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FINTECH AND DIGITAL FINANCIAL SERVICES ON FINANCIAL INCLUSION IN INDIA

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Abstract

The market's globalization and the financial industry's growth are causing an increasing number of people to switch from cash to cashless transactions, which is why the system is growing daily. In today's world, the cashless system is not only essential, but also necessary. The last few years have seen a mixed bag of outcomes from India's attempts to promote financial inclusion. A significant regulatory and policy push has resulted in a substantial expansion in the availability of bank accounts. But using these accounts and adopting formal financial services other than savings accounts has proven to be very challenging. The government's recent efforts to demonetize and shift to cashless transactions will spur innovation and attract new players in the Industry. The banking act's revisions unequivocally show that the RBI, the government, and financial institutions want to maintain a strong BFSI in order to guarantee steady economic growth. Establishing trust in the sector will be essential to India's further development. Banks and regulators face new issues as a result of emerging technology, security being a major worry. The bankers and regulators would need to work together to make sure that control measures are in place because cyber-frauds are becoming more common. The people who do not have bank accounts now have easy access to financial products thanks to a strong push from the Indian government. The benefits of mobile-led solutions have been proven by payment companies, and traditional banks are now attempting to enter rural India by introducing cutting-edge mobile-based banking solutions. Large technology businesses are reaching out to the rural masses using innovative means, with government support, to inform people about financial products and make sure their hard-earned money is invested wisely.

Keywords: Financial Transactions, Digital Apps, Rural Population.

Introduction

The country's rural population lacks awareness and financial literacy, which is impeding the economy's growth as the majority lacks access to formal credit. This poses a significant threat to the nation's economic development. The banking industry developed a number of technological advancements, including automated teller machines (ATMs), credit and debit cards, online banking, etc., to get around these obstacles. Even, if the advent of modern banking technologies changed urban culture, most people living in rural areas lack awareness of these developments and are not allowed to use formal banking services.

The term Fintech is new and has been gaining traction since the beginning of 2015. This word is frequently misinterpreted as being exclusively technology or tech-savvy. When in fact this phrase refers to the combination of technological improvements and innovations with financial services offered by different clients.

The main idea is that the need for these services led to the emergence of Fintech as a necessary result of advancements in financial services and the quick development of technology. Here, technology and financial services are being combined to create a variety of platforms and applications that will make accessing financial services like company loans and online personal loans, for example easy for you.

Review of Literature

Development Research Project (2013) attempted to understand the financial needs of poor in long-term and short-term by exploring, how the surplus fund is used to meet short-term, long-term and emergency requirements to develop strategies for financial inclusion and designing financial products. The rural households follow their own strategies of cash management for their daily expenditure and thereby taking advantage of this, several informal financial institutions and instruments are serving this section of society. In this context, the report examines 107 households of Ernakulam district in Kerala, as was suggested by the RBI. The aim of the study was to understand the nature of the cash flows and outflows of a sample of poor households in the district. The project also analyzed the cash flow management strategies of the poor households. Further assessment was done to analyze the structure of the financial assets and liabilities of the poor households. The project focuses on the saving patterns of the poor households and examined factors responsible for the extent of dependence of the poor on formal and informal financial instruments /institutions for savings and credit. Two methods were used in this project for collecting data. First, the sample of poor household using questionnaire and keeping a track using financial diary method of the same sample. Second, the analysis provided emphasis on rural and urban

CRISIL (2013) measured the extent of financial inclusion in India in the form of an index. It makes use of the non-monetary aggregates for calculating financial inclusion. The parameters used by the CRISIL Inclusix took into account the number of individuals having access to various financial services rather than focusing on the loan amount. The three parameters of the index were the branch, deposit and credit penetration. These parameters were updated annually and based on the availability of data; additional services such as insurance and microfinance were added. The key findings of the report were as follows: one in two Indians has a savings account and only one in seven Indians has access to banking credit; CRISIL Inclusion at an all-India level stood at a relatively low level of 40.1 for 2011 (on a scale of 100). In short, CRISIL gave ground-level information regarding the progress of financial inclusion in the country’s rural and in urban areas.

RBI (2014a) focused on the provision of Financial Services to small businesses and low-income households. Among the main motives of the committee included designing principles for maximum financial inclusion and financial deepening and framing policies for monitoring the progress in the development of financial inclusion in India. Thus, in order to achieve the goal of maximum financial inclusion and increased access to financial inclusion the committee proposed the following measures: provision of full-service electronic bank account; distribution of Electronic Payment Access Points for easy deposit and withdrawal facilities; provision of credit products, investment and deposit products, insurance and risk management products by formal institutions. The main findings of the report highlighted the following key issues. First, the majority of the small businesses were operating without the help of formal financial institutions. Second, more than half of the rural and urban population did not have access to the bank account. Third, savings in terms of GDP have declined in 2011-12. To address these issues, the Committee recommended that each individual should have a Universal Electronic Bank Account while registering for an Aadhar card. The committee also proposed for setting up of payments banks with the purpose of providing payments services and deposit products to small businesses and low-income households. In addition, banks should purchase portfolio insurance, which will help in managing their credit exposures. Further, the Committee recommended for setting up of a State Finance Regulatory Commission where all the state level financial regulators will work together. For the interest of the bank account holders, the committee recommended for the creation of Financial Redress Agency (FRA) for customer grievance redress across all financial products and services, which would coordinate with the respective regulator.

RBI (2014b) presented a report to study various challenges and evaluate alternatives in the domain of technology that can help the large-scale expansion of mobile banking across the country. The report divided the challenges into 2 broad categories – Customer enrollment related issues and Technical issues. Customer enrollment related issues include mobile number registration, M-PIN (mobile pin) generation process, concerns relating to security as a factor affecting onboarding of customers, education of bank's staff and customer education. On the other hand, technical issues include access channels for transactions, cumbersome transaction process, and coordination with MNOs (Mobile Network Operators) in a mobile banking eco-system. The report has a detailed comparison of four channels of mobile banking - SMS (Short Message Service), USSD (Unstructured Supplementary Service Data), IVRS (Interactive Voice Response System) and Mobile Banking Application, and evaluates each one of them based on accessibility, security, and usability. To resolve the different problems identified, the report suggests developing a common mobile application, using SMS and GPRS channels, for all banks and telecom operators. The aforementioned application should enable the user to perform basic mobile banking operations such as enquiring his/her account balance, transfer and remittance of money. The application is expected to be developed in such a way that it provides a simple menu driven, interactive interface to the user. Such an application can be developed by the combined efforts of telecom operators and banks. The application can be embedded on all new SIM cards so that any person buying a new card has a pre-installed application. For customers already using SIM cards, the application can be transferred "over the air" (OTA) using a dynamic STK (SIM Application Tool Kit) facility.

Paramasivan. C (2019), Digital financial inclusion involves the deployment of the cost-saving digital means to reach currently financially excluded and underserved populations with a range of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers. DFI involves many intermediates intuitions, banks, NGO's and public.

Issues Affecting Fintech in India

Although India has been rising to match the other countries with their Fintech developments, it is clear that India is quite behind when compared to them. India has a huge market for growth in this sector. However, there are many factors, which make it hard for the Fintech sector in this country to rise and be equal to the more developed markets and economies. Some of these factors are discussed below:

- Low Internet Penetration
- Bank Accounts
- An absence of Hardware and More Hands
- Lack of Funds

India's economy is changing quickly, and with the rise of Fintech, the financial industry is about to undergo a major shift. An increasing number of individuals are accepting the concept of digital lending as the demand for business loans grows. Our economy is still expanding, and the market is still relatively fresh. Consequently, this industry will expand in the upcoming years as well.

Fintech companies have emerged as a worldwide and local stimulus for SMEs' growth thanks to their innovative business strategies. As a result, fintech companies are starting to serve as small businesses' "one-stop shop" for financial needs. Several new players are entering the online lending market with innovative financial solutions, unlike subsectors like wealth management or payments.

Future Prospects of Fintech towards Financial Inclusion

It is impossible to overestimate the significance of MSMEs as a key economic engine and provider of jobs. Fintech can also reach out to a big market of underprivileged and unserved persons. Thus far, this major game-changer has only reached a select group of clients in Tier-I and Tier-II Indian cities. It is imperative that innovations be made for the mass market and that issues like limited regulatory policies and a lack of digital and financial literacy be addressed. Additionally, a

Fintech company has sole responsibility for maintaining relationships with SME clients in the face of delinquencies.

The problem of delayed payment in financing, more so in the MSME space, tantamount to being an occupational hazard that cannot be done away with. However, looking at the bigger picture, ensuring continuity of partnerships, and staying resilient is the key. In addition, there is substantial interest from foreign investors in the Indian Fintech space, wanting to capitalize on the country's steadily growing GDP. Initiatives such as 'Digital India', 'Make in India', the recent demonetization drive and the push to make India a cashless economy are laying strong foundations for synergies between Fintech and MSMEs.

Technology and the Financial Services in the Indian Market

Fintech, when taken literally, is the range of financial services that may be accessed through digital platforms. Numerous things have been impacted by this recent upheaval in the banking and financial services industry.

Scope for Growth in India

Fintech service providers are currently changing how businesses and individuals do daily transactions. For this reason, worldwide investments in Fintech companies have been growing at an unprecedented rate: they tripled from US$ 4.05 billion in 2013 to US$ 12.2 billion in 2014 and US$ 19.1 billion in 2015. While the scale has been significantly smaller, the growth rates have been comparable in India, where investment in the Fintech sector increased by 282 percent between 2013 and 2014, reaching US$ 450 million in 2015.

Additionally, India has a large untapped market for financial service technology startups – 40 percent of the population is currently not connected to banks and 87 percent of payments are made in cash. With mobile usage expected to increase to 64 percent in 2018 from 53 percent currently, and internet penetration steadily climbing, the growth potential for Fintech in India cannot be overstated. Moreover, by some estimates, as much as 90 percent of small businesses are not linked to formal financial institutions. These gaps in access to institutions and services offer important scope to develop Fintech solutions (such as funding, finance management) and expand the market base.

Disruptive Potential in the Traditional Finance and Banking Sector

Furthermore, with 87 percent of payments being performed in cash and 40 percent of the population not having access to banks, India presents a sizable untapped market for financial service technology businesses. The potential for Fintech in India is enormous, as the country's internet penetration is increasing and mobile usage is predicted to rise from 53 percent in 2018 to 64 percent in 2018. Furthermore, up to 90% of small firms are estimated to be unaffiliated with official banking institutions. These gaps in access to organizations and services present a significant opportunity to grow the market and create Fintech solutions (financing, finance management, etc.).

Challenges and Opportunities for Fintech Expansion

Although the Reserve Bank of India (RBI) and government's pro-startup policies have helped digital finance startups, conventional institutions have a legacy and established infrastructure that makes them difficult to replace. Indian consumers, who are already recognized for having conservative financial tastes, are a market that fintech entrepreneurs must win over with greater trust. One of the largest issues is determining how to effectively sell to them and influence their financial behavior. Another is establishing a robust and adaptable regulatory framework to keep up with the rapid advancements in technology.

Conversely, conventional banking and financial establishments have the ability to utilize their current clientele and integrate digital offerings that foster robust financial connections, enhance service effectiveness, and expand accessibility to accommodate evolving requirements. The much-needed modernization of the traditional banking system may be sparked by the disruptive potential of Fintech firms, which would also increase the number of banks in operation and save expenses.

In response to these opportunities and challenges, U.K. giant Barclays is planning to operationalize its fifth global Fintech innovation center in India; Federal Bank announced a partnership with Startup Village to develop innovative banking products; and Goldman Sachs Principal Strategic Investments Group (GSPSI) is looking to invest in Bengaluru's Fintech startup scene. Banks such as HDFC and Axis have launched mobile phone applications to facilitate digital transactions.

Therefore, there's a chance that traditional institutions and Fintech companies in India won't have to compete with one another given the potential for growth in technology innovation.

The Right Combination of Incentives, Policies, and Regulation

The goal of RBI initiatives and concurrent government initiatives has been to promote financial inclusion. This has meant creating a more level playing field for competition and innovation in India's emerging Fintech industry. This has made it possible for physical and online solutions to flourish and has produced a more secure financial system with widespread accessibility. Reserve Bank of India: A multidisciplinary committee was recently established by the RBI to investigate the Fintech industry in India. The intention is to comprehend the associated risks and the introduction of new models, and then evaluate the ways in which the banking system might adjust and react to them. The Bharat Bill Payments System, the Unified Payments Interface, peer-to-peer lending, digital payments, and the use of automated algorithms to provide financial advise have all been encouraged by the RBI thus far. Additionally, 11 Fintech companies have received licenses from the RBI to open payment banks that offer deposit, remittance, and savings services.

Government Schemes

These include the Digital India initiative, the Jan Dhan Yojana, and the Aadhar Unique Identification system, which have all offered significant platforms that have made innovation in technology possible. Furthermore, by eliminating the need for middlemen, the current administration's e-governance initiatives encourage transparency. Other examples of the government's initiatives to promote the development of a Fintech ecosystem in India include the elimination of surcharges on electronic transactions, tax advantages for individuals and companies who use e-payments, and modifications to authentication standards.

Fintech Startup Sector

This is arguably the most powerful motivator for Fintech companies to grow in India. According to data analytics company Traxcn, 174 Fintech startups were launched in 2015 alone thanks to a supportive legislative framework. As was already noted, a number of national and international banks, as well as investment groups, are backing Fintech solutions and investing in Fintech businesses in India.

Observations

All industries have seen a transformation in corporate processes due to the digital and technological revolution, and the financial and banking sector is no exception. The fact that the Indian government and regulatory bodies have actually encouraged an entrepreneurial environment for Fintech in India rather than creating obstacles for it is encouraging. To ensure safe and open growth, policies and governance will, nevertheless, need to keep up with the rapid pace of innovation in this field.

Conclusion

Customers are generally less inclined to accept new technology when they have faith and confidence in the existing banking system. Until users are pleased with privacy and security concerns, new technologies will not succeed. Even if it is simpler and less expensive than the conventional ways, it still takes some time to gain the trust of the clients.

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