

**Impact of Fintech Startups on Financial Institutions' Performance and Default Risk :  
A Case Study of India**

**Dr. Ahmad Murtaza Alvi, Assistant Professor  
Department of Business Administration  
College of Administration and Finance  
Saudi Electronic University, Riyadh-KSA  
Email- a.murtaza@seu.edu.sa**

**ABSTRACT**

India's fintech landscape has witnessed explosive growth in recent years, with startups disrupting traditional financial services across various segments like lending, payments, wealth management, and insurance. This dynamic environment has raised questions about the impact of these new players on the performance and risk profile of established financial institutions. Fintech startups have introduced innovative technologies and business models, forcing traditional institutions to become more efficient and customer-centric. This has led to improved operational efficiency, cost reduction, and ultimately, enhanced profitability for some incumbent players. By catering to underserved segments and offering niche products, fintech startups have expanded the reach of financial services, increasing financial inclusion and driving overall market growth. This benefits traditional institutions by creating new customer segments and opportunities for collaboration. Fintech startups are leveraging data analytics and artificial intelligence to personalize services and offer tailored solutions to customers. This data-driven approach is prompting incumbent institutions to modernize their own data infrastructure and decision-making processes, leading to improved risk management and profitability.

**KEYWORDS:**

Fintech, Startups, Profitability, Financial, Digital

**INTRODUCTION**

India boasts a vibrant and rapidly growing FinTech ecosystem, ranking second globally in deal volume and attracting significant investments. The market is projected to reach a staggering \$2.1 trillion by 2030. With a large unbanked population and increasing smartphone penetration, India presents a fertile ground for FinTech innovation. (Acheampong, 2021)

The Indian FinTech ecosystem is supposed to proceed with its noteworthy development direction, driven by expanding digitization, rising dispensable salaries, and a strong administrative climate. With headways in technology and arising patterns like blockchain and simulated intelligence, we can anticipate that considerably more innovative arrangements should arise and additionally change the financial scene in India.

Fintech startups can quickly get some decent momentum with their innovative and easy to understand arrangements, representing a danger to customary establishments' piece of the pie. This might possibly dissolve incomes and affect productivity, particularly for foundations delayed to adjust to the evolving scene. (Peria, 2021)

Some fintech models, especially in the loaning space, could zero in on high-risk borrowers, prompting potential credit misfortunes. This can in a roundabout way influence the dependability of the financial framework and increment fundamental risk.

As fintech startups depend vigorously on technology and data, they are powerless against cyberattacks. Moreover, the developing administrative scene encompassing fintech can create vulnerabilities and difficulties for both laid out organizations and new contestants.

The Indian financial scene is encountering a critical change because of the thriving development of fintech startups. These startups are utilizing technology to offer innovative and available financial services, testing the customary strength of laid out financial organizations. This has prompted a perplexing transaction among fintech and customary foundations, influencing their performance and default risk. (Stern, 2021)

Fintech contests have constrained customary organizations to work on their functional proficiency and customer service. This has brought about lower charges, quicker exchange handling, and a more extensive scope of items and services. Fintech startups are coming to beforehand unbanked and underserved portions of the populace, growing financial access and advancing financial incorporation. This more extensive financial base can prompt expanded benefits for customary foundations.

Fintech startups are drawing in a critical number of customers, particularly youthful and educated people. This can prompt a piece of the pie disintegration and lower benefits for customary organizations. The quick development of fintech has caused administrative difficulties, as existing guidelines may not be completely adjusted to the new scene. This

vulnerability can prevent the advancement of both conventional establishments and fintech startups. (Mukherjee, 2020)

Customary foundations need to put vigorously in technology and digital framework to contend with fintech startups. This can prompt greater expenses and strain on benefits. Fintech startups are exceptionally dependent on technology and data, making them powerless against cyberattacks and data breaks. This can harm their standing and dissolve customer trust, affecting their performance.

Fintech startup developments are related to a decline in stock return unpredictability of customary foundations. This proposes that fintech can add to more prominent financial steadiness by diminishing risk. Fintech can assist with decreasing the fundamental risk openness of financial foundations. This is on the grounds that fintech organizations are frequently more modest and more specific than conventional foundations, making them less inclined to add to fundamental financial emergencies. Fintech startups can furnish customary establishments with new instruments and technologies for the executives. This can assist them with distinguishing and moderate risks all the more actually, lessening the probability of default. (Halaby, 2022)

### **OBJECTIVES OF THE STUDY:**

The objectives of the current research work are as follows:

- i) To study the role of Fintech Startups in India
- iii) To study the impact of Fintech Startups on the performance of Financial Institutions in India
- iv) To study the impact of Fintech Startups on the default risk of Financial Institutions in India

### **Impact of Fintech Startups on Financial Institutions' Performance and Default Risk : A Case Study of India**

Fintech startups are driving advancement in the financial area, presenting new technologies and arrangements. Customary organizations can profit from working together with these startups, getting to new capacities and remaining on the ball. Studies recommend a positive connection between fintech startup developments and the performance of conventional

organizations in India. This recommends that fintech can add to the development and benefit of conventional financial establishments.

India presents an exceptional contextual investigation for inspecting the effect of fintech on conventional organizations. The Indian financial area is described by countless unbanked people and a quickly developing well informed populace. This has made a ripe ground for the rise of innovative fintech startups.

The Indian government has likewise been steady in fintech, carrying out different drives to advance its turn of events. This has additionally sped up the development of the industry and its effect on conventional foundations.

The Fintech industry in India is blasting, with a market opportunity assessed to be \$2.1 trillion by 2030. This development is driven by a few variables, including:

**Huge and underbanked populace:** India has an enormous populace, a large number of whom need admittance to conventional financial services. This makes a gigantic likely market for Fintech startups.

**Rising cell phone entrance:** The quantity of cell phone clients in India is quickly expanding, which makes it simpler for individuals to get to Fintech services.

**Government support:** The Indian government is steady in the Fintech industry and has executed a few drives to advance its development.

As a result of these factors, India has become a global leader in Fintech innovation. There are now over 9,900 Fintech startups operating in the country, offering a wide range of products and services.

Here are some of the most notable Fintech startups in India:

**Paytm:** One of the leading digital payments and financial services companies in India, offering services like money transfers, utility payments, and Buy Now Pay Later options.

**PhonePe:** A popular payments app that allows users to send and receive money, pay bills, and recharge their phones.

**Razorpay:** A payment gateway that helps businesses accept online payments.

CRED: A credit card rewards platform that offers users cashback and other benefits for paying their credit card bills on time.

Policybazaar: An online insurance marketplace that allows users to compare and purchase insurance policies from different insurers.

WazirX: A cryptocurrency exchange platform.

Lendingkart: An online lending platform that provides business loans.

Pine Labs: A merchant platform that provides point-of-sale solutions and other services to businesses.

These are just a few examples of the many innovative Fintech startups that are operating in India. The industry is rapidly evolving, and new startups are emerging all the time.

Fintech startups are essentially affecting the performance and default risk of financial foundations in India. While there are both positive and adverse consequences, the general impact gives off an impression of being positive, with fintech adding to expanded rivalry, productivity, and financial incorporation. By taking on viable strategies and encouraging cooperation, India can guarantee that the fintech upheaval benefits both conventional establishments and buyers.

Key segments of the Fintech market:

Payments: This is the largest segment, with players like Paytm, PhonePe, Razorpay, and Google Pay dominating the space.

Lending: Fintech startups are offering innovative lending solutions to individuals and businesses, with companies like Lendingkart, Aye Finance, and ZestMoney leading the way.

Wealth management: This segment is growing rapidly, with startups like Groww, Scripbox, and Zerodha offering investment solutions to millennial investors.

Insurance: Fintech startups are making insurance accessible and affordable to a wider population, with companies like Policybazaar, Acko, and Coverfox being key players.

Fintech is advancing financial incorporation by giving admittance to financial services to already unbanked populaces. It is making new positions and encouraging business ventures inside the Indian economy. Fintech is adding to the development of the digital economy by advancing credit only exchanges and digital installments.

The default risk of Fintech startups in India is a mind boggling issue with various contributing elements. A portion of the key elements include:

**Restricted financial record:** Numerous Fintech startups in India target borrowers who have restricted or no record as a consumer. This makes it challenging to survey their reliability and builds the risk of default.

**High dependence on technology:** Fintech startups are vigorously dependent on technology for credit beginning, endorsing, and assortment. This can prompt functional risks, for example, extortion and cybercrime, which can expand the expense of loaning and lessen productivity.

**Administrative vulnerability:** The administrative climate for Fintech in India is as yet developing. This can make vulnerability for startups and make it challenging to anticipate what's in store.

**Rivalry:** The Fintech scene in India is exceptionally aggressive. This can come down on startups to offer lower financing costs and longer advance terms, which can build the risk of defaults.

**Monetary variables:** The Indian economy is dependent upon various outside factors, like worldwide financial circumstances and political precariousness. These elements can essentially affect the performance of Fintech startups.

Regardless of these risks, the Fintech area in India is developing quickly. This is expected to a limited extent to the enormous unbanked populace in India and the rising interest for financial services.

## **DISCUSSION**

In order to mitigate the risk of default, Fintech startups in India are taking a number of steps, including:

Developing innovative credit scoring models: These models use alternative data sources, such as mobile phone data and social media data, to assess the creditworthiness of borrowers.

Partnering with banks and NBFCs: This allows Fintech startups to access a larger pool of capital and leverage the expertise of established financial institutions.

Improving technology infrastructure: This helps to reduce the risk of fraud and cybercrime.

Complying with regulations: This helps to ensure that Fintech startups are operating in a safe and sound manner.

The Reserve Bank of India (RBI) has issued a number of guidelines for Fintech lending in India. These guidelines are designed to protect consumers and promote the safe and sound development of the Fintech sector.

Some of the key guidelines include:

Know Your Customer (KYC) norms: Fintech startups must comply with KYC norms to ensure that they are not dealing with criminals or terrorists.

Anti-Money Laundering (AML) norms: Fintech startups must comply with AML norms to prevent money laundering and financial crime.

Fair practices code: Fintech startups must comply with a fair practices code to ensure that they are treating their customers fairly.

Data privacy: Fintech startups must comply with data privacy regulations to protect the privacy of their customers.

The RBI's guidelines are expected to help to mitigate the risk of default in the Fintech sector.

In 2023, the RBI introduced First Loss Default Guarantee (FLDG) for Fintech startups partnered with banks and NBFCs. This has helped to reduce the risk of default for Fintech startups by providing them with a safety net.

FLDG is a type of credit guarantee that covers the first losses incurred by a lender in the event of a borrower default. This means that if a borrower defaults on a loan, the FLDG provider will reimburse the lender for a portion of the losses.

FLDG is supposed to emphatically affect the development of the Fintech area in India by lessening the risk of default for Fintech startups. This will make it simpler for Fintech startups to get to capital and develop their organizations.

Implications for Policymakers and Financial Institutions:

- Policymakers:
  - Implement supportive regulatory frameworks that encourage innovation while mitigating risks associated with fintech.
  - Promote financial inclusion by creating a level playing field for fintech and traditional institutions to serve underserved segments.
  - Invest in digital infrastructure and skills development to ensure the financial system can adapt to the evolving technological landscape.
  
- Financial Institutions:
  - Adopt a proactive approach to innovation by exploring partnerships and collaborations with fintech startups.
  - Invest in digital transformation to improve customer experience and operational efficiency.
  - Develop robust risk management frameworks to address the emerging risks associated with fintech.

## CONCLUSION

From the current research study and literature reviewed here, we can conclude that the impact of fintech startups on financial institutions' performance and default risk in India is complex and multifaceted. While fintech presents opportunities for increased efficiency, market expansion, and innovation, it also poses potential risks associated with disruption, credit losses, and cybersecurity. Policymakers and financial institutions need to adopt a



proactive approach to harness the benefits of fintech while mitigating the risks to ensure a stable and inclusive financial system. The default risk of Fintech startups in India is a mind boggling issue with various contributing elements. Be that as it may, Fintech startups are finding various ways to relieve these risks, and the RBI's rules and FLDG are supposed to assist with encouraging decrease the risk of default. The Fintech area in India is developing quickly, and it is normal to assume an undeniably significant part in the Indian economy in the years to come.

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