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Financial Inclusion via FinTech

Dr. Rekha
Assistant Professor, Department of Commerce,
BMN University, Rohtak, Haryana

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ABSTRACT

We study household finance in the age of FinTech, where digital payments are integrated with various financial services through all-in-one super-apps. We hypothesize that increased FinTech adoption via digital payments can help break down households' participation barriers, particularly the psychological ones, ultimately leading to higher participation in the financial market. Financial Technology (FinTech) is used to describe new tech that seeks to improve and automate the delivery and use of financial services. At its core, fintech is utilized to help companies, business owners and consumers better manage their financial operations, processes, and lives by utilizing specialized software and algorithms that are used on computers and, increasingly, smart phones and mobile devices. Fintech, the word, is a combination of "financial technology". The paper attempts to examine the phenomenal role of FinTech in filling the wide gap of Financial Inclusion, the need for its reorientation towards poorest of the poor and the road ahead in the light of multiple challenges that it faces andtech poses to the traditional players.

Introduction: Prosperity cannot flourish in pockets insulated from the stretches of poverty. History bears testimony to the fact that the oasis of prosperity has only a limited life in the vast desert of poverty. Growth and the resultant economic development, in order to be sustainable, have to be inclusive as the riches cannot survive for long in isolation. Financial Inclusion implies that individuals, households and small businesses have sustainable access to useful services and products like savings, micro-credit, payments, remittance, insurance, and a host of financial services for which a transaction account is considered the gateway to begin with. Financial access marks the beginning of a financially planned life covering a range of medium to long term financial goals and ability to meet unforeseen emergencies. The account holders tend to improve the quality of their lives by taking loans, starting and expanding business, investing in education and health and learning to absorb financial shocks. ―Financial inclusion can help reduce poverty and inequalities by helping people invest in the future, smooth their consumption, and manage financial risks. Financial services are known to substantially benefit the women and poor Adults. ―The use of financial products—such as payments services, savings accounts, loans, and insurance—can contribute to inclusive growth and economic development.‖[14] The world's conscious move towards financial inclusion since 2011 has brought more than a billion Adults in to the banking fold. Though an estimated 69% of the adult population has an account today, roughly 1.7 billion adults are still unbanked. The World Bank and IFC have launched the initiative called Universal Financial Access (UFO 2020) to enable by the year 2020 one billion unbanked adults gain access to the financial system through a transaction account to store money and to send and receive payments as the first step towards a financially planned life. The next step in the direction would be to ensure adequate usage of the accounts. Financial inclusion has a key role in pushing people towards an interconnected, innovative, and sustained economic growth and development

In the constantly evolving FinTech sector, BigTech companies such as Amazon, Apple, Google, and PayPal in the US, alongside Alipay and Tencent in China, have ventured into the realm of financial services. They integrate digital payments, a cornerstone of modern finance, with other crucial household financial functions such as borrowing, lending, and investment within their digital ecosystems. This all-in-one approach, bolstered by their extensive user base, allows these tech giants to engage with a diverse spectrum of households and revolutionize financial practices. A significant challenge in the field of household finance lies in the limited participation of individuals in financial markets. Despite the potential benefits of participation, existing research highlights that both physical costs (money, time, and effort) and psychological costs (familiarity and trust) play pivotal roles in hindering individuals from optimal risky asset investment.1 Against this backdrop, our hypothesis is that FinTech, through their comprehensive all-in-one business model, can foster household risky asset participation. While the technological efficiency of FinTech platforms undoubtedly serve to reduce or even eliminate the physical costs of participation, the more profound impact may come from the reduction of psychological costs. Via FinTech adoptions, individuals can acquire familiarity through repeated usages of digital payments on the all-in-one super-apps. As familiarity breeds trust, repeated usage can gradually erode or even dismantle the psychological barriers that deter households from entering the market.

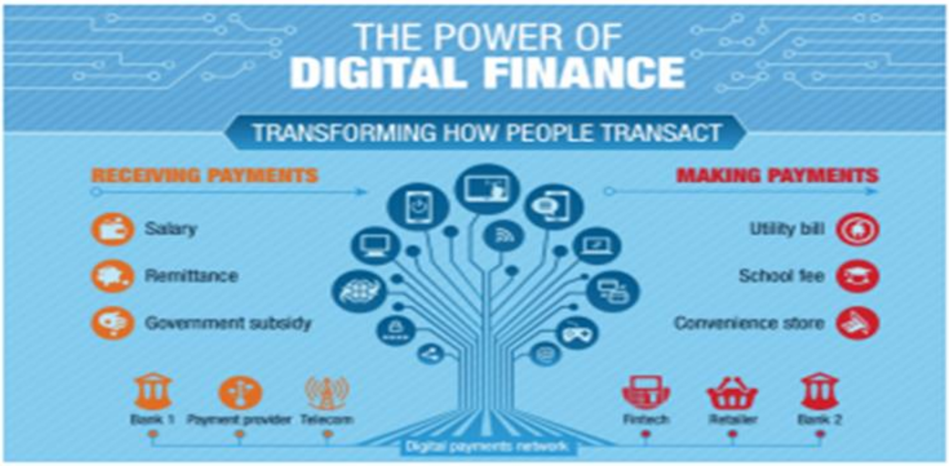

Fig. 1. The Power of Digital Finance – How people Transact [12]

FinTech has emerged as the platform bringing together banks and major service providers such as utilities, telecom, transportation, card schemes, retailers, healthcare, education, etc. and has transformed the payment and settlement process from complex to a highly simplified.

Fintech – The Vehicle Of Financial Inclusion In India, quite like many emerging economies, while the traditional banking system has made a headway towards financial inclusion through initiatives like ―Jan DhanYojana‖, 100% banking villages, business correspondents, business facilitators, Direct Benefit Transfers, promotion of Self Help Group model, no-frill and zero balance accounts, etc. to name a few, there still remains a gap in terms of the coverage in a huge nation like India. Just as meeting the credit demand of a large segment of the population in unorganized sector is aided by non-banking finance companies, the efforts of the traditional banking channel towards financial inclusion have come to be supported by Fin Tech companies through a parallel banking-like channel providing basic financial products to the burgeoning millions and holding out a fresh promise for inclusive growth. Universal financial inclusion can only be achieved with lowered operational cost, enlarged scale and the force of deeper penetration of financial services to the remotest areas hitherto unbanked and untouched by financial services . This seems to coming true with the digital wave taking financial services to the women, poor, youngsters, farmers and the SME's through the spread of mobile technology, network coverage and mobile based banking and financial solutions. The financial and technology players get the opportunity to interconnect under the aegis of Digital approach and this alliance can be a game changer in promoting financial inclusion globally.

Conclusions: Having glorified FinTech for all its potential and all it has contributed to the financial inclusion space, it is necessary also to underline the shortcomings and the lapses of FinTech drive which may take the sheen and the hype out of it. One of the major shortcomings of FinTech is reported to be its urban and elite bias which translates to bypassing the clientele primarily target under Financial Inclusion. The hype that is created in pinning the hopes of financial inclusion on FinTech and the manner in which it has lived up to that role needs a careful assessment. A recent J P Morgan study reveals that FinTech is catering only to the affluent and elite – having served around 23% of them - in large cities and urban centers leaving the weak, poor and the underserved in remote rural areas out of its coverage. A large number of savings bank accounts were opened but most of them remain non-operational to date and any uptake of financial services beyond account opening is yet to take place. Online payments still have the trust gap that needs to be filled up. Poor literacy, limited access to internet, electricity, telecom, etc. and the inability to pay even small costs of FinTech services has restricted the adoption rate of FinTech to mere 33% in rural areas as discovered by J P Morgan report [18]. C. Pratt (2018) in her paper titled ―Alternative lenders undermine financial inclusion‖ comes up with almost similar observations.

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