



Fin tech for Financial Inclusion: Importance, Initiatives and Challenges of Fin Tech in India

Ch. Aruna, Research Scholar, Department of Business Management, Osmania University, Hyderabad, Telangana. aruna.vangara1984@gmail.com

Dr. K. G. Chandrika, Senior Professor, Department of Business Management, Osmania University, Hyderabad, Telangana. kgchandrika@rediff.com

Abstract

Financial Technology (Fin Tech) is growing rapidly in India from past few years. High usage of smartphones along with internet connectivity uplifted the fin tech sector in the country. A report by the Ministry of Commerce and Trade says nearly 40% of the world's total digital transactions takes place in India. All that credit goes to Fin Tech industry in India. Financial services play an important role in the economic development of the country. Fin Tech helped financial services to reach out to all sectors of people spread across the country especially under served citizens. This paper is making an attempt to understand the concept of Fin Tech, evolution of fin tech in India, importance of understanding and usage of fin tech services, Initiatives made by Fin Tech companies, Government of India, Banks and other financial institutions to encourage citizens of the country to use the fin tech services and Challenges face by both fin tech service provider and the service receiver.

Key words: Fin Tech, Fin Tech services, Financial services, Digital Banking, Digital Transactions.

Introduction:

Financial services play an important role in the economic development of the country. Fin Tech helped financial services to reach out to all sectors of people spread across the country especially under served citizens. The Indian banking and finance sector has undergone an unprecedented transformation with the accelerated adoption of technology, providing consumers with an array of convenient digital financial solutions, and helping financial institutions become more efficient. This has caught the attention of the country's government and the apex financial body to closely monitor and evaluate the fin tech movements and bridge the digital divide to promote financial inclusion.

The recent three years have been revolutionary for the Fin Tech industry as the pandemic-induced lock downs resulted in the massive adoption of digitization. According to the Boston Consulting Group and FICCI, the Indian Fin Tech sector is projected to cross the valuation of \$150-160 billion by 2025. Considering the 100 billion incremental value creation potential, RBI is launching a series of unprecedented events that are making history in the Indian financial industry.

Concept of Fin Tech

Financial Technology (Fin Tech) is the use of technology to deliver financial services and products to customers. It is a technological breakthrough in the financial services sector. Fin Tech based financial services are easy in use which is convenient and comfortable for users at anytime, from any place. It is the most affordable service for all users of fin tech services. Fin Tech is used in various financial services such as banking, insurance, investing etc.

Examples of Fin Tech:

1. Mobile banking and digital banking
2. Trading in crypto currencies
3. Block- chain based financial services
4. Mobile payment apps and mobile wallets
5. Crowd funding platforms
6. Insure tech
7. Budgeting and portfolio management apps
8. Robo advisor in the asset management sector
9. Stock trading apps
10. Algorithmic trading with the help of AI and machine learning

Financial inclusion

Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of the financial services of the organized financial system to include within its ambit people with low incomes.

Evolution of Fin Tech in India

Demonetization in 2016 led to the birth and growth of fin tech in India. India was a cash dominant economy. Even before 2016 there were few fin tech players in the country but demonetization has created space for more number of fin tech players in India.

People had more apprehensions about usage of fin tech services for their money transactions and they were reluctant to adopt and use digital mode of payment due to shortage of currency notes. Customers are compelled to use fin tech services later they experienced and realized that the digital transactions are easy, convenience, safe and flexible. The emergence of unique payment interface (UPI) for the boosted up the fin tech services in the country.

Some of the fin tech services are:

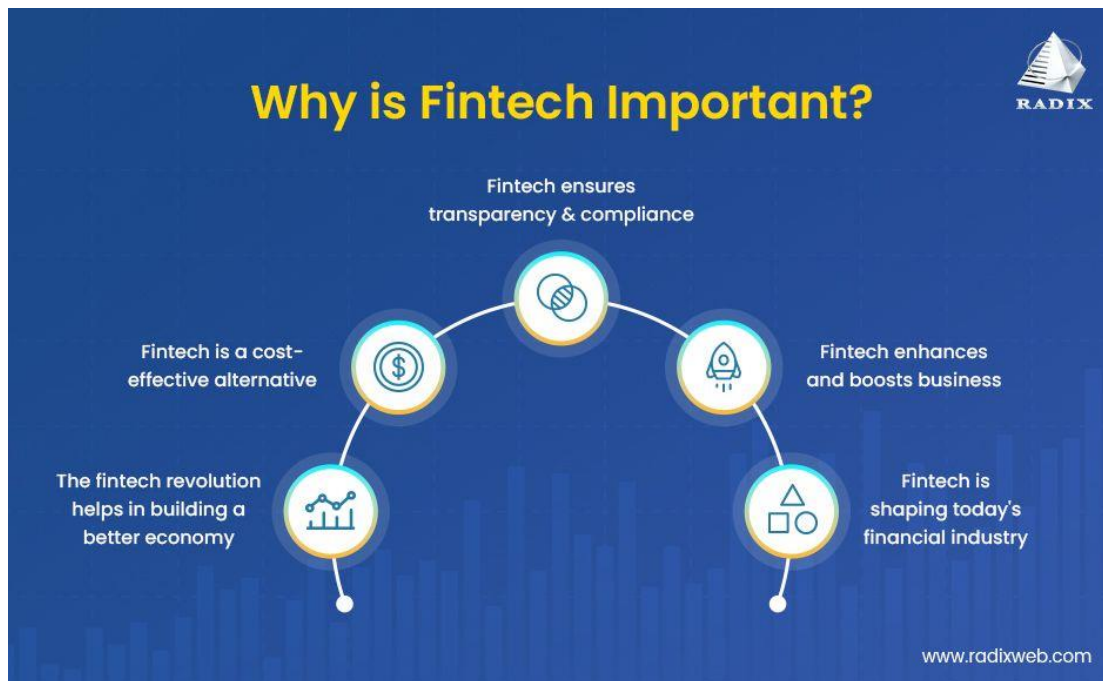
1. Digital lending
2. Online KYC
3. Digital insurance
4. Digital micro finance
5. Buy now pay later

And many more new fin tech services emerged in less than five years from the inception of the fin tech.

In 2021 fin tech industry in India is valued dollar 50 Billion and is expected to reach dollar 150 million by 2025. The fin tech adoption in India is estimated to be 87% which is significantly higher than the Global average of 65%.

The fact that even conventional banking system which is averse in accepting and adopting fin tech is being forced to implement digital technologies to keep itself afloat. Lending kart, Fino payment bank, capital floats are some of the fintech companies in India.

Importance of Fin tech



Government schemes for fin tech world

The Government Of India established a regulatory environment in the country and encouraged new businesses to take the lead and make a mark in finance industry. The year of 2018, saw more than 125 fin tech start-ups emerge successfully. This is evident as we have seen an increase in the investment and funding by both international and national banks and grounds for India's fin tech start-ups for funding payment wallets, finance tools, and other financial services.

- For technology innovators, the GOI has launched initiatives such as National Payments Council of India (NPCI), Digital India Programme, and Jan Dan Yojana.
- There are tax benefits for businesses and consumers as well on e-payments as surcharges on electronic transactions stay relaxed.
- The authentication requirements for the same also show the active effort of the government towards strengthening the fin tech space in India.

The promotion of entrepreneurial climate in the country via easy governance and policies for the start-up sector in fin tech, has secured a transparent growth for online platforms offering services such as insurance schemes, personal loans, quick cash, credit cards, and more.

Reasons for the success of fin tech in India

There have been several reasons for the success of the fintech industry in India. The affinity of Indians with the internet and smartphones has played an important role in this. The government of India's push for a cashless economy and digital India have helped the industry flourish. India is the youngest country in the world. India's new generation doesn't have time or patience to deal with the traditional banking system which often moves at a snail's pace. This generation wants quick results that can be delivered in seconds on their smart devices. The fintech industry has immensely benefited from this attitude. This generation also does not have any rigid fundamentals and therefore it is quick to adopt any new changes.

A large portion of India's population has been under served by the traditional financial service. The fintech industry was quick to realize this and tapped into this huge unexplored market. The boom in the e-commerce industry also helped the fintech sector expand rapidly. 2016 onwards, the fintech sector in India was growing at a decent pace; however, the advent of Covid-19 accelerated the speed several times because everybody wanted to make touch less transactions during this period.

Investors' attitude towards fintech in India

Almost all the market reports indicate a positive outlook for the fintech sector in India. The sector is expected to grow at 31% CAGR in the period 2021-25. There are already 21 fintech unicorns in the country. In the first quarter of 2022, 81 deals worth \$1.77bn have taken place³. This amount was around 55% higher than the last quarter of 2021. This shows that investors are positive regarding the fintech market in India and are willing to pump big sums into the sector. Encouraged by the success of various fintech companies in India, many international companies are venturing into the country. India still has a large population that remains underserved by the financial services. Investors realize that there is still huge growth potential in the fintech space in India.

Challenges in usage of fin tech services in India

While fintech provides many positive aspects for consumers, it also poses potential challenges such as

1. Cyber security
2. Market saturation
3. Regulatory challenges
4. Pandemic effect

Apart from the above challenges faced by fin tech in India they are many other factors which are leading to low rate of acceptance level and adoption of fin tech services by the customers such as demographic profile of the customer, trust deficit on fin tech and their services, proper knowledge on fin tech and their services, alternative sources of finance etc. In spite of government agencies, banks and financial institutions making efforts to reach out to all levels of people to implement fin tech services still we could not see god growth in usage of fin tech services at all categories of people.

Conclusion

The traditional cash-driven economy is now moving toward cashless and paperless mode of transactions. Fintech is an expanding field aimed to help people keep track of their finances and stay protected from dangerous financial abuse and exploitation. The barriers to financial inclusion for customers are complex, interconnected and varied across regions and demographic groups. Digital financial services present challenges as well as opportunities for customers. The challenges which are seen and observed through various reports and surveys brings to conclusion that as per Banking Annual by Business standard volume 14 issue 1, March 2023 "A less cash society is more achievable than a Cashless society".

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