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Commerce

A Case Study on Fintech Startups in India

KEY WORDS: Financial services, Fintech apps, Interest rate, Terms and conditions.

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ABSTRACT

The financial market in India is fast changing with the growth of internet access to a vast population. The last development is the emergence of many financial money-lending apps to feed the financial need of Indian customers. Indian financial market has had formal and informal money lending businesses going for a long time. These fintech money lending apps are replacing informal financial providers such as money lenders, especially in urban India. Thousands of such apps are available in the google play store and other app download options. It is high time the Government of India created proper rules and regulations for this financial service segment.

INTRODUCTION

The Indian financial market is fast growing due to its vast population and the requirement for loans for various reasons. The formal sector caters to only a tiny portion of the population who are influential. The ordinary person has no choice but to approach moneylenders of various forms for their immediate requirements.

Formal Banking Systems consist of Commercial Banks, both Public Sector and Private Sector Banks, Foreign Banks, Branches in India, Cooperative Banks, Urban and Rural, and Non-Banking Financial Institutions for specific purposes. Informal banking consists mainly of Money lenders of various shades and names. Most Small Business people and people who are daily wage earners, people working in MSMEs, and Informal sector employees depend on the local money lenders and Non-Banking Financial institutions registered as Societies. These individuals and societies charge exorbitant interest from their customers. One such type of financing is by these financial institutions collaborating with the producers to sell consumer durable items.

Non-Banking Financial Companies ("NBFCs") are one of India's most critical pillars for financial services. They play an essential role in reaching out to a hitherto under / un-served, broad-basing the formal lending ecosystem while bringing the benefits of formalization to the 'Bharat' we know. NBFCs cater to the needs of both retail and commercial sectors and, at times, develop robust niches with their specialized credit delivery models that even more prominent players, including banks, have found hard to match. They play a critical role in supporting economic growth across income levels, sectors as well as geographies, and in doing so, leading to more employment opportunities and more incredible wealth creation.

Various loan options available to an individual are: 1. Personal Loans, 2. Auto Loans, 3. Student Loans, 4. Debt consolidation Loans, 5. Payday Loans, 6. Small Business Loans, 7. Gold Loan, 8. Loan Against property, 9. Agricultural Loan, 10. Consumer Loan.

The black money holders mainly control the informal money lending business, and the politicians are also not interested in controlling this industry since their money is circulated in this sector. Technology development has helped these money lenders to expand their reach and scope to extract huge profits in this field.

Fintech Apps

1. PaySense

This instant loan app is available in the google play store, which lenders can download, and the application process is simple. The individuals can apply for a loan even if they are

not employed since there is no requirement for a salary slip for applying for this loan. The platform had arranged to pick up the loan application from the lender's house. The application does not insist on collateral or credit score and does quick approvals and disbursements. The app provides loans to first-time loan applicants with zero credit history but after verification of documents only.

2. MoneyTap

The individual needing money based on their credit score loans is approved instantly after downloading, registering and KYC verification. The whole process is a paperless and online approval process. The loan is also collateral free for any purpose. The loan is sanctioned if the individual can provide the required documents and auto verification online.

3. Dhani

This company started as a drugstore and has expanded to the financial services business. The app is specially designed for part-time working students to avail of personal loans with simple documents but without the need for salary slips. The loan is also attractive since it offers 2% cash back for every transaction, which can be used for future redemptions and services. The app promises no processing fee or other charges for its loan services.

4. Nira

On downloading the app, individuals with good credit scores can get instant loans through this app. The app verifies the credit score automatically through your PAN card number, and once satisfied with the credit score and bank KYC the loan is processed fast, and approvals are done online. The loan is processed online as a paperless documentation process.

5. CASHe

This is one of the personal loan apps available for individuals. The person needing money can log in and register on the app. The app provides all the information required to be fulfilled for getting the loan. They have tie-ups with Flipkart, Amazon, Big Basket and others for Buy Now Pay Later partnerships as a loan option for their regular customers who have availed loans earlier. The app insists on A good credit score for granting the loan.

6. Home Credit

The app downloading and registering requires PAN Numbers based on which the credit score will be obtained, and the loan is mainly sanctioned only by people with good credit scores. The loan sanctioned is for only 26 months, making it a short-term loan option for individuals with high credit scores. The app generates the best offers after evaluating various options as the best reasonable offers. The individual must carefully study the offer's terms and conditions while applying for the loan.

7. PayMe India

The loan app downloading and registering offers a wide variety of loans for last-minute rent payments, utility bills, medical emergencies, loss of work and salary etc., to tide over short-term financial crises faced by individuals. The loan is available only for a maximum period of 2 years. The interest charged depends on the credit score of the individual. Corporate loans are also available for business purposes with fulfilling the proper documents, even for long-term purposes.

8. India Lends

This loan platform processes loan applications from different financial institutions like banks and NBFCs. The app processes applications on behalf of these financial institutions and recommends to them that they extend the loans. Based on the individual's PAN Number, the app processes the application and finds out the credit score; based on the applicant's credit score and credit history, the app recommends various options available to an individual for a loan.

9. MoneyView

The app is a 100% cashless and paperless procedure processing applications digitally with a good credit rating. The app provides loans for up to 5 years tenure. Once the documentation is completed, money gets credited to the individual's bank account. The app has a Built-in expense tracker system, Bill Payment reminders, integration with third-party payment apps and processing fees ranging from 2.5 to 4% of the loan amount.

10. Market

This website allows students and salaried individuals to get loans very fast. Usually, the credit score is not considered for sanction of loans since they are extended for students and part-time workers. They extend the smallest amount starting from Rs 500, to students who need money for emergencies with high-interest rates. Some loans are sanctioned with guarantors.

A Comparative statement of significant terms and conditions of the above money lending apps is given below:

Loan App Name	Interest Rate (p.a)	Max Loan Amt	Min Loan Amt
Pay Sense	12.96 to 27.96	Rs. 5 Lakhs	Rs 5 Thousand
Money Tap	12.96 to 27.6	Rs. 5 Lakhs	Rs 3 Thousand
Dhani	12 to 38.04	Rs. 5 Lakhs	Rs 1 Thousand
Nira	18 to 30	Rs. 5 Lakhs	Rs 3 Thousand
CASHe	From 21	Rs. 5 Lakhs	Rs 5 Thousand
Home Credit	28.8 to 39.60	Rs. 2 Lakhs	Rs 10 Thousand
PayMe India	24 to 72	Rs. 1 Lakhs	Rs 1 Thousand
India Lends	10.8 to 36	Rs. 50 Lakhs	Rs 15 Thousand
Money view	24	Rs. 5 Lakhs	Rs 5 Thousand processing fees of 2.5 % to 4%,
mpokket	From 42		Rs. 500 onwards (Student Loans)

Documentation: Aadhar Card, PAN Card, Passport, Driving License, Bank Statement, Form 16A, Voter ID, Photograph etc., is collected for proof of Person and Address.

Usually, these apps disburse smaller loans after deducting interest for the loan period, which had to be paid in a very short period, i.e. at most three months. They disburse rotational loans to repay the old loan at a higher interest rate. The average loan size will be tiny, limiting exposure to thousands only. If the loan requirement is in lakhs, they refer them to NBFCs for disbursement so that these loan apps are safe by taking exposure of smaller amounts. These loan apps ask for permission from Android phones to access all the information on the Mobile phone. They get access to Contact details, Photos and all other apps installed on the mobile. Once the individual fails to pay the due amount, they resort to

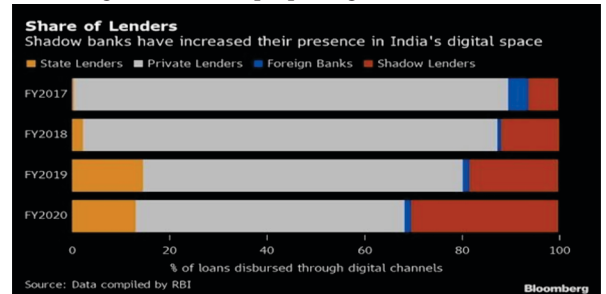
all types of intimidation techniques with access to all information from the mobile. Since they are provided with the PAN, they get the individual's credit history and can charge high-interest rates for the customers based on the track record.

Google App Store is flooded with these types of apps, and they get installed when the individual installs other apps or sends advertising messages which, when clicked, will install these apps on an Android Mobile. Chinese firms use Cloud services to host their apps in the Indian Mobile market with their Apps by sending messages for various purposes, which, when clicked, will get these apps downloaded to the mobiles. When downloaded, they access all the individual's information, sometimes including their bank account details. With the help of bank account details, either they siphoned the available bank balance in that account or credited some loan to the individual's bank account without the customer's consent. After the lapse of time, these apps start demanding payment from the customer; when the customer refuses, they use all illegal collection methods.

Many of these apps are capitalizing on the lack of financial illiteracy of the borrowers and charging very high interest, up to 500% annualized, and mostly employ illegal methods for collecting over-dues or settled accounts leading to suicides by the borrowers.

A panel set up by the Reserve Bank of India found that over half of about 1,100 digital loan providers were illegally operating.

The following table shows the growing influence of these informal lenders in the Indian context. This will keep increasing unless RBI has proper regulations to control them.



Micro Financing companies and Self Help Group Formations have helped the marginalized access banking finance. The Micro Finance Companies lend up to Rs. 50,000 to small and medium business people for their financial requirements. The Government is encouraging village people to form SHGs to get finance from the banks to implement their dreams jointly to form a business and get finance from the formal banking system.

- What are the various finance apps available to individuals?
- What advantages and problems are faced by individuals from FinTech Apps?
- What controls can the regulator RBI implement to streamline these Fintech Apps?

Teaching Notes

Learning Objectives

The student should learn about the financial market in general.

The financial markets segmentation like Scheduled Commercial banks, Public Sector Banks, Private Sector Banks, Foreign banks, Urban Cooperative banks, Rural Cooperative Banks, Non-Banking Financial Corporations registered with the Reserve Bank of India, Registrar of Companies, and Securities Exchange Board of India.

The students must be aware of various options available for

the commoner to meet their financial requirements through the FinTech Apps.

The students need to appreciate the concept of FinTech App Loans and how it works. The students should know the advantages and adverse effects of using these apps.

a) What are the various finance apps available to individuals?

Ans: The ten apps most commonly used apps are (1) Pay Sense, (2) Money Tap, (3) Dhani, (4) Nira, (5) CASHe, (6) Home Credit, (7) PayMe India, (8) India Lends, (9) Money View (10) pocket.

(b) What advantages and problems do individuals from FinTech Apps face?

Ans: Advantages: They offer quick loans for meeting emergencies, Less Paperwork, Online Processing, No collateral required for the loan, and Flexible end usage.

Problems: High-Interest Rates, Interest based on Credit Rating, High Penalty for delayed payments, Initial Processing Fees charged, illegal methods used for delayed payments.

© What type of controls the regulator RBI can implement to streamline these Fintech Apps?

Ans: Like NBFCs government should bring in rules to streamline the working of these fintech apps. The Reserve Bank of India can appoint a body like SEBI to regulate and frame rules for the orderly growth of these fintech companies. RBI should make it mandatory to register all the fintech app companies to operate in India. Any FinTech App not registered should not be allowed to operate and should be declared illegal. RBI should regularly issue information about legal apps and take action against illegal apps regularly.