses have many elements that directly impact the consumer in the financial value chain, such as the use of digital channels [3] and prioritizing meeting niche market needs by offering customized services [4]. FinTech startups adopt

a customer-centric strategy, although such strategy does not remove uncertainties about long-term profits and success rates [3].

- **Government:** The global financial sector has experienced significant changes in regulations due to digital technologies and their disruptive effect [7]. Governments and regulatory agencies can positively impact different dimensions of the ecosystem, e.g., by simplifying trade regulations or by reducing taxes and duties. However, they can also have a negative impact, namely by creating more rigid and bureaucratic regulations [12]. After the global economic crisis of 2008, governments and regulation agencies further developed regulations, prioritizing transparency in an FinTech services can influence financial institutions, regulators, customers and retailers in a wide range of industries [7]. New trends and needs related to the financial services delivery have been driving the development of an entirely new ecosystem, affecting both FinTechs and non-financial firms [1]. From a Service-Dominant Logic perspective, the service ecosystem can be understood as a structure in which the actors co-create value and exchange service [11]. This ecosystem is of paramount importance to ensure that technological innovation is created to make financial services more efficient and to improve customer experience [12]. According to Lee and Shin [4], the ecosystem of a FinTech comprises five elements: FinTech startups; government; traditional financial institutions; financial customers; and, technology developers. A well-developed ecosystem can stimulate the local economy and generate opportunities for growth [12]. In order to understand the dynamic of a FinTech and how it develops, it is necessary to comprehend in detail this ecosystem [4]. The FinTech are characterized as follows:
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According to Lee and Shin, the ecosystem of a Fintech comprises five elements: Fintech start-ups; government; traditional financial institutions; financial customers; and, technology developers. A well-developed ecosystem can stimulate the local economy and generate opportunities for growth. In order to understand the dynamic of a Fintech and how it develops, it is necessary to comprehend in detail this ecosystem. The Fintech are characterized as follows:

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- **Traditional Financial Institutions:** Traditional financial institutions (TFIs) are essential for Fintech ecosystems. After the first impact of FinTechs emergence in the financial sector, TFIs have been reviewing their business models and developing new strategies to innovate, particularly by using technology. Although at the beginning TFIs faced Fintech start-ups as a threat, recently they have started to work in collaboration with those new companies, through acquisitions and the creation of in-house incubators seeking to create new services with lower operational costs and more competitive prices. According to Diemers, the relationship of TFIs with Fintech start-ups

may stimulate innovation within the former and further strengthen their competitive position.

- **Financial Clients:** One of Fintech start-ups' key feature is the ability to identify customer needs. Fintech start-ups focus on offering services that meet the needs of market niches by delivering high quality and personalized services. This approach is extremely important to acquire of new clients, since customers evaluate the benefits and risks of the services of a Fintech before using them. Customer satisfaction is of paramount importance for Fintech start-ups because word-of-mouth recommendations can be crucial for business success in such a highly competitive industry. Moreover, high standard and value-added services attract customers who have been served by TFIs, since those institutions do not offer services that meet the specific customers' needs.
- **Technology Developers:** With the advance of information technology, technology developers deliver digital technologies, such as big data, cloud computing, social media, and artificial intelligence (AI) that are one of the factors responsible for FinTech startups success. The internet of things (IoT), cloud computing, big data, social computing, among other technologies, enable startup companies to automatize their business processes and offer unparalleled services and products within the financial sector.

Future of Fintech in India

Building more equitable and effective financial services and fostering economic growth are both made possible by the ongoing digitization of money and financial services. In India, there are more than 2100 Fintech businesses, and more than 67 percent of those were founded in the last five years. In 2021, investments of more than \$8 billion were made at various phases of the Fintech sector in India, which has also experienced exponential growth in finance. At a compound annual growth rate (CAGR) of 20%, the value of Fintech transactions is predicted to increase from US\$66 billion in 2019 to US\$138 billion in 2023. As of June 2020, India had had significant growth in the area of digital payments, with a monthly volume (total digital transactions) of over 5.7 billion transactions totalling almost US\$2 trillion. There are currently 187 unicorns in the fintech sector worldwide, 21 of which are located in India. The names of these companies are Acko, Bharat Pe, Bill Desk, Charge bee, Paytm, Oxyzo, Phone Pe, Pine Labs, Coin DCX, Coin switch Kuber, CRED, Slice, Razor pay, Cred Avenue, DIGIT, Groww, Policy Bazaar, Zerodha, Zeta, and Open.

In order to monetize the data and user base, the majority of these platforms have now adopted financial services re-bundling by combining a number of services under one roof. These businesses cross-sell various financial services and products. For instance, Pine Labs, formerly a POS/Payment gateway company, has expanded into merchant lending, rewards and loyalty programs, consumer finance, neo banking, and value-added services for retailers. Similar to Yono, which was originally primarily a digital banking platform, the business today also offers pre-approved consumer loans, insurance, and online shopping.

Opportunities and Challenges of Fintech in India

Opportunities

Indian FinTech firms have the ability to change three aspects of the financial services industry:

- FinTech startups will probably cut expenses and raise the standard of financial services. Benefits of leaner operating models can be passed on to customers because they are not constrained by expensive physical networks, outdated operations, or IT systems.
- The financial technology sector will provide original and cutting-edge methods for evaluating risks. The penetration of financial services in India will increase through utilizing big data, machine learning, and alternative data to underwrite credit and produce credit scores for customers with little credit history.
- A more diverse, safe, and stable financial services environment will be produced through Fintech. Compared to traditional banks, fintech companies are less homogeneous and provide excellent learning examples for enhancing competencies and culture.
- Fintech businesses can learn from and use best practices that have proven successful for the majority of Indian banks and financial service providers in the areas of risk and internal controls, operational excellence, compliance culture, and employee engagement.

Challenges

Fintech despite of having huge opportunities has still a tough path to walk on. Below is the probable roadblocks list in the path of Fintech enterprises

- It is not very easy to enter into the Indian market and perform due to the restrictive regulatory framework designed to prevent frauds. It acts as a huge barrier for the new entrants. They need to fulfil lot of formalities before the start of its operations itself
- Unbanked population, Poor infrastructure in terms of Internet Connectivity and low literacy level are the other hindrances. Still a huge Indian population (48 percent) do not have bank accounts which are a must for conducting online transactions. Even though the people have bank accounts they still face the issues of poor internet connectivity which takes more processing time to finish the transaction. So people tend to prefer a cash transaction rather than online transaction. Keeping aside, the point of having a bank account and internet connectivity the majority of the Indian population still do not have enough financial literacy level suitable to go for it.
- It is very tough to change the conservative approach of merchants and users who deal the daily transactions with cash. Majority of the aged people have been doing these transactions in cash from a long time and it's hard to suddenly change their old habits and introduce them to new avenues at this age.
- Different frauds leading to loss of money in online transactions is a very hard bite to swallow for the customers. People's money is looted by the fraudsters by using technology and this has been a great challenge in front of the fin tech firms. So the firms indeed have to work hard for bringing improvements in infrastructure and being more consumer friendly.
- Fin tech in India is deprived of lack of government support and Incentives for protecting their interests. At a very basic level this demoralizes the entrepreneurs.

They were not provided the right guidance and support to start though it is something for the betterment of the country's economy as well.

- Like in any industry gaining investors trust is very difficult in these days for the Fin tech industry too. Getting the required seed capital and other investment on time is becoming very difficult and this is going to reflect negative on the operations and functioning.

Conclusion

The FinTech industry has been a boom in the financial sector of India and will continue to contribute to the growth of the Indian economy in terms of National income, GDP, Employment opportunities, and much more. Fintech industry change for the financial services in India. and India's fastest growing fintech industry in the world. In the future, Indian fintech software market is forecasted to touch USD 2.4 billion by 2020 from a current USD 1.2 billion, as per NASSCOM. The traditionally cash-driven Indian economy has responded well to the fintech opportunity, primarily triggered by a surge in e-commerce, and Smartphone penetration. The Indian government also focuses on and encourages fintech industry and promote new ideas and innovations refer to the fintech industry. Fintech is an emerging concept in the financial industry. Financial technology innovation in India more advantage for the Indian economy, the fintech services more secure and user-friendly. the fintech services reduce their costs for financial services.

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