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The Role of Financial inclusion and Fin Tech in India

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ABSTRACT

Fintech means using new technology and the internet to create financial products and services. It is nothing but the innovative use of technology, digital platforms, and data analytics to provide financial products and services to the unserved and unbanked populations and also to promote them in its effective and efficient utilization. The Indian financial services sector has undergone a significant transformation over the last few years. The sector, which has for decades been dominated by big banks and other major financial services plan witnessing a growing popularity of Fintech firms. Not only the Fintech startups spearheading innovations but many banks and financial institutions are also looking to explore new technologies and investing heavy digital service delivery channels in the financial market of India. The study has highlighted the potential for the revolution of fintech promoting the inclusion of finance across India's under banked or unbanked population. Financial technology development has shown they can improve affordability, close accessibility gaps, and give underprivileged people power. Nevertheless, problems still exist, such as the necessity for on-going technical adaptation and regulatory issues. It will take coordinated efforts from governments, banks, and financial technology companies to fully fulfil the potential of Fintech.

Keyword: Fintech, financial inclusion, financial services, financial access, technology, digital payments.

Purpose of the study:

The study of financial inclusive and fintech aims to improve financial access for all people especially those who are economically disadvantaged and the goal is to provide reliable financial services without discrimination.

Introduction:

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs - transactions, payments, savings, credit and insurance responsibly and sustainably. According to the World Bank report (2017), the global population lacking to banking services decreased from 2 billion in 2014 to around 1.7 billion in 2017. Despite progress, challenges persist, with the presence of financial Institutions being a significant barrier. Addressing these issues is crucial for enhancing the well-being of marginalized groups in developing nations. Financial technology plays a pivotal role in extending the reach of financial services to diverse segments of society.

The term 'FinTech' is a combination of the words 'financial' and 'technology. Fintech, referred to as financial technology, emerged during the financial crisis of 2007-2008 and has since revolutionized the financial services sector through the introduction of new technologies to the marketplace. Technology-based banking forms the dual pillars upon which the foundation of modern banking growth stands. Over the last decade in India, the rapid expansion of mobile networks is previously underserved regions and communities has pivotal role in driving this progress. Additionally, the emergence of payment banks has provided an extra alternative to online and mobile banking, resulting in heightened operational efficiency and reduced expenses for servicing customers in rural and semi-urban areas.

Current State of Financial Inclusion in India:

The following table number one provides the information about current state of financial inclusion in India.

Table No. 1

Current State of Financial Inclusion in India

Year	Financial Inclusion (FI) Index Value (%)
2020-21	53.9
2021-22	56.4
2022-23	60.1

Source: RBI Report, 2023.

Objective of the study:

1. To know the importance of financial inclusion in India.
2. To know the growth and impact of fintech on banks and financial sector.
3. To understand the financial inclusion from both sides i.e., demand and supply.
4. To know simple credit product overdraft link with no frill account KCC, GCC, ACC etc.

Limitations of the study –

A narrow definition of financial inclusive focusing only on access to basic financial services. The study may also overemphasize the role of fintech neglecting other factors that influence financial inclusive such as regulatory frameworks, financial literacy and socio-economic factors. As the fintech world is always changing quick change in Rule could affect how many people can access financial services. In the future the study might not cover this change completely.

Data collection: This study is done with the use of secondary data. Secondary information has been made available from published resources like journals, online database, Newspapers, books etc.

Review of Literature:

For the present research, a thorough review of interactional and national journals, research articles, books, working papers, and other relevant sources has been reviewed.

Authors	Objectives	Research Area	Findings
Muneera Qureshi, Muhammad ismail, or (2023)	Impact of Fintech on financial inclusion.	Digital transformation and Financial Inclusion	They assess Fintech challenges and feed guidance for fostering Inclusive financial ecosystems
Apostu, S. A. Panaitetal (2003)	Need for on-line access for financial transaction	Usages Digital Instruments	They found the policy measures to boost financial inclusion via Fintech and digital products
Muhammad Naved Anit Mond Kian al-2023	To reach the under banked segments of the population and stable provide operating environment for fintech businesses	Fintech businesses have significantly aided financial inclusion	The study determined impact of fintech and digital financial services on financial inclusion in India.
SUNITA, R. and Siddik M.M., (2023)	To check the growth of fintech solutions used in banks and FINANCIAL inclusion	Fintech and the future of financial services	The rise of fintech has changed every aspect of financial services and banking
S. Uma Maheshswari 2023)	To look at the implementation artificial intelligence banking industries	Importance of artificial intelligence implementation at the banking zone procedures	The researcher found AI is progressively proliferating the banking industry

Neelam and Sonali Bhattacharya, (2022)	Aims to review the extant Literature and the contribution of digital technology (DT) in financial inclusion (FI)	Financial technology-based services can lead to financial inclusion	Researchers aimed to guide policymakers in advancing financial inclusion initiatives
Noreen, M., Mia, M. S., Ghazali, Z and Ahmed, F, (2022)	The study aims to provide an insight into the current government policies and strategies for fintech adoption and financial inclusion	Various fintech adoption and financial inclusion policies and strategies by the government	A noteworthy innovation approach (i. e. fintech) was applied as a catalyst in order to extend the scope of financial service
Lakshman K. (2022)	To promote digital payments and encourage the use of fintech in the banking sector	Role of government in promoting the development of the fintech industry	They aimed to investigate the key challenges and opportunity facing the fintech industry in India
Goswami, S., Sharma, R.B and Choudhan, v., (2022)	To investigate the critical success factors influencing the adoption.	Critical factors identification and structural equation modelling for measuring the impact of fintech in financial inclusion in Rural India	The study provided insights to financial institution for offering banking services via mobile to handle cross-border transaction to low-income customers of remote areas
Kitty Sandeep Rana (2020)	Aims at studying the effectiveness of fintech in financial inclusion in India since its inception	Studying and finding the variable hindering the FINTECH in financial inclusion	The researcher found that Fintech companies leverage upgraded fin tech and low- cost automation for a competitive edge in driving financial inclusion

Finding of the study: The following are the main findings of the study. Financial inclusive is the process of ensuring access to appropriate financial product and services needed by vulnerable group such as weaker section and low income group an affordable cost in a fair and transparent manner by mainstream institutional players.

A) Importance of Financial Inclusion in India: The financial inclusion is very important for the economic growth, reduce poverty and social equity. Also, it empowers the unprivileged and marginalised communities especially women, supports entrepreneurship, and promotes digital and social inclusion, contributing to a more inclusive, resilient society. The importance of financial inclusion in India is elaborated below-

1. **Economic Growth:** Financial inclusion promotes economic growth by enabling all individuals, mainly the marginalised to engage in economic activities. It promotes savings, investments, and productivity, which in turn boost national Gross Domestic Product (GDP).
2. **Poverty Reduction:** Access to financial services allows low-income individuals to save, borrow, and manage risks, breaking the cycle of poverty. It provides a safety net, helping people build assets and reduce economic vulnerability.
3. **Women Empowerment:** Financial inclusion helps women to empower by providing them financial liberty and improving their economic status in the society. It also, open avenues for the women to save, invest, and contribute to household income.
4. **Employment through Entrepreneurship:** Access to financial inclusion helps MSMEs by providing essential credit and fostering entrepreneurship and employment. It not only contributes to job creation, invention and innovation but also strengthens local economies.
5. **Social Inclusion:** Financial inclusion bridges societal divides by ensuring everyone has equal access to financial services. It promotes social equity and reduces disparities between urban and rural populations, fostering a more inclusive society.
6. **Digital Inclusion:** Because technology plays an important role in financial inclusion, increasing access to digital financial services contributes to digital financial services contributes to digital inclusion by allowing more people to participate in the digital economy.

B) Growth and Impact of fintech on banks and financial sector: The growth and impact of fintech on banks and financial sector is to be summarized with the help of following points-

1. **Speedy Increase of Fintech Start-ups:** India has observed a surge in the number of fintech start-ups over the past decade, covering a wide range of financial services, including payments, lending, borrowing, insurance and wealth management issues.

2. **Revolution of Digital Payment:** Another notable impact of fintech in India has seen in the digital payments' revolution. Payment issues and solutions like Unified Payments Interface (UPI) and mobile wallets have gained widespread acceptance. These issues have decreased the dependency on cash and have made payments more convenient and secure for individuals and businesses.

3. **Initiatives from Government for Regulatory Support:** From last few years there was an active promotion of fintech from Indian Government by adopting various initiatives such as the Pradhan Mantri Jan Dhan Yojana (financial inclusion program) and Aadhar (biometric identity). Regulatory Institutions or bodies such as RBI have launched measures to govern and support fintech development, including regulatory sandboxes.

4. **Financial Inclusion and Financial Literacy:** The sincere efforts are also taken to boost financial literacy with the help of financial inclusion. For this fintech companies have contributed to financial literacy through educational content and tools. This helps individuals make informed financial decisions and better fintech services.

C) Financial Inclusion from both sides i.e., demand and supply:

Demand Side	**Supply Side**
Financial Literacy better financial awareness results in more demand for financial products. The consumer is able to appreciate importance of financial products through financial literacy	Financial Markets Existence of sound financial markets with deep space in the economic system results in mare supply of financial products in financial markets
Credit Counselling regular credit counselling results in sound credit of the people and more demand for organized/formal financial products	Banks easy access to banks means more supply of financial products
Credit Absorption Capacity-as credit capacity of individual Increases, credit demand increases simultaneously	Insurance access to cheap and holistic insurance means more supply of this financial product
Knowledge of products a better knowledge of various financial products means higher demand for the same	Appropriate design of product services
Need for total products & services	

Steps taken on the supply side for Financial Inclusion:

Banking Correspondents- Institutionalization of the framework of Banking Correspondents (BCs) has been a major step towards enhancing access of banking services. RBI advocated a combination of 'Brick and Mortar' structure with 'Mouse and Click' technology for extending financial inclusion in geographically dispersed areas.

Branches in Rural Areas-Banks were mandated to open at least 25 per cent of their new branches in unbanked rural centres Taking into account the difficulties encountered by common people in meeting the 'Know Your Customer (KYC)' requirements for opening bank accounts, several measures were taken. For example, RBI allowed banks to accept self-certification for opening of basic service bank accounts. RBI has encouraged banks to open Aadhaar Enabled Bank Accounts by linking Aadhaar numbers of individuals, wherever available, with the Basic Savings Bank Accounts opened for them, so that their credit histories can also be built up over time.

Small Finance Banks and Payment Banks- Other than serving as vehicles for savings, SFBs and Payments banks are expected to enhance the supply of credit to small business units, small and marginal farmers, micro and small industries and other entitles in the unorganized sector and enable provisions for cost-efficient remittance services in a secured technology driven environment

Digital Payment systems or Solutions- encouraging use of Mobile Banking, pre-paid instruments in the form of digital wallets and mobile wallets, operationalization of the Aadhaar Bridge Payment System (ABPS) and Aadhaar-Enabled Payment system (AEPS) etc. Digital payment transactions have significantly increased as a result of coordinated efforts of the Government as a whole, along with all stake holders concerned, from 2.071 crore transactions in FY 2017-18 to 8,840 crore transactions in FY 2021-22 (Source, RBI, NPCI and banks). Digital Payment modes includes BHIM-UPI, IMPS, NACH, AePS, NETC, debit cards, credit cards, NEFT, RTGS, PPI etc. The total number of digital payment transactions undertaken during the last five financial years and the current financial year are as shown in table no. 2.

Table No. 2

Digital Payment Transactions (Volume Wise)

Financial Year (FY)	Total Number of Digital Transactions (in crore)
2017-18	2,071
2018-19	3,134
2019-20	4,572
2020-21	5,554
2021-22	8,840
2022-23	9,192

Source: RBI, NPCI data (2023).

Steps taken on the demand side for Financial Inclusion:

Financial Literacy Centres (FLCs)/ Rural Self Employment Training Institutes- Banks in India have been mandated to set up FLCs for extending financial literacy, tailored camps are conducted for five different target groups le farmers, small entrepreneurs, SHGS, School students and senior citizens. The Rural Self Employment Training Institutes (RSETIs) have been set up by various banks all over the country at the district level. The key objective of RSETI is "Short term training and long-term hand holding with assistance to credit linkage for trainees".

Direct Benefit Transfer and Aadhaar Seeding of accounts- An important driver for enhancing the demand side of financial inclusion is Direct Benefit Transfer (DBT). It has the potential to be game changer If entitlements under various state sponsored schemes starts directly flowing into the bank accounts of individuals under DBT mode, it can act as a catalyst to encourage saving habit leading to build up of investment and seed capital for availing productive credit.

RBI's recent efforts at Financial Inclusion:

Assignment of Lead Bank Responsibility: Under the LBS, one bank in each district is assigned the leadership role and acts as a consortium leader to coordinate the efforts of the banks in that district, particularly in matters such as branch expansion and credit planning to meet the credit needs of the district. The assignment of lead bank responsibility to designated banks in every district is done by the Reserve Bank. As of June 2018, 20 public sector banks and one private sector bank have been assigned lead bank responsibility in 714 districts across the country. responsibility in 714 districts across the country.

Committee on Medium-Term Path on Financial Inclusion: The Committee on Medium-Term Path on Financial Inclusion (Chairman: Shri Deepak Mohanty, Executive Director), 2015 sought to propel the economy to a medium-term sustainable inclusion path. Drawing upon the recommendations of the Committee, the Reserve Bank focused on strengthening the mechanism for effective credit delivery to the productive sectors of the economy. Some of the major recommendations that were implemented during 2017-18 include the following: Banking correspondent (BC) registry portal has been launched to enable domestic SCBs, excluding RRBs, to upload data pertaining to BCs deployed by them. Subsequently, on stabilization of the database, facility of using BC tracker for public shall be made available.

Financial Inclusion Plans (FIPs): In order to have a planned and structured approach to financial inclusion, banks have been advised to prepare Board-approved financial inclusion Plans (FIPs).

-These FIPs capture banks' achievements on parameters such as:

-The number of outlets (branches and BCs),

-Basic Savings Bank Deposit Accounts (BSBDAS),

-Overdraft facilities availed in those accounts,

-Transactions in Kisan Credit Cards (KCCs) and General Credit Card (GCC) accounts and

-Transactions through the Business Correspondent-Information and Communication technology (BC-ICT) channel.

Government initiatives towards financial inclusion:

a) Pradhan Mantri Jan Dhan Yojana (PMJDY): PMJDY is a national mission for financial inclusion in India, launched by Prime Minister on 28th August 2014. The prime objective of the scheme is to provide universal access to banking facilities with at least one basic bank account for every household (Kumar, 2015). In India currently there is 40.35 crores Jan Dhan accounts with a balance of Rs. 145214 crores (PMJDY, 2020). Different dimensions of Jan Dhan accounts are savings, deposit accounts, remittance, credit, insurance and pension. The number of Jan Dhan accounts and Rupay cards issued had an increasing trend from 2014 to 2020. Uttar Pradesh has highest number of PMJDY beneficiaries. The table 1 here shows a tremendous increase in number of Jan dhan accounts in both rural and urban India during 2015 to 2020.Pradhan Mantri Jeevan Jyothi Bima Yojana (PMJJBY) a life insurance scheme, Pradhan Mantri Suraksha Bima Yojana (PMSBY) an accident insurance scheme and Atal Pension Yojana (APY) a social security scheme, are some of the financial inclusion schemes introduced in India.

Table No. 3

No of beneficiaries under PMJDY

Pradhan Mantri Jan-Dhan Yojana

(All Figures in Crore)

Beneficiaries as on 08/01/2025

Bank Name	No of beneficiaries at rural\semi urban centre bank branch	No of beneficiaries at urban metro centre bank branch	No of rural urban female beneficiaries	No of total beneficiaries	Deposit in account in (crore)	No of Rupay Debit card issued to beneficiaries
Public Sector Bank	26.66	15.79	23.38	42.45	189966.07	32.15
Regional Rural Bank	8.69	1.47	5.91	10.17	47336.45	3.69
Private Sector Bank	0.73	0.96	0.93	0.19	0.01	0.00
Rural Co-operative Bank	0.19	0.00	0.110	0.19	0.01	0.00
Grand Total	36.28	18.22	30.33	54.50	244381.23	37.23

Disclaimer Information is based upon the data as submitted by different bank.

Kisan Credit Card (KCC): Kisan Credit Card Scheme (KCC) is a credit scheme introduced in August, 1998 and prepared by NABARD on the recommendations of R.V. Gupta Committee to address the credit needs of the resource poor farmers. The KCC aims to provide timely and sufficient credit to the farmers in a flexible, hassle free and cost-effective manner. Apart from providing credit to agriculture production, the scheme also grants loan for subsidiary activities related to agriculture production, requirement of working capital for non-farm activities and subsidiary activities with some provision for consumption needs through single window system.

Table No. 4

Availability of KCC among agricultural households (%)

Holding size	**Percentage**
<0.01	1.2
0.01-0.40	5.9
0.41-1.00	10.8.
1.01-2.00	14.1
>2.00	23.8
Overall	10.5

Every farmer who avails KCC is covered under Personal Accident Insurance Scheme (PAIS) and all crop loans taken under the scheme is covered under Pradhan Mantri Fasal Bima Yojana (PMFBY) so that the crops are insured. Availability of Kisan Credit Card by the agricultural households had a positive correlation with land holdings (Table 4). As per the study of Kshama (2018), the growth rate of the number of cards issued was 13.74 per cent per annum in India.

General Credit Cards (GCC) Issued: Banks have been advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches. Up to December 2023, banks had provided credit aggregating to Rs. 53,690 Cr. in 55 lakh GCC accounts.

Suggestions for Fintech Promoting Financial Inclusion: Enhancing financial inclusion in India through fintech requires a multi-faceted approach that includes regulatory changes, technology adoption, and education. Here are some policy recommendations to financial inclusion in India through fintech:

Infrastructure development: Expand the reach of high-speed internet and reliable power supply rural and underserved areas, enabling greater access to fintech services. Promote the developer digital payment infrastructure, including point-of-sale devices and ATMs in remote areas.

Financial literacy and education: Launch nationwide financial literacy campaigns and programs educate people about fintech services, digital banking, and responsible financial behaviour.

Interoperability: Ensure that fintech platforms and banks are interoperable, allowing users to transfer funds and access services across different platforms seamlessly.

Security and data privacy: Strengthen data protection laws and regulations to build trust al confidence among users regarding the safety of their financial data.

Innovation sandboxes: Establish fintech innovation sandboxes to encourage experimentation with. Financial products and services, while maintaining regulatory oversight.

Incentivize Direct Benefit Transfer (DBT): Promote the use of fintech for government-sponsor subsidy and welfare programs, ensuring direct and efficient fund transfers to beneficiaries.

Way Forward: The way forward for financial inclusion in India involves-

1. Enhancing literacy
2. Digital divide
3. Improvement in infrastructure facilities
4. Reduction in service cost
5. Expanding digital infrastructure
6. Introducing targeted credit schemes
7. Creating gender-inclusive policies
8. Strengthening fintech partnerships
9. Innovation sandboxes
10. Interoperability
11. Ensuring supportive policy frameworks for broader access to financial services.

Conclusion:

The Indian financial services sector has undergone a significant transformation over last few years. The present study has highlighted on the importance and the growth and development of the financial inclusion in India. Also, it includes the financial inclusion plans and government initiatives for the promotion of financial inclusion. The aspect of digital payment system or solution is also covered. Fin tech developments have shown they can improve affordability, close accessibility gaps, and give underprivileged people more power. Nevertheless, problems still exist, such as the necessity for on-going technical adaptation and difficult regulatory issues. It will take coordinated efforts from governments, banks, and financial technology companies to fully fulfil the potential of fintech. The authors have suggested some way forwards for the financial inclusions and fin tech in India.

Glossary:

BSBDAS: Basic Savings Bank Deposit Accounts

CCC: Certified Credit Counsellors

DBT: Direct Benefit Transfers

Fintech: Financial Technology

GCC: General Credit Card

GDP: Gross Domestic Product

KCC: Kisan Credit Card

NABARD: National Bank for Agricultural and Rural Development

PAIS: Personal Accident Insurance Scheme

RBI: Reserve Bank of India

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