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THE IMPACT OF FINTECH ON FINANCIAL INCLUSION: EXPANDING ACCESS TO FINANCIAL SERVICES

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ABSTRACT

This research looks at how FinTech has changed financial inclusion in India, focusing on how it has improved access to loans, insurance, savings, and sending money back to family and friends abroad. Even though there have been big steps forward, problems like limited internet access, digital literacy, regulatory hurdles, and a lack of funds are slowing its growth. The study looks at trends, problems, and possible futures by using secondary data from trustworthy sources. It says that India needs to keep coming up with new technologies, policies that help them, partnerships, and financial education programmes in order to use FinTech to close the financial inclusion gap and boost economic growth.

Keywords: Financial Inclusion, Fintech, India, Mobile Banking, Digital Wallets, Peer-to-Peer Lending, Microloans, Regulatory Challenges, Digital Literacy, Economic Development, Financial Services, Innovation, Accessibility, Technology Adoption

1. INTRODUCTION

As the Indian economy develops, it is imperative to prioritize the attainment of sustainable development and make every effort to incorporate as many members of the public as possible from all societal segments. The lack of financial literacy among this country's agricultural population is preventing the marketplace from growing since most of them are unable to get formal loans. This presents a serious risk to the country's economic growth. The basic thesis is that financial technology emerged more as a consequence of need due to rapid technological advances spurred by an increasing need for financial solutions and the improvements in these fields. A multitude of devices and programs have been invented as a result of the convergence of banking products and technological development. These include online individual and company finance, among other kinds of finance.

2. LITERATURE REVIEW

To gain a deeper awareness of both the present and potential finance requirements among the less fortunate, the Developmental Research Initiative (2013) looked into how surplus resources are used to meet shorter-, lengthy-, and critical needs in order to build monetary strategies that lead to monetary inclusion. In this context, the RBI suggested that the study examine 107 houses in the Ernakulum district of Kerala. Understanding the many kinds of financial entry and exit from an example of the district's low-income households was the goal of the research. The study also looked at the money handling methods used by the poor households. We looked more closely at how the financial assets and obligations of the poor households were arranged. The study concentrates on struggling families' means of saving and looks at the factors that contribute to the poor's heavy dependence on both public and private financial services, as well as instruments for borrowing and investing. Two methods were used in the present study to collect data. Initially, an example of families with limited incomes was chosen, and they were requested to fill out a survey and keep an accounting log. Second, towns as well as villages were given a lot of attention in the inquiry. CRISIL created an index in 2013 to measure the degree of monetary inclusion in India.

Figure 1

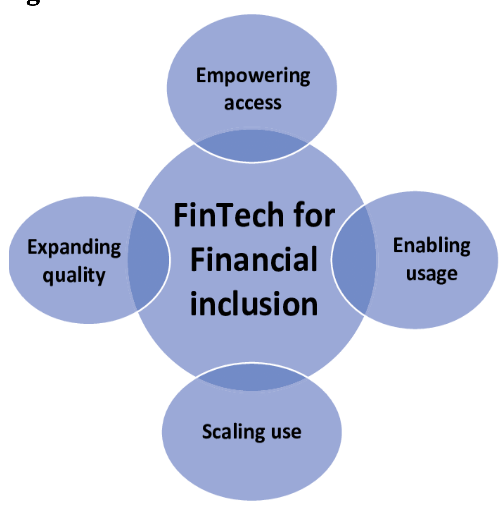

Figure 1 Framework for Fintech for Financial Inclusion

The financial involvement is calculated using the non-economic statistics. The criterion used by CRISIL Inclusix took into account the quantity of individuals who were entitled to various monetary services, as opposed to just focusing on the cost of the loan. The three rating parameters were credit permeability, savings, and facility. RBI (2014a) focused on providing small businesses and people with reduced incomes with financial assistance. Establishing standards for maximal financial accessibility, strengthening finance, and policy formation for monitoring the progress of financial inclusiveness in India formed the committee's main objectives. In order to examine potential obstacles and assess technological options, RBI (2014b) released a paper that aims to facilitate the widespread adoption of smartphones for banking across the nation. The research separated the difficulties into two main groups: technical problems and issues relating to customer enrolment. Customer registration is linked to privacy issues that affect customers beginning, phone number approval, smartphone pin generation, bank employee higher learning, and customer awareness. On the other hand, lengthy processing transactions, routes of entry for transactions, and collaboration with MNOs (Mobile Networks Operator) are examples of technical hurdles in a smartphone banking environment.

2.1. PROBLEMS AFFECTING FINTECH IN INDIA

Despite India's efforts to catch up to other nations in this area, it is evident that the country is still far behind. India offers an important market for this industry's expansion. It is difficult for the Fintech industry in this nation to grow and catch up to the more established markets and economic growth, nevertheless, for a variety of reasons.

2.2. HERE IS A DISCUSSION OF A FEW OF THESE FACTORS

Low Internet Penetration: Strong connection is necessary for the Fintech industry to expand in a country the size of India. But as far as we are aware, India lacks that. Due to the fact that most people are still relatively new to cell phones and various other devices, internet connections are still in their infancy.

Bank Accounts: Despite a large population and excellent economics for the Fintech industry, the bulk of Indians are either impoverished or reside in rural regions. Furthermore, a large number of individuals do not even have bank accounts, which hinders Fintech's growth in the Indian economy.

Lack of Hardware and Extra Helpers: It's challenging for this new industry to expand given the lack of appropriate gear and knowledge. The ability to comprehend this fresh tongue and put it to use will be crucial to this sector's progress. The industry has been having a lot of difficulties since the locals do not speak an accent that is simple to grasp.

Insufficient Funds: In the Fintech sector, most applications are the baby products of startup companies. Moreover, it is a well acknowledged reality that entrepreneurs sometimes have difficulties in obtaining enough funding for their undertakings. Getting no thoughts is not nearly as bad as not having any money or having problems getting company finance. Fintech has an enormous future in India; nevertheless, the existing finance and economic conditions hinder the industry's ability to realize its entire potential.

The country's large population encourages the development of the fledgling Fintech industry, but the nation's current economic climate does not support this industry's expansion. The existence of many issues that impede the expansion of Fintech in India, as previously noted, is the primary distinction between the Indian industry and worldwide Fintech sector. When the aforementioned characteristics start to fade, India could be able to compete with the economy of more developed nations. Any Fintech start-up that wants to succeed will need to have a large customer base, a high broadband adoption rate, and more brains working on the project. Fintech companies' creative business approaches have made them a both regional and global catalyst for the growth of SMEs. Fintech companies are thus beginning to act as minor companies' "one-stop shops" for all their money-related requirements. According to Mckinsey, nearly every (around 75%) of financial technology lenders concentrate on financing, managing wealth, financial services, and MSMEs' payment technologies. Even if all of these loans to NBFCs are not eligible for categorization as direct or indirect credit to the MSE sector, which removes them from the "priority sector classification," the figures nevertheless seem encouraging. Therefore, it should come as no surprise that MSMEs are moving away from conventional banks who chase collateral. Investors as well are feeling optimistic about Fintech's alleged performance.

Figure 2

Figure 2 Challenges in Fintech

3. FINTECH'S PROSPECTS FOR FINANCIAL INCLUSION IN THE FUTURE

The importance of small and medium-size as a major job creator and economical engine cannot be overstated. Fintech has the potential to reach an extensive marketplace of impoverished and unreached individuals. Up until now, this significant game-changer is currently available to a small number of customers in the first tier and second-tier Indian cities. Making technologies accessible to a wider audience is crucial, as is addressing problems like lax regulatory frameworks and a shortage of financial and technological literacy. Furthermore, in the event of tardiness, a Fintech business bears exclusive duty in keeping connections with SME customers.

4. TECHNOLOGY IN THE INDIAN MARKET AND FINANCIAL SERVICES

When used accurately, fintech refers to the variety of financial offerings that might be accessible via online portals. This current instability in the finance and banking industry has affected many things.

4.1. INDIA'S DEVELOPMENT POTENTIAL

These days, fintech startups are transforming the way people and companies conduct every day activities. Because of this, worldwide expenditures in Fintech businesses have quadrupled regarding US dollars 4.05 billion in the year 2013 to US dollars 12.2 billion in the year 2014 and US dollars 19.1 billion in the year 2015. This is an unparalleled pace of growth. India has seen similar rates of expansion despite a much smaller scale; between the years 2013 and 2014, funding for the Fintech industry grew by 282 %, hitting US dollars 450 million in the year 2015. Moreover, India offers a substantial unexplored market for monetary service technological firms, as forty per cent of its populace lacks knowledge of banks and 87% of transactions are made in cash. Given that internet usage is rising and mobile usage is expected to increase from 53 % in the year 2018 to 64% in the year 2018, Financial technology has a huge promise in India. Moreover, it is believed that as much as 90 of small businesses are not connected to any legitimate banking organizations. The industry is poised for growth as a result of these deficits in availability of institutions and offerings, and financial technology solutions (funding, managing finances, etc.).

Figure 3

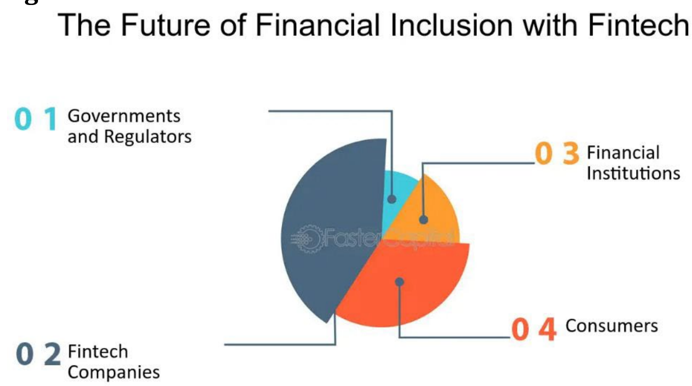

Figure 3 Future of Financial Inclusion with Fintech

5. POTENTIAL FOR DISRUPTION IN THE CONVENTIONAL BANKING AND FINANCE SECTOR

Fintech businesses are reshaping the conventional banking sector by employing innovations in a creative and flexible way across the funding procedure. While financial institutions (about 100) and nonbank financial institutions (roughly 1100) in India employ modern technologies only for calculating ratings for credit, Fintech businesses, for instance, employ machine learning techniques and a substitute data elements like electronic footprints, call knowledge, purchasing pasts, and transactions to usefulness service suppliers to boost effectiveness and offer higher availability of credit. Fintech businesses expedite the loan approval and distribution process substantially. This is despite the fact that some banks, such as State Bank of India, ICICI Bank, HDFC Bank, and Axis bank, have expedited and digitalized these operations.

6. POSSIBILITIES AND CHALLENGES FOR FINTECH DEVELOPMENT

While the country's pro-start-up regulations and the Reserve Bank of India (RBI), which have aided electronic banking entrepreneurs, conventional banks are hard to replace due to their existing facilities and legacy. Fintech businesses need to gain greater confidence from Indian customers, who are already known for maintaining traditional financial preferences. Understanding how to market to people and affect their purchasing habits poses one of the biggest problems. Creating a strong and flexible rules and regulations for keeping up with the quick speed at which innovation is developing is another.

Standard financial institutions and banks, on the other hand, may take use of their current clientele to add offerings that foster better financial ties, increase service effectiveness, and increase availability to accommodate shifting demands. The competitive potential of financial technology firms, which might result in more banks opening for business and cost reductions, may be the driving force behind the necessary upgrading of the financial sector.

Because of these technological improvements, it's possible that traditional Indian institutions and new financial technology companies won't have to fight with one another.

Figure 4

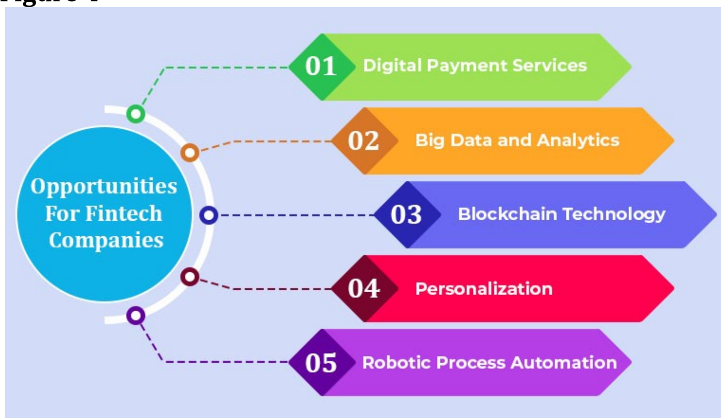

Figure 4 Fintech Opportunities

7. THE APPROPRIATE MIX OF POLICIES, INCENTIVES, AND REGULATION

The efforts of the RBI and the government have focused on advancing inclusion aiming to provide opportunities, for innovative ideas, in India's Fintech sector. This has led to the development of both digital solutions resulting in an safer financial landscape.

India's Reserve Bank: The RBI has formed a cross-disciplinary committee to examine the field of financial technologies in India. Understanding the hazards involved and the implementation of novel approaches is the goal, followed by an assessment of potential responses and adjustments from the financial system. The RBI has so far supported lending from others, electronic payments, the Bharat Bill Transactions Systems, the Unified Payments Interfaces, and the application of neural networks for offering financial advise. Further, the RBI has granted permits to 11 Fintech businesses so they may open payment institution offering funds, transfer, and deposits services.

7.1. GOVERNMENT INITIATIVES

These include the Jan Dhan Yojana, the Agra Personal Identity structure, and the Electronic India program. Those all have provided important venues that have enabled technological advances. Moreover, the e-governance efforts of the current government improve openness by doing away with the demand for intermediaries.

7.2. START-UP FINTECH SECTOR

This is perhaps the driving force for the expansion of Fintech companies in India. A favourable legal environment allowed for the establishment of 174 Fintech companies in 2015 alone, based on statistical analysis company Traxcn.

7.3. OBSERVATION

The electronic and technological revolution has caused a change in corporate operations across many industries, and the financing and banking industry is no exception. It is heartening that the Indian authorities and regulating bodies have promoted Fintech entrepreneurship in the country rather than erecting barriers to it. However, regulations and administration must continue to maintain up with the quick speed of innovation in this industry to ensure secure and free development.

8. METHODOLOGY

This study looks at how FinTech has changed financial inclusion in India by using data that was already out there. Secondary data sources include government papers, academic journals, reports from well-known banks, and analyses of the business world. A thorough study of the literature on financial inclusion, FinTech advances, and what these mean for underserved groups was done in order to collect the data (Mhlanga, 202). A lot of care was taken to make sure the results were correct by comparing the collected data to other data. Indexes and financial reports gave us numbers that researchers used to look for trends and links between the use of FinTech and measures of financial inclusion. That's because case studies and expert analyses gave statistical results more meaning and helped explain how they were understood. Using a lot of secondary data, this study aims to give a full picture of how FinTech innovations are making it easier for people in India to get financial services, figure out the key issues, and find new ways for the industry to grow in the future.

9. DISCUSSION

9.1. IMPACT OF FINTECH ON FINANCIAL INCLUSION

Financial services are easier to get to and more open to more people thanks to FinTech. Payment apps and mobile banking have changed how people get to banks, especially in rural and outlying areas. In Kenya, mobile money services like M-Pesa have been very helpful for people who don't have bank accounts because they let them use banking services (Njoroge, 2021). In India, too, these kinds of sites are growing in popularity. A lot of people use apps like Paytm and PhonePe to store and send money. People don't need to carry as much cash because these wallets make it easy and safe to buy things.

A lot of what FinTech has done has also helped people get loans. Traditional banking systems often don't lend money to people who don't have a history of good credit. FinTech firms, on the other hand, check if someone is creditworthy by looking at things like how much they pay their cell phone bills and how often they use their energy. Peer-to-peer (P2P) lending sites, such as Faircent, put borrowers in touch with lenders directly (Balwani et al., 2020). This lets borrowers choose their own terms and lenders offer lower interest rates. Microloans from companies like Tala and Branch help people in need by giving them small, short-term loans that they can use for personal or business projects.

FinTech has made microinsurance products available in the insurance industry. These products offer cheap, short-term coverage for people with low incomes. Life, accident, and health insurance can be bought through mobile apps from companies like Bima. Also, apps that help people save money automatically, like Acorns and Qapital, round up purchases to the nearest dollar and spend the difference. Roboadvisors, such as Betterment and Wealthfront, make investing easier for everyone by managing portfolios automatically and for a low cost (Pallardó Benavent, 2021).

With FinTech options, sending money between countries is now much cheaper and takes much less time. Services like TransferWise and Remitly are better than the old ways of sending money because they have lower fees and process payments faster. This is especially helpful for foreign workers who send money home to their families. It makes sure that more of their earnings get to the people they want to.

9.2. CHALLENGES FACED BY FINTECH IN INDIA

The majority of Indians still lack access to reliable internet and cell phones, two requirements for using financial technology services. Furthermore, a lot of individuals, particularly in rural regions, still lack computer literacy. People find it difficult to believe and utilize digital currencies as a result. The laws governing fintech in India are continually being updated. Government initiatives and the Reserve Bank of India, or RBI, have proven beneficial, but to keep up with how quickly technology changes, people need a regulatory system that is stronger and more flexible (Dua, 2023). Also, cybersecurity is very important because people are relying more and more on digital platforms, which makes them open to fraud and data breaches.

A lot of people who might use FinTech solutions don't know what they can do or how they can help them. This lack of knowledge, along with people's usual preference for cash transactions, makes it hard for digital financial services to become widely used. Start-ups in the FinTech industry often have trouble getting enough money to grow. FinTech services can't grow as quickly as they'd like because of bad infrastructure, like not having reliable internet connections or financial networks in remote places.

9.3. FUTURE PROSPECTS OF FINTECH IN FINANCIAL INCLUSION

Even with these problems, FinTech's future as a way to help more people get access to money in India looks bright. With more people having smartphones and being able to connect to the internet, FinTech options have a big chance to reach people who aren't getting enough help.

When FinTech companies, traditional banks, and government agencies work together, financial services can reach more people and have a bigger effect. For example, partnerships with mobile network providers (MNOs) can make it easier for more people to use mobile money services. Blockchain and decentralised finance (DeFi) systems are two new technologies that could help make financial services safer and more open (Abdulhakeem and Hu, 2021).

It is very important that the government and regulatory bodies keep their backing up. The business can grow faster if there are rules that help people learn how to use technology, improve security, and give money for new FinTech ideas. The Unified Payments Interface (UPI) and the Bharat Bill Payments System (Vij, 2023) that the RBI worked on are great steps towards online banking.

People don't know much about money and technology. To fix this issue, people need comprehensive financial education programmes. Different groups of people, especially those who live in rural areas (Pazarbasioglu et al., 2020), should be the focus of these projects to help them feel more comfortable with and knowledgeable about digital financial services. AI and data analytics can be used to improve FinTech goods and make them even more useful. If FinTech companies watch how users act and what they buy, they can offer customised financial products and services. This makes things better for the person and keeps them interested.

By making financial services more creative, cheap, and simple to use, FinTech could make it easier for more people in India to get and use them. FinTech is growing quickly thanks to better technology, rules that support it, and partners working together. There are still some issues that need to be fixed, but these can help the industry grow faster. Both the general economy and the number of individuals using financial services will increase significantly.

10. CONCLUSION

If customers have respect and trust in the current financial system, they'll be frequently less likely to adopt new technologies. Novel innovations won't thrive unless consumers are satisfied with security and encryption issues. Gaining the customers' confidence requires time, regardless of it is easier and less costly than the traditional methods.

CONFLICT OF INTERESTS

None.

ACKNOWLEDGMENTS

None.

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