"Financial Technology: A New Development in the Financial Sector"

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Abstract:
The Indian financial sector is adapting by developing novel approaches to better serve the needs of its customers. Before the widespread use of fintech, business owners and startups had to approach financial institutions in search of funding. Establishing a credit provider relationship and installing equipment, like a landline-connected card reader, would be required if they wanted to take credit card payments. With today's advancements in mobile technology, those problems are now history. The country's financial sector is being revolutionised by fintech. Although the Indian regulators have been supportive of fintech's expansion and widespread use, there are still people who aren't being adequately served by the financial system because they are unbanked or underbanked. Taking into account the fact that the Micro, Small, and Medium-Sized Enterprise (MSME) sector in India suffers from a significant lack of access to credit. Because to this void, Fintechs now have a great chance to reach previously unreached demographics. Fintechs have been a lifesaver for the MSME industries, which have been suffering from a lack of funding, thanks to their innovative use of technology and data-crunching prowess. The current study, which relies on secondary data, aspires to evaluate Fintech's effect on MSME's and the role it is playing by providing novel solutions for the instantaneous acceptance of digital finance. There are some obstacles to Fintech lending that are illuminated by the study.

Key words : Fintech, Micro, small, and medium-sized enterprises,, Digital lending, Advanced Encryption Standard, AI,

I. Introduction

MSMEs drive economic growth in any country, but notably in India, where a large population needs goods and services. Indian enterprises are mostly of two categories. First, manufacturing, then service. Micro, small, and medium-sized firms comprise both types. SMEs drive the global economy. Easy funding is crucial for business efficiency and growth. Several factors determine how countries classify SMEs. Staff and revenue define the sector in Europe. In the US, classification is based on personnel count or income, however it varies by industry. In India, classification is based on fixed asset investment.

Micro Small & Medium Companies (MSMEs) account for 40% of manufacturing output, 8%–10% of GDP, 90% of industrial output, and 60 million jobs. Notwithstanding these praises, unorganised organisational structures and funding constraints hinder sector growth. The MSME census reports 30 million MSMEs, 2 million of which are registered and 28 million unregistered. Insufficient credit score records and bad accounting and financial methods hinder banks' ability to assess borrowers' reliability. Fintech companies can build sustainable businesses by providing need-based financial services to the underserved SME lending market.

Fintech, which first applied computer technology to bank and trading company back offices, now comprises a wide range of technological interventions in personal and commercial finance. From digital currency to double-entry bookkeeping, "financial technology" encompasses any corporate innovation. Since the advent of the internet and smartphones, there has been a significant expansion in the field of financial technology.

Fintech includes money transfers, smartphone check deposits, credit applications, startup finance, and investment management without human intervention. According to EY's 2017 Fintech Adoption Index, one third of consumers make use of two or more fintech services.

II. Literature Review

1)"Fintech and the financing of SMEs and entrepreneurs: from crowd funding to market place lending." : Researchers have also thought about the most important economic and technical factors that affect Fintech.

2) Interpretive structural modeling (ISM) of IT enablers for Indian manufacturing SMEs. This paper focuses on use of IT in SMEs. ": This study focuses on the application of IT in small and medium-sized enterprises.

3) June 2019 RBI –Report of Expert Committee on Micro, Small, and Medium Businesses :

The Economic Times released an article on how Fintech might promote financial inclusion.

III Objectives of the study

1. To have an understanding of the role of Fintech
2. To investigate the major constraints in digital lending;
3. To comprehend potential issues facing Fintech.
4. To provide possible suggestions

IV. Methodology

The nature of the study, which is based on secondary data, is exploratory. The information has been collected from a variety of sources, including

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newspapers, financial journals, reports published by the government, websites, etc.

V. Technology in Financial Services Environment

According to CB Insights, which listed 26 fintech unicorns globally with a combined valuation of $83.8 billion, the industry's young companies raised a total of $17.4 billion in fundraising in 2016, and they were on track to surpass that amount by the end of 2017. According to a survey by the same company, there were 39 venture capital–backed fintech unicorns with a combined value of $147.37 billion by the end of 2018. The term "fintech" can be understood to refer to any company that operates online and offers financial services. According to the Financial Stability Board (FSB) of the BIS, "Fintech is technologically enabled financial innovation that could result in new business models, application and processes or products with an associated material effect on financial markets and institutions and the provision of financial services." Fintech is defined as "technologically enabled financial innovation that could result in new business models, application and processes or products." The year 2015 saw the introduction of financial technology businesses in India as well as the growth of an environment that is ideal for financial technology. At the moment, India is seeing growth in the fintech industry, which is supported by favourable government laws, the positive attitude of investors, a mass pool of talent, and the creation of ecosystem in the form of incubation and innovation centres, etc.

Major Factors Influencing Fintech Lending in India:

The primary growth factors for Fintech in India include –

1. a rise in Smart phone usage and the availability of affordable data connections.
2. advantageous demography.
3. a shift in spending patterns and the creation of digital infrastructure by the government, such as the formalisation of business through GST registration and the Udyog Aadhar Memorandum.
4. Further implementation of India stack (building a single software platform) and introduction of cutting-edge technologies such as block chain
5. It is anticipated that artificial intelligence and predictive analytics would have a positive impact on the fintech sector.
6. Conventional banking models have primarily suffered in five areas: financial inclusion, customer experience, increased transparency, compliance, and prompt decision-making.

By building innovative and customer-centric products and delivery channels, fintech may bridge these gaps.

Models for Financial Lending in the Age of Technology :

- Funding via invoices:
  It is a form of short-term working capital that is provided to micro, small, and medium-sized businesses based on the outstanding invoices of their customers. It helps micro, small, and medium-sized enterprises speed up their cash flow.
- Transaction-based loans at points of sale:
  Lending depending on the amount of receivables received through point-of-sale transactions: with this approach, the credit facility is extended for a shorter time. Traders and retailers can make use of this type of space.
- Peer-to-peer lending is facilitated through a digital market place:
  Borrowers get low-interest loans. Registered borrowers post their loan requests on the platform and provide basic information for due diligence. If there is an interest rate, eligible lenders can submit an offer or bid to fully or partially satisfy the loan conditions. Lenders can diversify their loan portfolios and risks by making several small loans or little chunks of a larger loan on the platform.
- Crowdfund :
  It involves obtaining funding from many creditors. Borrowers present their business ideas and funding requirements this way. Investors provide the funds. India is developing crowd funding.
- Loans with pre-approval: Banks and new-age lenders use digital footprints and algorithm-based data crunching to pre-approve customers for loans.
- Co-lending:
  Fintech companies and conventional lenders working together to issue loans benefit everyone. A typical financial institution funds a loan, whereas a fintech company finds a client, analyses credit, and disburses a tiny fraction. It helps banks contact more MSMEs by using their huge balance sheets.
- Lending via mobile:
  The mobile software approves loan applications using phone data. Phone calling patterns, energy bill payments, and mobile purchases all affect creditworthiness. Digi LAP shows how fintech businesses have transformed the loan against property market with technology (LAP). From application to payout, lenders have digitised the mortgage loan process, reducing turnaround time (TAT) and improving client experience.
- Unconventional methods:
  Fintech companies use credit scorecards and other traits and raw data to decide whether to

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offer credit. This replaces SMEs' traditional recordkeeping and documentation. Some psychometrically analyse behaviour. This allowed more MSMEs to access official finance.

- Fast disbursement:
  Cash-strapped SMEs benefit from the loan's 2-3-day disbursement. Fintech documentation is straightforward and quick. advantages: Digital lending is cost-effective, and banks can use co-lending to grow their loan book by onboarding new clients cheaper.
- Government and regulators' digital lending efforts TReDS:
  This facility addresses MSMEs' delayed payments. Several financiers will discount electronic bills. SMEs can encash receivables immediately.
- Udyami Mitra Portal :
  The UdyamiMitra portal is a digital marketplace that aims to supply a "end to end" solution, including an interface with banks, service providers, and details about lending facilities, among other things.
- Quick PSB Loans in 59 Minutes: This project's ultimate goal is to automate and digitise the business loan application process to the point where a borrower can receive a "in-principle" approval for a loan in as little as 59 minutes. Applicants have their pick of available lending institutions. This service allows for loan amounts between one million and five million rupees to be approved.

Challenges before Fintechs:

The success of Fintech businesses is heavily reliant on the information they amass from a variety of sources, making data privacy an important concern. The organisation must guarantee the confidentiality of all customer information. The risk associated with cloning digital identities can be significantly increased. Businesses need to understand that they could lose not only customers but also money.

- Workforce reskilling and upskilling are essential to keeping up with the ever-evolving technological landscape.
- The rise of sophisticated cybercrime has coincided with the rise of digital disruption, highlighting the importance of cyber security. The players in the fintech space should take adequate precautions to protect customer data stored online.
- Requirements imposed by regulators mean that Fintechs must use more sophisticated models in key areas like risk management, capital formation, and capital allocation, among others.
- Constrained means
  Although Fintechs are reshaping the lending landscape, they only have a finite amount of capital to lend. They need investors to provide capital so they can lend it out to others. Some Fintechs have reportedly reached saturation point due to a lack of necessary core capital.

VI Conclusions

Fintech has helped alternative banking. Now comes the hard part: maintaining quality as customer expectations rise and competition heats up. Banks and Fintechs must collaborate to capitalise on industry growth.

Fintech companies often offer free services to attract customers before pitching personal loans and credit cards. The fintech company receives a referral fee if a free fintech product user applies for a credit card.

- ✓ Investors in start-ups will become pickier, although expansion will continue to be robust.
- ✓ Financial technology will help make banking accessible to more people.
- ✓ The financial technology industry will keep shattering the taboo surrounding discussions of money.
- ✓ Fifth, Fintech will continue to shatter the monetary taboo.
- ✓ AI and ML will reduce the likelihood of fraud.
- ✓ Fintech solutions will become increasingly.

VII Suggestions

The use of Advanced Encryption Standard encryption, a second authentication factor, and biometric authentication are all standard to be followed

Alerts for any and every activity.

Regular penetration tests can protect your solution from hackers. Annual testing is required. Each upgrade and integration requires testing.

Employ a legal professional for advice and a regulatory update tracker.

AI to assess consumer preferences; Enhanced cybersecurity and suspicious activity analysis; Better customer experience with chatbots and customised offerings.

AI can solve several financial industry fintech issues.

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