

Role of Fintech in Financial Inclusion and Financial Integration

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ABSTRACT

FinTech refer to firms that are utilizing technology-based frameworks somehow to either give financial administrations specifically or attempt to make the financial framework more proficient. The purpose of this paper presentation is to review the role of FinTech services in India in establishing financial inclusion and financial integration. A review of various researches conducted in the area of FinTech development, Financial Inclusion, and Financial Integration in India as well as global level was conducted. The gist of this findings shows the present trends in FinTech services and its providers developments. The data reviewed also brings out some challenges and areas need to be concentrated better by the government, financial institutions and FinTech companies for the betterment.

1. Introduction

Financial Technology (FinTech) refers to technology connected to the back-end of set up customer and exchange financial establishments. FinTech is, for the most part, used to allude to firms that are utilizing technology-based frameworks somehow to either give financial administrations specifically or attempt to make the financial framework more proficient. The purpose of this paper presentation is to review the role of FinTech services in India in establishing financial inclusion and financial integration.

The pace of progress in financial services appears to be just to increment—as does the desire for the financial service industry to respond. The forces moulding this change have driven Indian institutions to re-examine the part of the fund, more as an 'empowering influence' than a supplier of financial products and services. Mobile based money services have ended up being a successful door for financial inclusion among the unbanked, a statistic that could advance into a multi-billion dollar payment opportunity. Innovative developments, for example, the telex machine, the introduction of credit cards, handheld financial calculators and ATMs in the 60s, and also the change from simple to computerized industry in the 1970s, expanded the speed of financial globalization. The expansive development of the web, the introduction of cell phones, internet banking and program exchanging in the 1980s, were further essential financial developments (Arner et al., 2015).

There are four principle parts that financial service organizations perform in any economy: ease payments, make credit, wealth management, and risk management. In the FinTech sector, digital payment services have the most elevated acceptance, trailed by savings and investments, insurance services and online money lending (Earnest & Young Report, 2015).

In April 2016 the G20 Financial Stability Board (FSB) began analyzing the potential dangers that FinTech could

posture to worldwide financial strength. The FSB is as of now doing a mapping exercise concentrating on the effect of digitalization and FinTechs in the managing the banking services and the conceivable supervising for banking services. The FSB's study on FinTech was published in July 2017. Various worldwide associations have propelled comparative appearance in their regions of capability, for example, in the protection segment. It is conceivable this could bring about a worldwide regulatory structure for FinTech. The FinTech market in India has been dominated by lending and payment organizations so far, albeit others, especially personal finance and venture services, are ready to make progress this year. The part of the administrative bodies in this voyage has been pivotal.

2. Financial Inclusion and Integration in India

Financial Inclusion alludes to a circumstance where individuals, as a rule, have association with the formal financial institutions through holding reserve funds bank account, credit account, protection arrangement and so on. It might assist the individual with having moderate access to financial services like formal investment funds, credit, payments, protection, settlement and so on. It quickens the course of money and in this manner builds the GDP. Along these lines, Financial Inclusion is critical for quicker Inclusive Growth. The term Financial Inclusion has turned into a catchphrase in the Indian financial circles particularly after RBI reported a progression of measures in its credit approach recently, to incorporate a significant number of the gatherings which were until now prohibited and denied of the advantages. Financial Inclusion is an express methodology for quickened economic development and is thought to be basic for accomplishing Inclusive Growth in the nation. Financial integration has been characterized as a financial service group taking an interest in more than one of the major sectors of the financial service industry (e.g., commercial banking, insurance underwriting, and investment banking) either in-house or in independently promoted subsidiary of the group. Financial integration may likewise furnish firms with market control in price estimating. Financial receptiveness and free access are not adequate conditions for

integration. Two markets can be flawlessly open to each other yet at the same time incompletely coordinated on the grounds that, for instance, they keep exceptionally unmistakable market structures. In their meaning of an incorporated financial market, Baele and others (2004) incorporate the element that market members "confront a solitary arrangement of guidelines when they choose to manage financial instruments as well as services." According to this second basis, a solitary (normal and completely orchestrated) market is a definitive type of financial integration.

Monetary joint venture is moreover the technique for interfacing three issues. That is a physical money cloud which is the inheritance budgetary structure where most downtrodden people work today, a modernized cloud where trade is secured out a virtual record and a psychological cloud (i.e. the brain) through which people translate and organize their financial lives (Radcliffe and Voorhies, 2012). Financial thought is utilized as a part of depicting the low prevalence of the financial establishments and as people have a chance to profit by such organizations particularly in getting to budgetary assets from reserves and financial advices too (Hannig and Jansen, 2010). Budgetary incorporation accept a basic part in propelling all around managed financial stretching out in low wage states overhauls quality and capacity to adjust to dazes, upgrade macroeconomic amplexness, and reinforce solid and intense exhaustive development (Bharat, 2014).

Financial inclusion is seen as a crucial technique for lessening dejection and propelling a country's more broad financial change (Buckley and Malady, 2015). Financial thought develops far reaching development as more varied and open budgetary organizations support development and lessen desperation and lopsidedness. Budgetary thought supports the point of view that progression in financial part prompts the change of the economy with everything taken into account (Bharat, 2014). Financial consolidation in like manner starts from an extensive scale perspective. Generally, there is immediate connection connecting financial joining in a specific nation and its development and additionally welfare, estimated by GDP per capita (IDB, 2015). Financial inclusion is regularly estimated by checking what number of individuals claim and utilize formal financial items (Klapper, El-Zoghbi and Hess, 2016). Financial inclusion as a development program has two noteworthy difficulties. The primary challenge is the high level of dormancy crosswise over different services. Early signs are that India's "Jan Dhan Yojana" will go an indistinguishable course (Agarwal, 2014). The second real challenge is adverse inclusion. This is a circumstance in which, once individuals are "financially included", they wind up more awful off than previously. Access to credit is a specific problem that numerous creators have handled in their evaluates if microfinance in various parts of the world that leave borrowers in a much weaker financial position once they begin the acquiring cycles (Guerin, 2014). Borrowers are in the long run so profoundly obliged that they can't reimburse their credits. Abnormal amounts of borrowers' obligation were the reason for the current disappointment of African Bank, the biggest loan specialist to low-salary people in South Africa (Bonorchis and Spillane, 2014). The banker had over-stretched out itself by

issuing credits to clients who could in the long run not stand to reimburse them. These loaning hones were contained to one bank in the nation, yet a critical supplier of financial inclusion since its clients were individuals who beforehand were not ready to get to formal loans. The World Bank, with its strategy record "Finance for All" (Demirguc-Kunt, Beck, and Honohan, 2008) added promote authenticity to the idea that there was an ethical basic to seeking after financial inclusion as it could diminish wage disparities. In late in 2014, under three months subsequent to propelling, India's "Jan Dhan Yojana" financial inclusion activity joined 75 million individuals with new bank accounts (Agarwal, 2014). Moreover, mobile network operators, banks and mobile handset makers began testing in the digitisation of money utilizing cell phones (ITU, 2010). The Economist (2009) announced that there were a couple of real examples of overcoming adversity in the mobile payments and money exchange services far and wide, every one of them in creating nations.

3. Effect of FinTech on Financial Inclusion and Integration

Financial technology services are held out as key financial responses for improving fiscal thought (Buckley and Malady, 2015). FinTech has displayed beneficial outcome by starting local and regional economies through extended money dispersal, business development and work openings (European Investment Bank, 2014). Accomplishing financial inclusion requires crossing over any barrier amongst money and computerized payments (Dayadhar, 2015). Through FinTech, poor family units frequently need to collect entireties of trade to contribute out their small scale endeavors and to keep up prudent money to guarantee that startling stuns. What's more, once clients are associated with a computerized payment framework, they can exchange money quickly and inexpensively to companions, family and business team up (Radcliffe and Voorhies, 2012).

Observationally, an investigation by Aggarwal (2014) on financial inclusion in India, its difficulties and the encounters of different locales found that insufficient and inefficient advancement based workplaces by financial institutions, has confined the achievement of basic expansion in budgetary incorporation level in India. Bayero (2015) examined the connection between the cashless economy approach and financial consolidation and revealed that care, customer/client regard proposal, and the establishment had a strong vital relationship with budgetary thought while the arrangement of activity of financial organization providers had an immaterial relationship with financial integration. Andrianaivo and Kpodar (2011) considered the connection between ICT, financial integration, and financial development and found that the spread of cell phones strengthens the effect of financial thought on financial development, particularly in countries where compact budgetary organizations get hold.

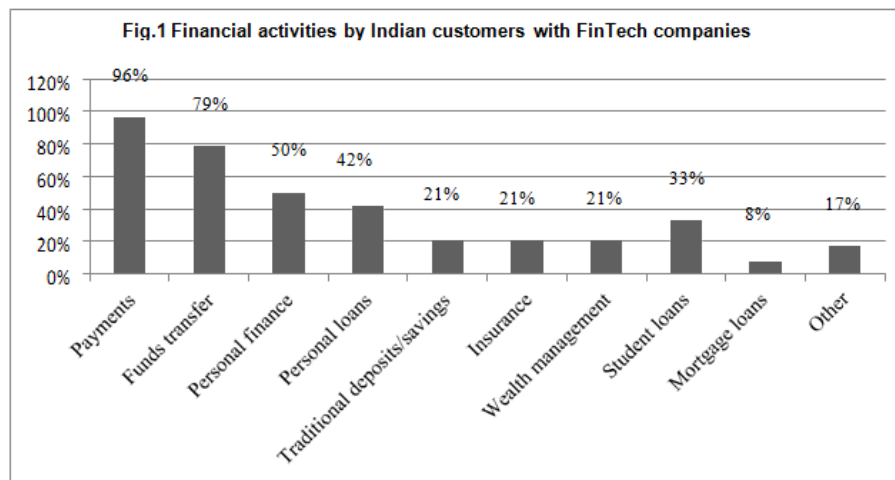
The FinTech industry in India likely to stroke USD 2.4 billion by 2020 from the USD 1.2 billion during 2016. In India FinTech companies like One97 Communications (Paytm e-wallet), MobiKwik, Capital Float, BankBazaar, Incred, PolicyBazaar (online insurance aggregator), Fino Payments Bank, CCAvenue, Razorpay, Instamojo, Juspay, CreditMantri, Chillr, Mswipe Technologies,

Lendingkart, etc., have made remarkable contribution to financial inclusion and integration. India is rising as a nation that would give tough competition to the financial service organizations in terms of FinTech services.

At present, FinTech companies in India are to some extent penetrated into certain activities which are explained as follows. Peer to peer lending (Data-driven alternate lending), a system which afford a mode to people coming from diverse operational and financial backgrounds to provide money from individual investors or a set of investors in the P2P loan market. At present, there are more than thirty peer-to-peer lending platforms functioning in India. Examples include Lendbox and Faircentbeing, who leads the market. India stack fundamentally offers a universal and exclusive digital infrastructure to diverse ventures based out of financial technology to increase their market value. Proximity-based payment methods like QR Code scanning or one-click payments are always well thought-out as simple and comfortable choice for payment fairly than traditional cash flow. In India, Bharat, QR, Tez etc are a few admired options. The Blockchain technology which serves on Distributed Ledger

Technology (DLT) empower its existence in the digital assets market. This year, a main exchange of Bitcoin was given empowerment through the Blockchain Technology. Artificial intelligence technology provides its talent in the investment market also. In FinTech, this technology has immense prospective in getting personalized client experiences, requirements, and opportunities with a fastidious business project. With respect to banking technology, the Indian Banking System erstwhile preparing for a cavernous transformation. Many more FinTech companies have seem to be teaming up with various banks and other financial service institutions to afford them with software solutions for regulatory compliance, risk management, and fraud detection. Insurance Tech principally serve as service providers to the insurers and big Insurance companies. Crowdfunding functions on the strategy of getting a little part of money from a huge number of individuals through the internet.

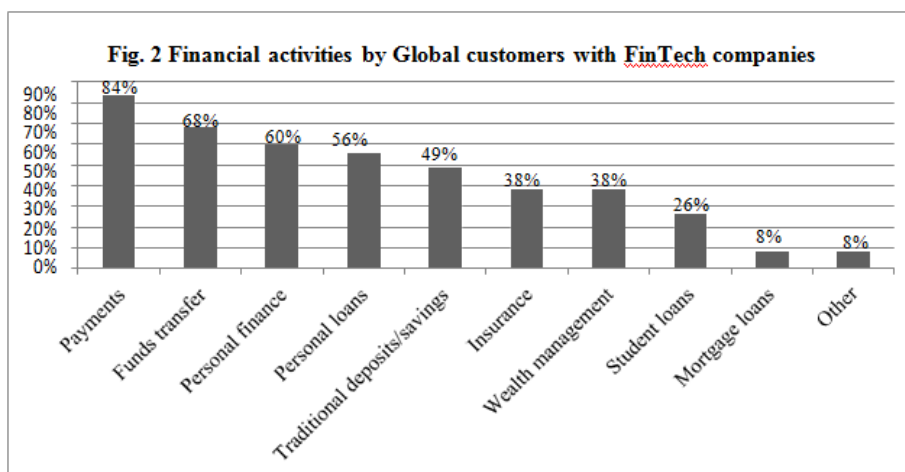
According to a survey conducted by PwC India (2018), digital payments made for various purposes by Indians (96%) through various FinTech companies stands first as shown in the Figure 1 below



Source: PwC India FinTech Survey, 2018

Next to digital payments, Transfer of funds (79%), transactions on personal finance (50%), personal loans (42%) seems to be somehow remarkable. Apart from that, deposits/savings, insurance, wealth management, student

loans, mortgage loans and others have some weight. Thus, the data indicates that the Indian market is not yet as mature as it is globally, particularly in the non-payments segments.



Source: PwC India FinTech Survey, 2018

Also the same survey shows that (Fig.2) Global level, the same trend flows. Digital payments are mostly done (84%) Transfer of funds (68%), transactions on personal finance (60%), personal loans (56%) seems to be somehow remarkable. Apart from that, deposits/savings, insurance, wealth management, student loans, mortgage loans and others have some weight. Financial Inclusion and integration could be attained economically and usefully only when certain areas of customer retention are developed by the FinTech companies. The PwC Survey (2018) shows that in the global level, digital payments and banking requires needs more improvement in user friendly, innate product design first, and next, faster service, and 24/7 access. The insurance sector prefers first, user friendly, and then innate product design, superior customer service, and 24/7 access respectively. Asset and wealth management need to be improved in terms of user friendly, innate product design first, and then cost, and 24/7 access. Also in India the survey shows almost similar results. Digital payments expects to improve on user friendly, innate product design, 24/7 access, and faster service respectively. In banking sector, faster service, User friendly, innate product design, and then cost. Insurance customers expect improvement in user friendly, innate product design, Superior customer Service, and 24/7 access respectively. Asset and wealth Management - User friendly, innate product design, 24/7 access, Superior customer Service. Financial institutions will also require to be interrupted by their have operations or processes, which will initiate culture and attitude challenges. In India financial service customers expect to increase internal modernization efforts over the subsequent three to five years. This can happen in a assortment of ways, together with adopting newer technologies such as artificial intelligence or block-chain, or changing the cultural atmosphere to one that promotes innovation.

4. Barriers for the Adaption of FinTech

Product awareness may still be an obstruction for FinTech's growth. According to a survey by U.S.A., Department of Commerce in August, 2016, many respondents opined that they were unaware about the existed products and many said that there is no such need. Also many preferred a traditional financial services provider, and some of

them do not understand how the products work. Trust, still, has not been a main obstruction to FinTech use (Yeandle, 2015). Understanding consumer culture is also significant for FinTech companies trying to enter a new market. For example, in the U.S.A., McKinsey has recognized five diverse consumer segments for digital wallets. As indicated by the report, every one of these specialty markets requires FinTech organizations to display a separated marketing and business way to make the deal successful (McKinsey on Payments, 2015). Directions to help a sound FinTech framework incorporate controls tending to consumer protection issues and promoting competition in the market. There is likewise the risk of the regulatory condition inside a specific nation ending up less ideal to FinTech. On the off chance that controls ease for conventional financial services organizations or fix for developing ones, the adjust of development could change drastically (Goldman Sachs, 2015). The Indian government can assume a part in fortifying more prominent U.S. competitiveness in these business sectors through support in trade and investment agreements.

5. Conclusion

Thus, the FinTech transformation or the converging of financial services with communication technology, guarantees to reshape fund by reducing expenses and enhancing the nature of financial services, making a more different and stable financial background (The Economist, 2015). Financial inclusion and integration is the change or augmentation in the pool of financial service organizations that are uniquely fitted to the need of all levels in the overall population (Bharat, 2014). The effect of extending financial inclusion goes well past financial extending and spans over an extensive variety of development objectives (IDB, 2015). Thus the following FinTech activates seems to be in the scope for better achievement of inclusion and integration which includes peer-to-peer platforms, Online Crowdfunding, Digital Payments & Digital Commerce, Robo-advisors and automated wealth management services (PwC India, 2018).

Also the following seems to be out of the scope and still needs to be concentrated which includes blockchain technology, credit & API management, B2B payments, Insurance Tech, and Meta search engines.

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