ROLE OF FINTECH COMPANIES IN INCREASING FINANCIAL INCLUSION

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Abstract

Fintech companies have transformed the financial service sector. Fintech companies have proved to be valuable along with the existing conventional structure and are possibly playing a vital role in promoting financial inclusion. Yet, there is inadequate consideration about the role of fintech companies in enhancing financial inclusion. Hence this paper had been taken up to address how fintech companies contribute in enhancing financial inclusion. This is an exploratory study. The findings of this study shows how fintech companies have acted as innovators and capitalized on the technology to augment the accessibility of financial products and services to the people living at the grass root level and thus enhanced the financial inclusion in all the nations specially the developing nations.

Keywords: financial inclusion, fintech company, developing nations, economic growth.

Introduction

Availability of banking products and services are essential to boost job creation, reduce susceptibility to economic jolts and increase investments in human capital. At macro level, larger financial inclusion can lead to sustainable and inclusive socio-economic growth for all. But across the world, approximately 1.7 billion people are without bank accounts (World Bank 2018), this leads to vast financial exclusion (Demirgüç-Kunt et al. 2018). Conventionally, the financial services have been ruled by conventional banks. But in present time, fintech companies have received increased importance due to their role in resolving the issue of financial inclusion, particularly in developing nations. Though initially incumbent banking institutions regarded the rise of fintech companies as a threat to their survival, but they quickly partnered with these technology companies and started offering their own digital financial services. So there now

exists an intricate relation between 'new' and 'old' finance companies (Gozman et al. 2018). The current study was taken up to investigate "How do fintech companies help in financial inclusion? The first section would cover the theoretical background, the second section will cover the work done by fintech companies, the third section would discuss the findings and the fourth section would have the contribution, future research direction and limitations.

Theoretical Background

As per Reserve Bank of India, India`s financial regulator, Financial Inclusion is a "process of ensuring access of applicable financial products and services to the weaker sections of society at affordable cost, in fair and transparent manner by mainstream institutional players" (Agrawal, & Jain, 2019). Governments, development experts and scholars, consider that ability to borrow, save, and use money is fundamental to not only escape poverty but also to improve quality of life (World Bank 2018, Demirgüç-Kunt et al. 2018). Senyo and Osabutey, (2020) and Friedline et al. (2019), found that large number of people across the world still suffer from lack of availability of financial products and services and thus face poverty. The major reason includes high cost (Senyo et al., 2016), challenges to obtain proof of identity (Masiero and Prakash 2019) etc.

Term 'FinTech' is a blend of two words 'finance' and 'technology'. It can be broadly defined as technology-enabled financial services, processes, applications, and products. Fintech companies leverage on latest technology for delivery and design of financial products and services in a groundbreaking manner. They have the prospective to reshape and revolutionize the financial sector and transform the financial inclusion landscape and play a crucial role in achieving inclusive growth and broad-based prosperity.

Classically, fintech services are extended by offering services such as mobile banking, micro-insurance, micro-credits (Realini and Mehta 2015). Using mobile to avail fintech services permits to shrug off limitations (Senyo and Osabutey 2020). To plug the gaps, fintech companies have pitched in and offer customers cheaper, easier, efficient, newer, and faster ways of transferring and storing money (Senyo and Osabutey 2020). Incumbent financial organizations also responded by redesigning their processes, products, strategic partnerships and new business models with fintech companies (Drummer et al. 2017). Fintech companies have become part of

financial eco-structure (Senyo et al. 2019) that involves telephony companies, governments, conventional financial organizations, start-ups, merchants, and micro-enterprises and also people at grass root level (Oborn et al. 2019; Leonardi et al. 2016). This blend of latest technology, new ecosystems, new business models, have helped to remove deficits and help in scaling-up basic financial services in developing nations, which includes ICT innovations (Foster and Heeks 2013). Recent innovations provide profits to service providers, low and affordable cost to customers (Realini and Mehta 2015).

Table 1: Top Countries in FinTech Adoption

Country	Percentage
India and China	87%
Russia and South Africa	82%
Columbia	76%
Peru	75%
Netherlands	73%
Global Average Adoption Rate	64%

Source: Global FinTech Adoption Index 2019, EY

According to Ernst & Young (2019), India and China with high 87% FinTech adoption rate in 2019, leads emerging markets. While the global average adoption rate was 64% during 2019 (Table 1). In 2017, India's FinTech adoption rate was 52%, even then it was higher than global average of 33% (PWC, 2020). Fintech companies helps in introducing more inclusive and efficient business models and enlarge the pool of suppliers of financial services. Locally FinTech adoption majorly is driven by payments and transfer at 96%, insurance 86%, savings and investment 78%, borrowing 76% (E&Y, 2019) (Table 2).

Table 2: Consumer Awareness of FinTech Services

Purpose	Percentage
Money Transfer and Payment	96%
Insurance	86%
Savings and Investment	78%
Borrowing	76%
Budgeting and Financial Planning	71%

Source: EY Global FinTech Adoption Index 2019

Pradhan, et al., (2014) inspected the link amid telephony set-up and economic progress from data taken from 34 OECD nations. In a comparable research, David (2019) studied the causative correlation amid telephony, development and economic growth, among 46 African nations. Global fintech investments during 2021 were record high at USD 210 billion after an initial dip during covid-19 (KPMG, 2021). A McKinsey study predicted that by completely accepting digital finance the emerging nations can lift their GDP by USD 3.7 trillion by the year 2025 (Manyika, et al. 2016).

Siddiqui & Siddiqui, (2017a) that telecom companies played a crucial role in extending financial services to people living in rural areas and also improved their lives. Research have elucidated that nations with extensive financial inclusion had robust GDP rates and lesser inequality in income (Park and Mercado 2018; Ravi, Shamika 2019; Mookerjee and Kalipioni 2010; Kim 2016; Turégano and Herrero 2018). Mbiti and Weil (2011) and Gosavi (2018) found that fintech is a crucial driver of financial inclusion. According to Economic Times (2019) due to rapid expansion of technology infrastructure in India (approx. 627mn internet connectivity in 2019, approx. 829 mn smartphones by year 2022), the banks organizations leveraged technology and served customers at lesser costs, lesser transaction time and better trust (KPMG, 2019). Fintech company offers unprecedented opportunities to augment financial inclusion, by taking benefit of increased penetration of mobile companies (Demirgüç-Kunt et al. 2018; AFI 2018; GPFI 2016).

Aslan et al. (2017) validated that increased usage of financial services by larger population (proxy by digital activities like savings, borrowing, receiving and payments) results in reduction in income inequality. Financial inclusion indices made by Cámara and Tuesta (2014), Sarma

(2012), and Turégano and Herrero (2018) elucidated that nations with inclusive financial arrangement are able to control income inequality. Microfinance programs are instrument for financial inclusion and reduces level of income disparity in developing nations (Hermes 2014; Kai and Hamori 2009; Lacalle-Calderon et al. 2019). Researches have validated that ICT and FinTech are vital enablers of financial inclusion (Tchamyou, et al., 2019; Jack and Suri 2011; Mbiti and Weil 2011; Ghosh 2016; Gosavi 2018). There is strong linkage amid level of penetration of mobile phone and financial inclusion (Ghosh 2016; Andrianaivo and Kpodar 2012). People using fintech tend to become banked, send/ receive transmittals frequently, and gather savings (Ouma, et al., 2017; Morawczynski 2009; Mbiti and Weil 2011; Jack and Suri 2011). Fintech positively impacts SME financial inclusion as well (Gosavi 2018).

Asongu and Le Roux (2017), and Asongu and Odhiambo (2018) stated penetration of internet, mobile, and broadband had reduced inequality and positively impacted human development index. However, Asongu (2015) and Asongu and Odhiambo (2019) and Asongu and Nwachukwu (2018) reported inverse link amid mobile infiltration and income inequality in a study conducted across fifty-two African nations. Abor, et al., (2018), found that owing mobile reduced possibility falling in the trap of poverty. Beuermann, et al., (2012) revealed that mobile phone coverage expansion in rural areas had abridged acute poverty, and household consumption increased. Aker and Mbiti (2010), found that mobile phones had enhanced agriculture, delivery of educational services and health facilities. Zhang, et al., (2018) found that in China digital financial inclusion enabled rural entrepreneurship and thus reduced rural-urban income gap. Suri and Jack (2016) validated that mobile money elevated certain percentage of Kenyan people from poverty and enlarged per person consumption in the country. Muralidharan, et al., (2014); and Aker et al. (2011) found that in India and Niger digital government transfers lowered costs, and corruption, leaving larger resources for social expenditure.

Discussion

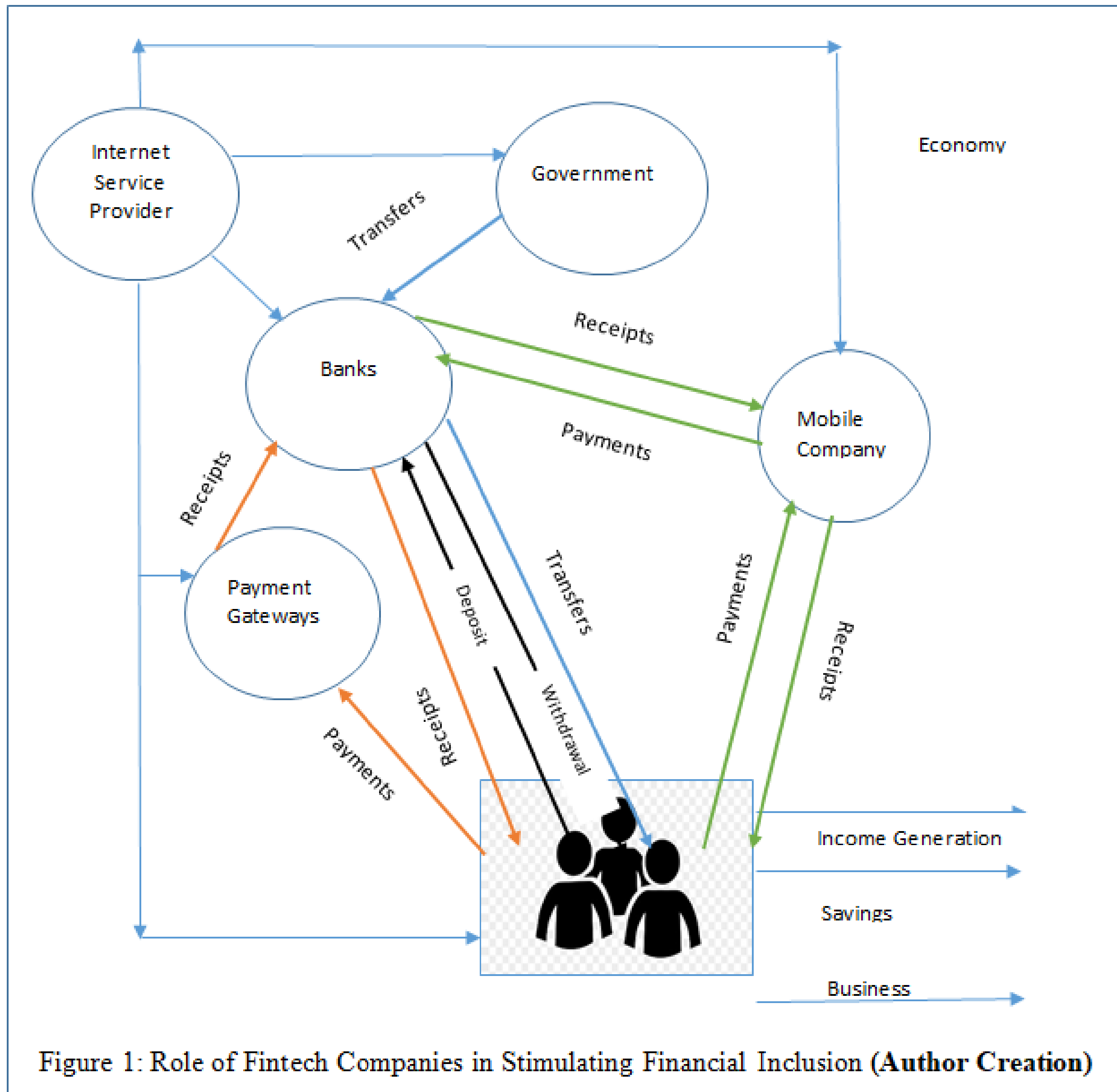

Figure 1: Role of Fintech Companies in Stimulating Financial Inclusion **(Author Creation)**

The Figure 1 clearly portrays the massive prospect of FinTech to create greater inclusive financial services and to fuel economic growth is well accepted. This study clearly demonstrates that technology companies can act as value creators for financial service providers and can thus facilitate the reach of conventional finance companies in nations where large population still remains without bank accounts but owns mobile phone and also use internet in their daily lives. Thus fintech companies can create source of income generation, savings, and help in initiating

micro businesses and thus help in facilitating financial inclusion, inclusive economic growth and also promote equality and social wellbeing.

Contributions, Conclusion, Limitation and Future Directions

This study has clearly illustrated how fintech companies help to increase financial inclusion. Fintech sector is still nascent, this study will offer valuable insights to the financial institutions, government and technology companies to how to capitalize on their strengths and act as catalyst in stimulating economic growth. Likewise, this study offers valuable insights to policy makers in order to handle with ambiguities and strains amid conventional and new entrants in financial services sector.

This study some few limitations it is only providing a qualitative analysis future researcher can add quantitative aspects to the current study. A limitation of this study, also is that it does not take into account endogeneity concerns. Scholar can quantify the real time impact created by fintech companies on the grow of the GDP of any nation. Further studies can also be taken up to compare the impact of fintech among different developing nations. There can also be a study to evaluate whether level of education level has any impact of the use of fintech services.

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