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Driving Inclusion: FinTech's Impact on Digital Payments in India

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Abstract: *This research investigates the transformative influence of financial technology (FinTech) on financial inclusion and digital payments in India, with a specific focus on fostering financial inclusion. Employing a mixed-methods approach, the study examines the adoption patterns, regulatory landscape, and socio-economic implications of FinTech innovations. By analyzing data from diverse socio-economic segments, the research aims to illuminate the extent to which FinTech enhances accessibility, affordability, and convenience in digital transactions. The findings contribute essential insights for policymakers, financial institutions, and FinTech stakeholders, guiding strategies to build a more inclusive digital payments ecosystem. This study seeks to deepen our understanding of how FinTech can drive financial inclusion and empower marginalized communities within the dynamic landscape of digital finance in India.*

Keywords: Financial Technology (FinTech), Financial Inclusion, Digital Payments.

I. INTRODUCTION

Enhancing access to finance and achieving financial inclusion is a pivotal policy goal globally and has a greater impact on developing nations like India.

The term 'Financial Inclusion' was first coined in 1993 by the Indian government. The initiative aimed to integrate all segments of society into the banking system, crucial for balanced economic growth. Further the term Financial Technology (FinTech), is the fusion of technology and finance, it fosters innovation in financial markets and services. In countries like India, FinTech holds promise for enhancing financial inclusion by using technology innovatively, leading to inclusive growth, reduced transaction costs, and improved access to financial services for underserved populations.

We all are aware that to achieve quick and sustainable growth and development for a nation of our size and diversity, we at once require a broad-based financial inclusion across all sectors, regions and segments. The lack of financial literacy amongst rural India slows down economic growth due to lack access to formal credit through our Banking system. To address this, our banking sector has introduced technological innovations such as ATMs, credit and debit cards, internet banking and access mobile Banking. Though there has been process, a lot more needs to be done and at a faster pace, so to connect with rural India as these communities remain largely unaware, untapped and excluded and even today lacks access to traditional banking systems, impeding our goal of for financial inclusion and resulting in slower and unequal development across regions

Though many major Fintech startups such as Oxigen, MobiKwik, Paytm and Freecharge originated between 2005–10, since beginning of 2010 and later in the year 2015 financial services sector combined with technological advancements has eased easier access to business and personal loans [Marginal, small loans] through various platforms and applications. Various fintech were funded by Global investors, a key game changer during the past couple of decades. This shift towards advanced technology not only has enhanced transparency but also has promoted financial inclusion, particularly through digital financial interfaces like internet banking and mobile payment etc.

From time to time the efforts by the Reserve Bank of India and the government of India have included setting up commissions to address financial inclusion, resulting in the ongoing progress. Terms like "Digital India" initiative, is a significant step forward. By using digital technologies, this initiative simplifies banking connectivity and enhances payment systems, fostering accelerated growth in our mission 'Financial Inclusion'.

Events like demonetization in 2016, followed by a crisis of the COVID-19 pandemic resulted in cash being replaced by card payments, due cash crunch post-demonetization and the traditional visits to markets to buy our daily groceries replaced by online transactions and home deliveries during COVID lock down. Due to these events Digital Financial Inclusion (DFI), got the required attention, momentum and acceleration, a movement from cash payments to card or online payments, the regular services we consumed offline were made available online due COVID pandemic whether Banking, Insurance, buying Groceries etc. and today POS (Point of Sale) Payment transactions through electronic devices and QR scanning is quite common in most cities, towns in India in exchange for goods and services, resulting in a good portion of Cash transactions replaced by Card or online payments

Though the efforts and initiatives of the regulators over the past three decades has been remarkable, there have been a number of challenges faced during implementation, like the Pradhan Mantri Jan Dhan Yojana (PMJDY), which doubled account ownership, many accounts still are inactive. Similarly, the Reserve Bank of India gave licenses to 11 entities to launch payments banks in India in August 2015, the benefits and associated risks are always a challenge, PAYTM being a recent example where the Reserve Bank of India (RBI) is contemplating the cancellation of the Payments Bank license given to Paytm.

In today's time our financial sectors like Banking, Insurance, Stock Exchanges, Mutual Funds etc. are all well-regulated and accessible to a large number of Indians and the aim of the regulators like RBI, SEBI, Government of India is to see to it that it reaches all Indians, with an ease of access and more important, at an affordable price or cost.

A revolution in Financial Inclusion is already began and the coming decade seems promising for India and the globe, and I believe India will lead this. With available tools like AI, Machine learning, Blockchain technology, Internet of Things, Mobile and digital money India will achieve "**Financial Inclusion.**"

II. REVIEW OF LITERATURE

The Development Research Project (2013) aimed to understand the financial requirements of the impoverished populace in both short and long terms. It investigated how surplus funds are used for immediate, future, and emergency needs to formulate strategies for financial inclusion and product design. Rural households employ distinct cash management strategies for daily expenses, with various informal financial entities serving this demographic. The study, conducted in Ernakulam district, Kerala, under RBI guidance, scrutinized cash flows and management strategies of 107 households, analyzing their financial assets, liabilities, and savings patterns. CRISIL (2013) assessed India's financial inclusion using non-monetary aggregates, revealing low levels nationally. RBI (2014a) focused on enhancing financial services for small businesses and low-income households, proposing measures like universal electronic bank accounts and payments banks. RBI (2014b) examined challenges and solutions for widespread mobile banking adoption, suggesting a common mobile application for basic banking operations, accessible via SMS or GPRS, to be embedded in new SIM cards or transferred to existing ones.

Kumar (2007) emphasized that financial inclusion is an ongoing process requiring collective efforts from stakeholders, including banks, policymakers, and the community. He focused on the role of commercial banks in India and underscored the significance of technology in fostering financial inclusion. Jani and Tere (2015) explored citizen demand for various services in India and discussed the infrastructure needed for Digital India initiatives. They proposed a new definition of IT, emphasizing Indian talent combined with information technology for India's future. Sharma and Kukreja (2013) compared India's financial inclusion progress globally, highlighting the need for further efforts to reach the poorest sections. Tamilarasu (2014) analyzed the banking sector's role in India's financial inclusion, noting a decrease in officers per office despite an increasing number of banks. Morgan (2014) investigated the relationship between financial stability and inclusion, finding both positive aspects like diversification of assets and negative factors such as erosion of credit standards.

Several studies have explored the effects of demonetization and the COVID-19 pandemic on financial inclusion and digital financial services. Sujlana & Kiran (2018) examined the status of financial inclusion in India, highlighting the role of commercial banks and the need for private banks to focus on rural banking. Sherline (2016) viewed demonetization as a precursor to complete financial inclusion, emphasizing the need for restructuring credit systems. Devi et al. (2017) found increased digital transactions post-demonetization, showing a move towards a cashless economy. Shrivastava (2018) supported demonetization's long-term benefits for financial inclusion and stressed the

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advantages of digital financial inclusion. Sivathanu (2018) saw a surge in digital payments during demonetization, indicating increased adoption of digital channels. Agarwal et al. (2020) noted COVID-19's role in accelerating the shift towards digital banking. Mansour (2021) found that low and lower-middle-income countries were more inclined towards digital payments during the pandemic compared to higher-income nations.

III. METHODOLOGY

Regarding method, have followed a descriptive approach, mainly relying on news articles available on the net and information gathered during discussions, looking at available trends and the impact of the role played by Government of India, Reserve Bank of India, and other regulatory bodies. Further have looked at recent events like Demonetization, COVID and the impact pre / post the event.

IV. OBSERVATIONS

The concept of financial inclusion is to extend financial services to those who typically lack access, and this has been the goal of the Government of India since 1950.

It started withthe nationalization of banks, which occurred from the mid-1950s to the late 1960s. This brought banking facilities to previously unreached areas of the country. The Reserve Bank of India defines financial inclusion as ensuring access to a wide range of financial services at reasonable costs. Initiatives taken were to include all sections of society in banking services. This began in the 1960s with significant reforms such as bank nationalization and the establishment of institutions like NABARD.

Several commissions, including the Khan Commission, Nachiket MOR Committee, and Deepak Mohanti Committee, have been established to enhance financial inclusion strategies. These commissions focused on policies like 'no-frills accounts' and recommendations for universal bank account access.

The Pradhan Mantri Jan Dhan Yojana (PMJDY), initiated by Prime Minister Narendra Modi's government in 2014, marks a significant milestone in India's financial inclusion efforts. Launched under the National Mission for Financial Inclusion, it aimed to provide universal access to banking facilities, financial literacy, credit, insurance, and pension. By February 2018, over 31.07 crore accounts were opened, with public sector banks leading in rural areas. The scheme facilitated the creation of a robust platform for financial services, benefitting millions. However, the COVID-19 pandemic posed challenges, impacting various sectors, including banking. Yet, it provided an opportunity for accelerating digital financial inclusion, as people increasingly shifted to digital transactions due to restrictions on physical movement. This transition from financial to digital financial inclusion has been accelerated by the pandemic crisis, transforming the way transactions are conducted in India. 80% of adult Indians had access to Bank accounts in the year 2017 as compared to 53% in 2014.

Over the years Government bodies and regulators have spearheaded fintech development, exemplified by initiatives like Goods and Services Tax (GST) alongside robust digital infrastructure endeavors such as Unified Payment Interface (UPI) and Digital India. Regulatory support includes measures like Regulatory Sandboxes (RS) introduced by the Reserve Bank of India (RBI) in 2019, fostering innovation in areas like retail payments and digital identity verification. Efforts to encourage fintech adoption among consumers include initiatives like demonetization, Direct Benefit Transfer (DBT) or direct money transfers to the recipient records and various UPI products.

Digital India Initiative was launched in the year 2015. The Digital India initiative aimed to provide government services electronically to citizens, with a focus on digital banking to promote financial inclusion. By leveraging electronic means, the government reached unbanked populations more efficiently, thereby accelerating financial inclusion.

Further the Digital India initiative involved substantial investments in infrastructure, internet connectivity, and IT development to enhance access to government services. Here some key initiatives included setting up a nationwide fiber-optic network, providing Wi-Fi in urban and tourist areas, and offering broadband internet access to rural clusters. Additionally, digital lockers have enabled citizens to securely store their documents. These measures helped create direct employment opportunities in the IT sector and contribute to the fulfillment of financial inclusion objectives.

Further the growth of mobile banking is anticipated to significantly contribute to financial inclusion. Projections indicate a substantial increase in mobile banking users in India. The expansion in mobile banking usage aligns with the overarching goal of enhancing financial inclusion. Future mobile banking trends are moving people towards a cashless

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society. Simply said, mobile banking services enable customers to access bank services via their mobile phones at any time and from any location. Customers now have access to digital money transfers 24 hours a day, seven days a week using mobile banking. The India Mobile Payments Market size is estimated at USD 0.81 trillion in 2024, and is expected to reach USD 2.61 trillion by 2029, growing at a Compound annual growth rate [CAGR] of 26.52% during the forecast period (2024-2029).

Fintech's role in financial inclusion, particularly for Micro, Small and Medium Enterprises [MSME's], is crucial, albeit largely untapped outside Tier-I and Tier-II cities. Government agencies and regulators need to create a more friendly, beneficial, profitable environment and the initiatives will result in reaching small towns and villages across India. Internet penetration and Startups will further help in achieving Financial Inclusion

Regulatory initiatives, including the formation of the Committee on Deepening of Digital Payments and the establishment of regulatory sandboxes by the RBI, underscore the government's commitment to fostering FinTech-led financial inclusion. These initiatives aim to promote innovation, enhance safety and security in digital payments, and encourage financial offerings to underserved sections of society.

However, lower skill due illiteracy, gender disparities, low-income savings, unfamiliarity with technology and lack of available infrastructure to remote India is an ongoing challenge and remains a roadblock to financial inclusion in many parts of India.

Another key concern or issue that needs to be addressed in the present times are the privacy risks, risks involving online thefts and frauds and measures in place to protect the interests of all stakeholders.

V. CONCLUSION AND RECOMMENDATIONS

The population of India is 1,436,625,829 as of Friday, February 9, 2024, [based on Worldometer elaboration of the latest United Nations data]. In a country of over 1.4 billion people, an enormous number of individuals are still out of the formal financial net. Despite our concerted efforts toward financial inclusion over decades, the nation has had limited accomplishments in bringing its underprivileged into utilizing all available financial services. Borrowing at a high cost, accepting risky arrangements from loan sharks, dependence on cash-only transactions are still typical practices prevalent today.

On Financial Inclusion, India needs to be doing a lot more and at a faster pace to catch up with the developed economies of the world. Collaborations with the developed nations and sharing and adoption of best practices will help fill up the gap, with regular doses of new Ideas, Inventions, Imagination, Innovation etc.

In recent times, government initiatives like the unified payments interface (UPI) and demonetization have significantly boosted digital banking. The COVID-19 pandemic further accelerated this shift as people preferred online transactions to handling cash. Integrating Aadhaar, Pradhan Mantri Jan Dhan Yojna, and other schemes digitally has transformed how people embrace government initiatives.

Financial inclusion of the unbanked or underbanked is crucial for India's broader financial goals. This includes rural populations, who predominantly save, aiding capital formation. Direct money transfers ensure funds reach intended recipients, while enhancing credit accessibility fosters entrepreneurship and prosperity. Moreover, it improves the administration of public subsidies and welfare programs.

True incorporation means ensuring every citizen has access to affordable financial services for payments, transactions, and wealth management. Success in financial inclusion requires a comprehensive approach, reinforcing digital platforms, infrastructure, human resources, and policy frameworks, while promoting new technological innovations, amplifying economic growth benefits for society.

A cultural shift is required from traditional ways to move forward the digital way, from Fixed deposits to Shares, Bonds, Derivatives etc. and to use of the latest available technologies is key, simple move away from visiting your Bank branch, all or most services are available through phone banking.

It is further the responsibility of the regulators to make an environment and help build trust and confidence amongst the masses against theft, privacy and security and to safeguard the interests of all stakeholders. Use of available technologies will succeed when customers feel assured and get the services at a cost which is less than going with old traditional method or mindset.

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Lastly, suggest the regulators conduct a detailed region wise research on "Digital India" and sadly as of January 2024, 683 million Indians are without an internet connection…

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