

Role of Fintech in Financial Inclusion in India

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Abstract

Financial Technologies (Fintech) have been playing a crucial role in banking the unbanked population thereby accelerating financial inclusion in India. Aftermath of the 2008 financial crisis, the advent of fintech companies began which has been tremendously impacting on every segment of the Indian economy in general and banking in particular. As such, fintech has emerged as one of the hotspots introducing a variety of technologies to the traditional banking to suit different needs of the masses with a view to reaching out every nook and corner of the country. Meanwhile, a number of initiatives implemented by the government has propelled the process of financial inclusion such as Pradhan Mantri Jan dhan Yojana (PMJDY), Pradhan Mantri Vaya Vandana Yojana (PMVVY), Pradhan Mantri Mudra Yojana (PMMY), etc., which are all being advanced by fintech companies at large. In this way, the present paper sheds a light on the role of fintech in financial and outcomes of the study reveal that fintech has a significant role in spurring financial inclusion through a diverse use of technology such as Unified Payment Interface (UPI).

Keywords: Fintech, financial inclusion & UPI

Introduction

India is touted as one of the fastest growing and the fifth largest major economies in terms of the GDP and per-capita income in the world. On the other hand, the development of any economy banks on the robust financial system and a few nations such as Switzerland, Canada, Singapore; Sweden, Norway, Australia, Germany, United Kingdom & America which are highly correlated the development process. In contrast, there is still over 1.7 billion people out of the banking at the global level; At the same time, though the system of Indian Banking has been a robust which still leaves over the 20 percent of population out of the banking in spite of serving more than one billion populace. Aftermath of a 2008 global financial crisis, the advent of Fintech has had a decisive role in spurring the initiative of financial inclusion and they have been a territory in terms of the formal finance in bringing the unbanked populace into banking on a large scale. In addition, the fintech industry is estimated to reach the valuation of \$150 to 160 billion by 2025 and they have further enabled the traditional banking to expedite financial inclusion by achieving a notable progress in all parameters associated with some of the initiatives implemented by the government viz., Digital India which has been technically supported by fintech companies promoting the financial inclusion by bridging a gap of underserved, unbanked, rich and poor to a greater extent.

Review of Literature

Badar Alam Iqbal & Shaista Sami (2017): assessed the impact of financial inclusion on growth of the economy of India taking into consideration of seven years. Secondary data was analysed by using multiple regression model and outcomes of the study shown that there was positive and remarkable impact of bank branch and credit deposit ratio on GDP of the nation.

Dr. Reena Agrawal (2022): studied how fintech played a pivotal role in advancing financial inclusion and findings also revealed that fintech companies contributed to the enhancement of financial inclusion with a lot of innovation and technology.

Md. Qamruzzaman (2023): studied the impact of financial innovation on financial inclusion in as many as 22 Arab countries from the year 2004 to 2020 considering financial inclusion as dependent variable and ATMs, number of commercial banks depositors as independent proxy variables. Findings of the study revealed that there was a significant relationship between the variables and outcomes on the adaptation and spread of financial innovation was considered as a catalyst in spurring financial inclusion.

Ms. Divyani Datta (2023): focused on providing a conceptual understanding as to how fintech promoted financial inclusion post pandemic in India. The study was descriptive in nature furnishing an imaginary overview and it also mentioned that fintech would be helpful getting back to the economy on a track associated with its overall impact on population who using it at large.

Need for the Study

Fintech is seen as one of the emerging and rapidly growing industries in India. In the era of technology, fintech industry has had a crucial role in advancing financial inclusion by bridging the gap between rural and urban areas. In this direction, the present study throws a light on the role of fintech in financial inclusion in the context of India.

Objectives

1. To know the current status of Fintech and financial inclusion
2. To assess the role of Fintech in financial inclusion

Methodology

The present study is descriptive based on secondary data which comprises journal articles, government reports and websites pertaining to fintech and financial inclusion in India. Regarding data analysis, the appropriate tables and figures have been presented to fulfill objectives of the study.

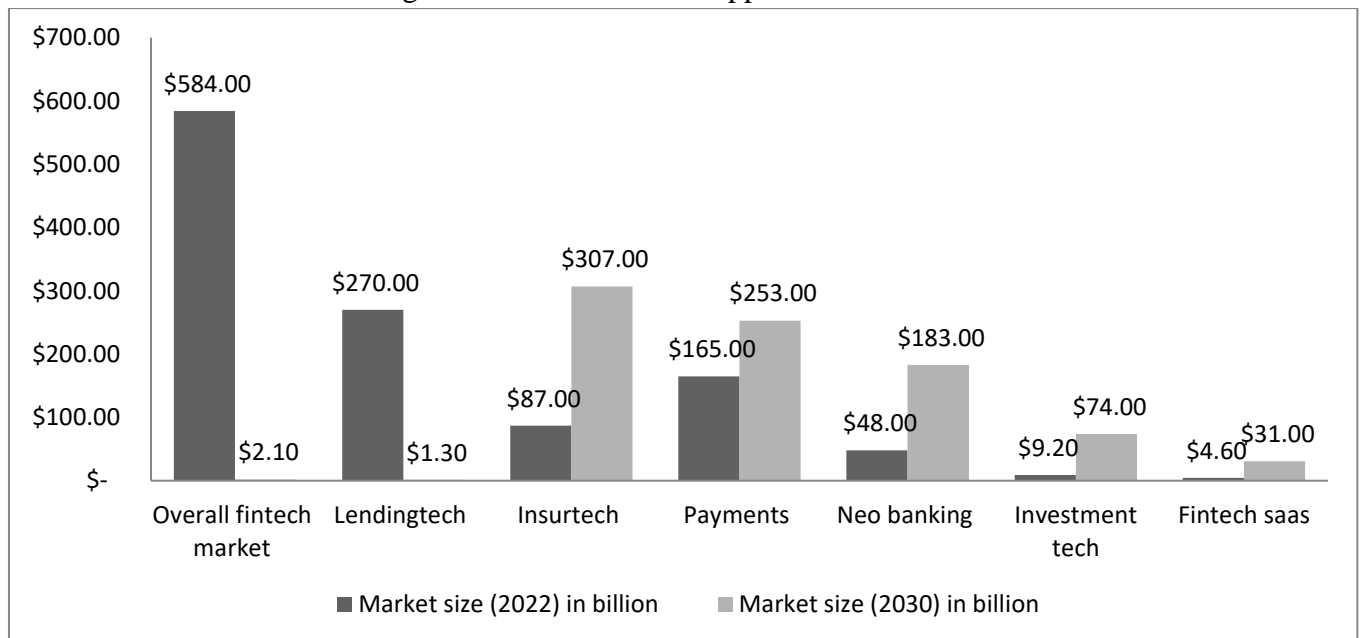
Results and Discussions

Current Status of Fintech and Financial Inclusion

Fintech industry has become one of the biggest hotspots which have paved the way for the modern banking and financial services after the outbreak of 2008's financial crisis in India. As such, it has been playing a crucial role in the expansion of financial services leading to the possession of an account by more than 80 percent of the population aging above 15 years (India's Financial Inclusion Index, 2021).

In addition to that, the adoption rate of fintech is said to be having about 87 percent comparatively much higher than the world average of 64 percent which is definitely indicating that fintech will contribute to the acceleration of financial inclusion associated with the financial solutions to posterity. Currently, there are 22 fintech unicorns and 33 soonicorns, out of which three startup hubs viz., Bengaluru, Delhi-NCR & Mumbai which are highly being funded with a 77.8 percent and rest of the funding being gone to Chennai, Hyderabad & Pune respectively. In this direction, many banks in collaboration with fintech companies have implemented digital banking such as MPOS, POS, mobile wallets, mobile/tablet apps and social media with a view to bringing the younger population towards the banking as well as reaching a goal of financial inclusion.

Figure 1: Fintech Market Opportunities in India



Source: INC42 state of the Indian fintech report Q1/2023

Note: \$2.10 overall fintech market & \$1.30 lendingtech in trillion

A number of initiatives viz., national strategy for financial inclusion, lead bank responsibility, universal access to financial services in every village, financial inclusion plan and national strategy for financial education etc., have been undertaken by the RBI in advancing financial inclusion to reach out to the unbanked population in. Meanwhile, the financial inclusion index has shown a remarkable increase in the second iteration relating to the progress of financial inclusion with a year on year rise of 4.6 percent. In varying from 53.9 in March 2021 to 56.4 in March 2022. Moreover, a few initiatives are driving the masses of rural area in accessing banking services within a radius of 5km, particularly in the hilly regions which would perhaps include the unbanked population at large. In this regard, the following table presents the progress of financial inclusion as follows:

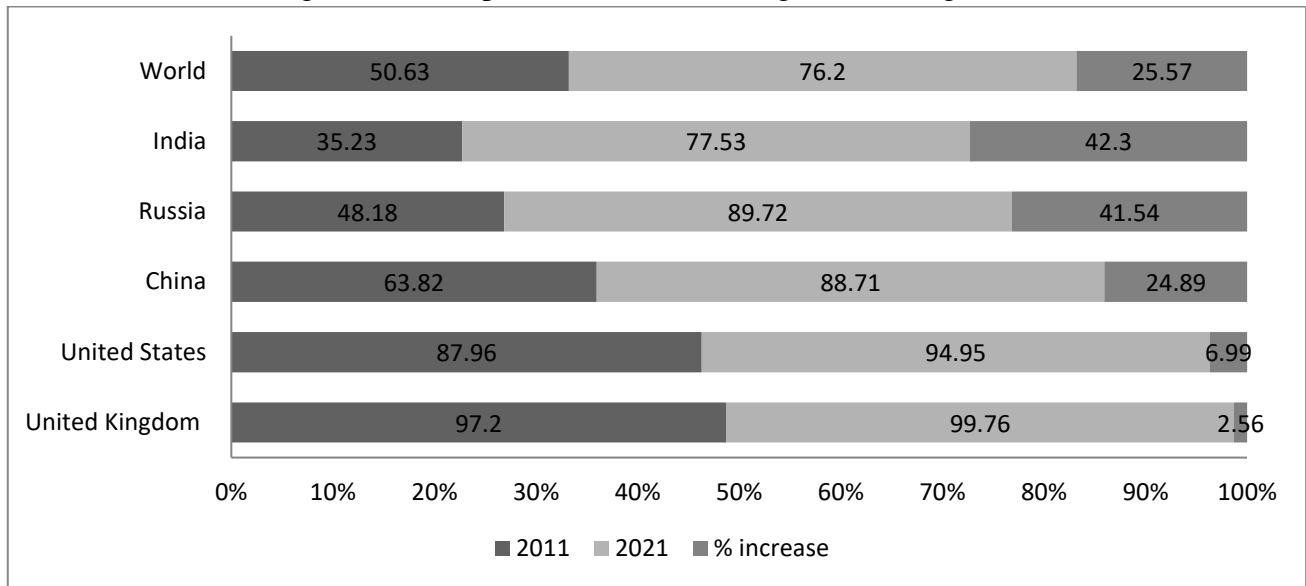
Table – 01: Progress of Financial Inclusion in India

	Mar-10	Mar-13	Mar-14	Mar-18	Mar-19	Mar-20	Mar-21	Dec-21
Banking Outlets in Villages (Total)	67694	268454	383804	569547	597155	599217	1248079	1900523
Banking Outlets in Villages through BCs	34174	221341	337678	518742	541129	541175	1190425	1844732
Banking Outlets in Urban through BCs	447	27143	60730	142959	447170	635046	426745	1412529
BSBD Accounts Opened (No. in Million)	73.45	182.06	243	536	574	600	646	663
KCCs-Total (No. in million)	24.3	34	40	46	49	48	47	47
No. of ATM Growth	NA	NA	NA	222247	221703	234357	238588	248307
Credit-deposit ratio (Per cent)	75.52	77.09	76.81	75.39	77.7	76.44	72.4	71.3
Number of new bank branches opened	89167	111649	123287	148869	152403	156522	158334	157933

Source: Data compiled from the different sources

Note: NA indicates the data not available

Figure – 02: Proportion of Adult Having Account (age 15+)



Source: Trend report on financial inclusion in India – 2022

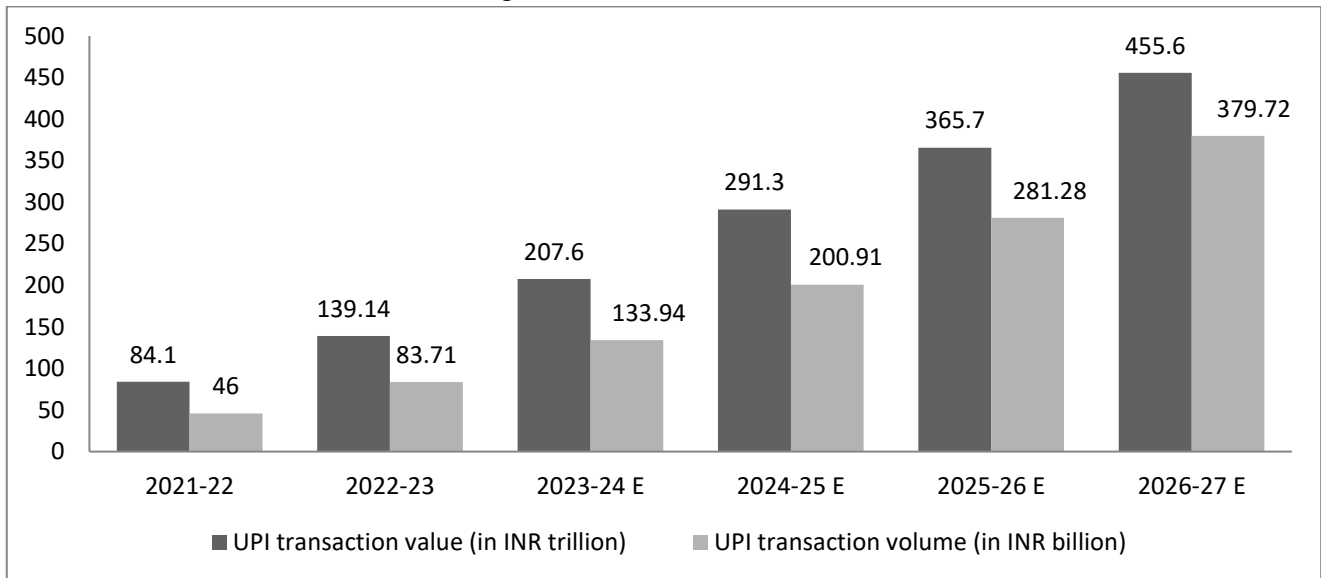
India is one of the most populace surpassing China with the 1428.6 mn population (UNFPA’s State of World Population Report-2023) of which, 68 percent falling in the age group between 15 to 64 years. With this statistics, the population aged above 15 years having accounts of 77.53 percent just crossing the world average percentage of 76.2 which is attributed to the initiatives taken by the RBI and the government in this regard. Interestingly, India is seen have had a tremendous and surprising growth of financial inclusion varying increase of 42.3 percent compared to other prominent countries; in contrast, those countries are being developed having almost coverage of 99 percent inclusion of population in terms of financial inclusion.

The Role of Fintech in Financial Inclusion

Fintech industry in India has emerged as global superpower with a third rank as many as 9500 fintech companies (IIFL Fintech report-2022) which have been in operation and providing a multitude products and services viz., payment, credit, investment, trading, wealth management, personal finance, insurance and credit ratings, etc. after the fourth industrial revolution, a lot of uncertainties, opportunities and risks are said to be rising which have necessitated the fintech industry to have a crucial role in spurring financial literacy thereby advancing financial inclusion in the country. Meanwhile, the covid-19 pandemic had substantially made the intensive and extensive usage of the digital gadgets which had catalyzed the progress of financial inclusion thereby bringing the unbanked into the banking system. Additionally, the Indian digital market is expected to grow at a CAGR of 22 percent from \$ 270 billion dollars in 2022 to \$ 1.3 trillion market by 2030. When it comes to fintech & digital players, they have become the integral part of the Indian financial system & NPCI which have been on offering innovative solutions viz., UPI, Aadhaar-based payment and APIs, etc. With support of it, internet has extremely used by fintech companies in providing a varied digital services associated with local partners reaching towards solutions of the next generation. As mentioned above, UPI is considered one of the most preferred modes of instrument among all the various retail payment systems which had a record of as many as 486878.15 lakh digital payment transactions to the tune of Rs. 8.92 lakh crore (Trend report on

financial inclusion in India-2022). In this regard, the following figures depict a number and volume of UPI transactions taken place in the country as follows:

Figure - 03: UPI Transactions



Source: The Indian payments handbook – 2022-2027

One of the most preferred modes of payment is UPI in India. As such, the value of transactions have been carried out in the year 2021-22 to the tune of 84.1 INR trillion with a volume of 46 INR billion compared to the 139.14 trillion INR in the year of 2022-23 associated with the 83.71 transaction volumes which implying that UPI transactions are rapidly going up owing to the initiatives viz., the progress of Digital India is being effectively done by fintech companies associated with socio-economic issues which are said to be having a crucial role at spurring UPI transactions as far as the population of India concerned. Furthermore, the increase in UPI transactions is expected to be high in the coming years; as a result, the value and volume of UPI transactions are predicted reaching about 455.6 INR trillion & 379.72 INR billion by the year of 2026-27. By all means, the 20 percent is still unbanked out of 140 crore population who would be certainly included in the process of financial inclusion on account of the advancement in technology like 5Gen., Blockchain Technology & Artificial Intelligence, etc.

Conclusion

Fintech has been playing a critical role towards financial inclusion by providing an access to the unbanked population who has been out of the banking over the number of years. Meanwhile, Digital India initiative has enabled to a number of fintech companies working in collaboration with the traditional banking which has been largely benefitting the masses, particularly in the rural area in utilizing banking services in their comfort zone. Moreover, UPI has been the most opted mode of payment which has played a level playing field in accomplishing smooth financial transactions without having to face any hassle. However, banking in ensuing days will be empowered by fintech companies much more than ever before through use of the 5th generation internet, artificial intelligence, block chain technologies etc., which certainly reshape the structure of the banking by strengthening existing capacity towards providing a varied financial services and also reaching the target of financial inclusion.

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