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Fintech is not only an enabler but the driving engine: Its effect on financial inclusion and financial sector development

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Abstract.

The modern world is conquered by the concept called "Digitalization". The GOI recently proclaimed Digital India Programme with an image to convert India into a digitally empowered society and knowledge economy. The notion of digitalization has been playing key role in all sectors of the economy. Digitalization has become a key concept for Indian financial institutions as it plays foremost role in enhancing financial by providing better services to customers with an opportunity to gain more upcoming future. Indian financial system is accomplishing huge growth, inspiring higher volume of capital formation, due to digitalization of financial services. As Indian financial system is heading towards digitalization, it is open to lot of issues and challenges which needs to be taken care off, particularly in rural banking. This theoretical research paper is an effort made to examine the issues and challenges in the area of digitalization of financial services and its immediate effect on financial inclusion.

Keywords: Digitalization, financial literacy, financial inclusion, growth, issues

1) Introduction

Financial literacy is a life skill is to be conveyed to each individual for supervision of their personal finances. Individuals face numerous problems like complicated financial products, pervasiveness of fraudulent and Ponzi schemes, essential funds required to get a better quality of life etc. These problems have produced need for a better supervision of personal finances with appropriate management of income and expenditure.

Financial education helps people in being financially literate and develops a positive attitude towards managing their income, expenditure, assets and liabilities. Financial planning is a necessity for every household. Digital Financial Literacy means having the knowledge of effectively using digital strategy for financial transactions. It creates an individual's elementary literacy levels and ability to use digital devices/technology. The capability to have a relationship with a financial institution to keep money safe; using digital facilities to use money for specific needs in the most secure way and be protective about one's financial identity.

Access to finance, financial inclusion and financial sector development have been major policy objectives since very long. As per data 2017, 80% adults in India have bank account which is the outcome of a key strategy to build an ecosystem for a new digital economy and financial system (i.e. "India Stack"), in particular, underlying infrastructure and an enabling policy environment. Nearly 350 million individuals are gaining access to accounts for the first time. These developments are part of a global phenomenon known as financial technology or 'FinTech': the interaction between finance, technology and regulation.

Finance and technology have a long association. A new FinTech age has arisen categorized by a growing range of new contributors, from start ups to banks to e-commerce companies. Today's FinTech incorporates not only the digitization of global financial markets, but also the advent of new start-ups around the world, the technical conversion of finance through digital financial services, and most newly the appearance of giant technology firms engaging in finance called as "TechFins".

The digitalization of finance offers the opportunity to achieve broad-based financial inclusion by encompassing the accessibility and dissemination of digital financial services, promoting earlier unbanked sectors of the population and offering digital substitutions to reassure customers and entrepreneurs to leave the informal sector. It offers more convenient, secure and timely transactions which will have positive implications in both advanced and emerging economies for both established users of financial products and the newly financially-included.

Consumer and Entrepreneurs data, hypothetically provide financial services providers a vision into individuals spending habits consequently offering customized products to them. These opportunities also integrate the low income and below poverty populations in the formal financial sector by generating alternative indicators that can be used to measure their risk as customers. Interactions between financial service providers and consumers through digital interface enhance consumer and entrepreneurs understanding of financial products and help them in taking best financial decisions.

Financial inclusion involves the delivery of financial services at an affordable cost to all segments of society. "According to the Alliance for Financial Inclusion (AFI), access to financial services is the grounding principle of financial inclusion. AFI's Financial Inclusion Data (FID) Working Group, defines the three main dimensions of financial inclusion as-access, usage and quality". Financial inclusion is important to improve the livings of the poor and disadvantaged society. Providing people in developing countries with access to financial services, such as payments, savings, insurance and credit, helps them to manage their financial obligations and build better futures for their families while also supporting broad economic growth, development and poverty reduction.

Financial Inclusion is achieved by making unbanked individuals banked enabling them to save so as to increase their level of investment in their education, health and micro businesses. Financial inclusion can make the management of daily life efficient as electronic payments allow people to pay for essential services without taking time off work to pay the bills in person. It enables the shifting of financial risks from individuals to the financial system where these risks can be socialized and diversified.

Financial literacy for DFS provides numerous initiatives that emphasis on specific target audiences. Programmes targeting the whole population, such as awareness campaigns and educational websites, should be updated regularly that are necessary to allow consumers in use of DFS and their experience with digital finance. Traditional methods in combination with digital ones, should be used to address the needs of specific target audiences, for example, young people can be reinforced through the formal school curriculum in the form of financial education and the use of digital tools. The needs of entrepreneurs can be met by initiatives such as business workshops, training and online coaching platforms, group discussion, seminars, self-help groups and online chats or discussions. Older generations, using DFS, can be helped through financial education to avoid unintended outcomes, and update regarding new initiatives. Digital literacy needs to be enhanced among older populations in both developed and emerging economies.

2) Review of literature

Ghaffar & Sharif (2016) analysed the level of financial literacy in Pakistan. The study uncovered that the individuals, who are financially literate save money. The study exposed that middle-aged and older people are conscious in spending their money and male respondents usually have better saving habits. Respondents having high earning capacity approves that financial literacy helps in leading a financially protected life.

Finau et.al (2016**)** studied rural dwellers' consciousness of digital financial services (DFS) to identify which factors may supplement their adoption. DFS are provided by mobile network operators, either individually or in collaboration with commercial banks. The study found that consumers have a tendency to fully spend their money received through mobile money, but fail to use the network for saving purposes.

Aggarwal & Gupta (2016) documented that female teachers contribute less in stock market that is only 16.7% as compared to males. Results of the study confirm that non-participation in stock markets leads to shortages in advanced financial literacy and lack of risk attitudes.

Hospido et.al (2015**)** has examined the impact of financial literacy training in Spain. The study compared the sample of students and teachers in Madrid and found that students of private schools did not augment their knowledge much, because of less implementation of the financial literacy program.

Totenhagen et.al (2015) has recognized the main deliberations and delivery methods which may inform positive changes in level of financial literacy and attitude among youth. The study conducted a comprehensive evaluation of the literature on youth financial literacy education and acknowledged numerous features of financial education programs which encourages positive changes.

Morris & Koffi (2015) has studied the association between level of financial literacy of Canadian university students and their previous knowledge on the related subject. The consequences discovered that knowledge on financial issues has enhanced financial literacy level. The improvement was inconsequential for courses taken at the secondary level.

Shih & Ke (2014), has conversed consumer financial attitudes their financial literacy level regarding financial decisions and financial behaviour. The study recommended that customers who have plan to retain and high achievement attitudes toward finance make high-risk financial decisions.

(3) Objectives

This paper discusses the importance of financial literacy for enhancing financial inclusion and maximize the potential of FinTech. The paper emphases on the initiatives adopted by financial institutions in promoting financial literacy showing that it is a part of digital financial education which creates awareness in the community. Digital financial education helps in informing the citizens both rural and urban about government policies and digital financial options available to them. It permits citizens to access electronic payment system (EPS) such as IMPS, UPI, Bank PoS machines etc. It also creates awareness in rural India through workshops and awareness drives.

(4) Research Methodology

The present paper is based on secondary data. The information has been collected from organizational records, magazines, published journals, annual reports of the companies and information collected by government departments.

(5) Framework Of Digital Financial Literacy

India focuses on the major digital transformation in recent history. Union Budget 2017 had a section on promoting digital in the budget speech. It's a vital essence to authorize every citizen of India having education and knowledge to join the revolution and help the country progress in following the path of cash-less economy.

Digital Payments Infrastructure to allow digital transactions: Generating potentials and opportunities for customers is important for guaranteeing the financial education which will allow the citizens to enjoy the benefit of digital economy so that they can transact digitally and effortlessly.

Assisting cash-less behavior shift- This behaviour can be encouraged among the general public by using communication/ media channels like National TV, Radio, etc. Digital drives will safeguard that the message is delivered to recipients as consistency and over managing delivery will be a big accomplishment.

India Stack is embraced of four main levels making India's financial sector more efficient. Accessibility to financial services across the country has enhanced, markets are more opened to competition from entrepreneurs, start-ups and IT/e-commerce firms thus supporting financial growth and development resulting in reduction of poverty.

Stake I- Digital ID and EKYC for identification and simplified account opening

Lack of identification is a hindrance to financial access, predominantly in the situation of international standards for customer identification and due diligence. Global Findex 2018, highlights that 19 percent of the 1.7 billion adults are without an account because of lack of necessary documentation. This demonstrates the potential of digital identification which has a key and transformative impression.

Aadhaar system is the first level of India's Stack. It is functioned by the Unique Identification Authority of India (UIDAI) and contains a 12-digit randomized number to all residents. It has been progressively used to access government services, social benefits, banking and insurance.

Registration to get an Aadhaar number is free, and a procedure of biometric aims to guarantee only one number is created per individual. The Aadhaar number acts as a proof of one's identity. Aadhaar has been recognized enormously valuable in the context of financial inclusion, making access easier to deal with financial accounts, enabling digital payments and thereby increasing competence and declining costs.

Though there is a correlation between Aadhaar and levels of financial access in India (as highlighted in the Global Findex), it has given birth to a range of problems, like privacy and data protection. Technology provides opportunities to re-evaluate existing systems and build the infrastructure required to bring stability in market growth, financial inclusion and economic development.

Stake II

Inefficient systems of transferring money combined with lack of accessibility poses core barriers for promotion of financial inclusion and economic growth. Digital payment system, infrastructure and policy environment facilitate the digital flow of funds from both traditional financial intermediaries and new market entrants. Mobile money permits entities to use their mobile phone to pay bills, remit funds, deposit cash, make withdrawals and save using e-money. As per data of 2017, mobile money services were operating in ninety developing countries.

Mobile money digital financial ecosystem is one contribution made to augment financial inclusion in many countries, as new technologies and approaches are focussing more on developing comprehensive digital financial ecosystems. E-money is typically defined as a type of stored value instrument that: (i) is issued on receipt of funds; (ii) consists of electronically recorded value stored on a device such as a mobile phone; (iii) may be accepted as a means of payment by parties other than the issuer; and (iv) is convertible back into cash.

Stake III

Stake I and II combined support an extensive variety of applications and have the potential to offer a quick access to the financial sector and the use of payment mechanisms. Financial inclusion policies focusing on payments to the people lying below poverty line have two advantageous outcomes. First, digital payments permit government to transfer from in-kind aid which come with significant delivery to inexpensive cash transfers. Such transfer decrease administrative costs, better control and enhance transparency and accountability. Second, accounts used for-support payments are accessible to be used for non-government payments initiated by the receivers.

Individuals learn to trust and deal in electronic payments instead of cash, once the unbanked have an easy access to digital financial services. Government can support digital transformation by highlighting the advantages of e-money, setting limits for cash transactions in the real economy or requiring merchants to offer digital payments at low cost to customers.

Stake IV

Strategy of digital financial market infrastructure and systems support value-added financial services and products, deepen access, usage and stability. It permits for making the provision of investment opportunities, particularly in the context of debt and equity markets at a much lower cost. These systems provide superior access to investment products (predominantly government bonds) and support financial sector development.

Organized four pillars form a package: an ecosystem of digital financial infrastructure, an appropriate policy and regulatory environment supporting financial transformation and economic growth. Stakes I, II and III provides a foundation for stake IV. Stake IV transformations include SME finance, insurance and investments.

(7) Conclusion

The collaboration of stake I, II and III offer tremendous potential to provide access predominantly to those with a smart phone. Although the four-stake strategy outlined in this paper will not answer all financial inclusion challenges. Though it is designed to address the vast majority of them proficiently, thereby releasing up resources to focus on the remaining ones. With an appropriate framework of digital infrastructure and an empowering policy and regulatory environment, the development of flourishing digital financial ecosystems holds great potential for supporting financial inclusion and economic development around the world.

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