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Opportunities and Challenges in Revolutionizing Financial Access in India through fruition of Financial Technology (FINTECH)

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ABSTRACT

Financial access is the knack of individuals or enterprises to reach out to the financial services, including credit, deposit, payment, insurance, and other risk management services. The lack of financial access confines the range of services and credits for household and enterprises, which limits individual's full potential. This consequently leads to the cycle of unrelenting inequality and diminished growth. Thus revolutionization of financial access mode becomesnecessary for budding economy like India, which could be achieved by materialization of new technology and innovations that could contend with traditional financial methods of delivering financial services. FinTech is gaining significant momentum and causing hullabaloo to the traditional value chain of financial institutions and to the economic scenario in many Countries and markets. FinTech has been sowing the seeds of revolution in the financial industry since 2008 and it is also believed that FinTech will not just increase the financial access, but will also revolutionize the financial inclusion in the country. Various reports suggest that strong, proactive policy level support from the government has been providing a much-needed boost to user adoption. Initiatives such as Pradhan Mantri Jan DhanYojana (PMJDY), IndiaStack, Aadhaar and the emergence of UPI has beenproviding a good foundation for FinTech companies to infuse 'last-mile' touch points and boost financial inclusion across the country. Moreover, it has been observed that despite significant reduction in incoming global investments in the FinTech space, the Indian opportunityto flourish remains promising. Experts emphasize that India offers the largest unbanked or underbanked population, along with a strong technology and entrepreneurial ecosystem. The report suggests that while the global FinTech community saw a drop in funding from $14.6 billion in 2015 to $12 billion in 2016, FinTech investments in Asia increased to $5.4 billion in 2016, up 12.5% from $4.8 billion in 2015, driven mainly by China and India. ThusIndian financial structure with FinTech is like mountaineering stair case to provide better accessibility of financial services to the patrons by lowering operating cost, easy accessibility and other supplementary rewards.

INTRODUCTION

The term Finance defines an ability and discipline of capital management. It can be classified under three heads: public finance, corporate finance and personal finance. The foremost areas of finance are: (1) financial services and (2) managerial finance. Out of the two, Financial services deals with the design and delivery of guidance and financial products to individuals, businesses and governments. Financial access is the knack of individuals or enterprises to get these financial services, including credit, deposit, payment, insurance, and other risk management services.The lack of financial access confines the range of services and credits for household and enterprises. Poor individuals and small enterprises need to rely on their personal wealth or internal resources to invest in their education and businesses, which limits their full potential and leading to the cycle of unrelenting inequality and diminished growth.India has been ranked 7thamong the wealthiest countries globally with total individual wealth of $5,600 billion, but this is largely owing to its large population.

A report said, adding that on a per capita basis, the average Indian is "quite poor". According to 2013 report of World Bank, 30% of Indians are below poverty line, i.e. below $1.90-a-day poverty measure.With these derisory records of poverty measure,ensuring pan India financial access has become the current Moto of the Indian government.Thus in order tofetch economic prosperity, finance could serve as the most effective tool. The Indian government is focusing on attaining 90% financial inclusion in the country by 2021 as financial inclusion is the key enabler for reducing poverty and boosting prosperity. Also, financial access facilitates day to day living by helping businesses and families plan for everything from long term goals to unexpected emergencies. Finance is the lifeblood of every organization and financial access has become a key driver for starting and expansion of businesses. By having financial access, people can invest in education and health, manage risk, weather financial shocks and most importantly, improve the quality of their lives. Financial access begins with the opening of bank accounts and provides various financial services ranging from transactions, payments, savings, credit and insurance.

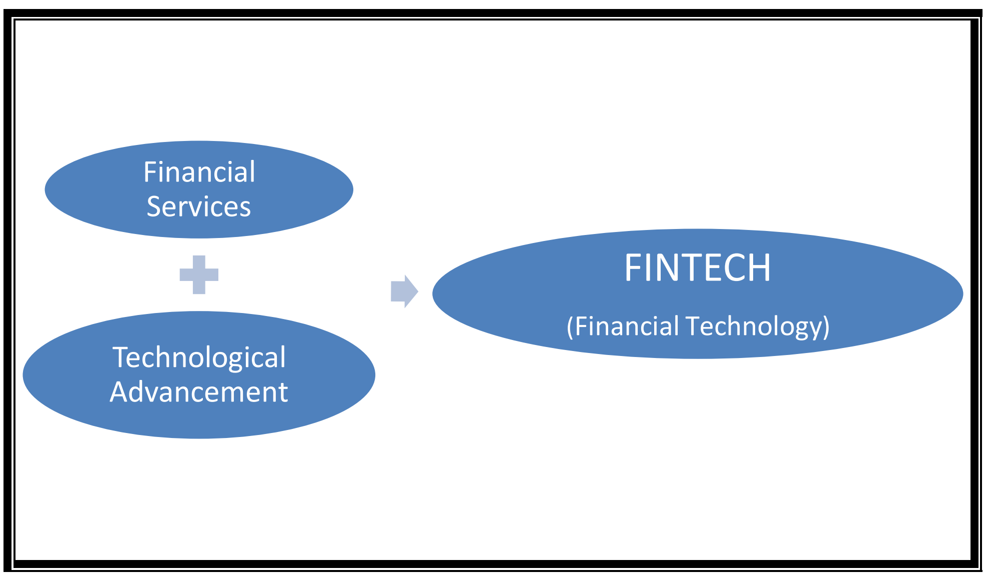
India is a country with a lot of social diffidence. The reported coverage of Indians under life and health insurance swatheis just 5%, which is a chief indicator of social insecurity in India. Financial access is the only route to achieve social security thereby mounting insurance cover. Savings rate in India are very high but the majority of savings come from a small part of economically prosperous population. Savings serve as securities for unseen contingencies of life and thus savings have to be boosted which is only possible after having financial access. Financial access will appendsavings by providing a mixture of benefits on it.

Despite of all the benefits of financial access, there are some roadblocks in the way of financial inclusion. Some of those are lack of sufficient money i.e.affordability, remotenessof the financial service provider, lack of essential documents, lack of trust in financial service providers and religion. Also, there are some financially excluded groups which can be women as compared to men i.e., gender exclusion.

The poor and rural people also form the part of financially excluded groups. Illiteracy, lack of awareness of benefits of financial access, inadequate legal and financial structure also poses challenges in front of Indian government leading to low financial inclusion. To counter this problem of financial inclusion, RBI shared a vision to open nearly 600 million new customers accounts and provide services to them through a variety of channels by leveraging on IT i.e., use of FinTech by 2020.

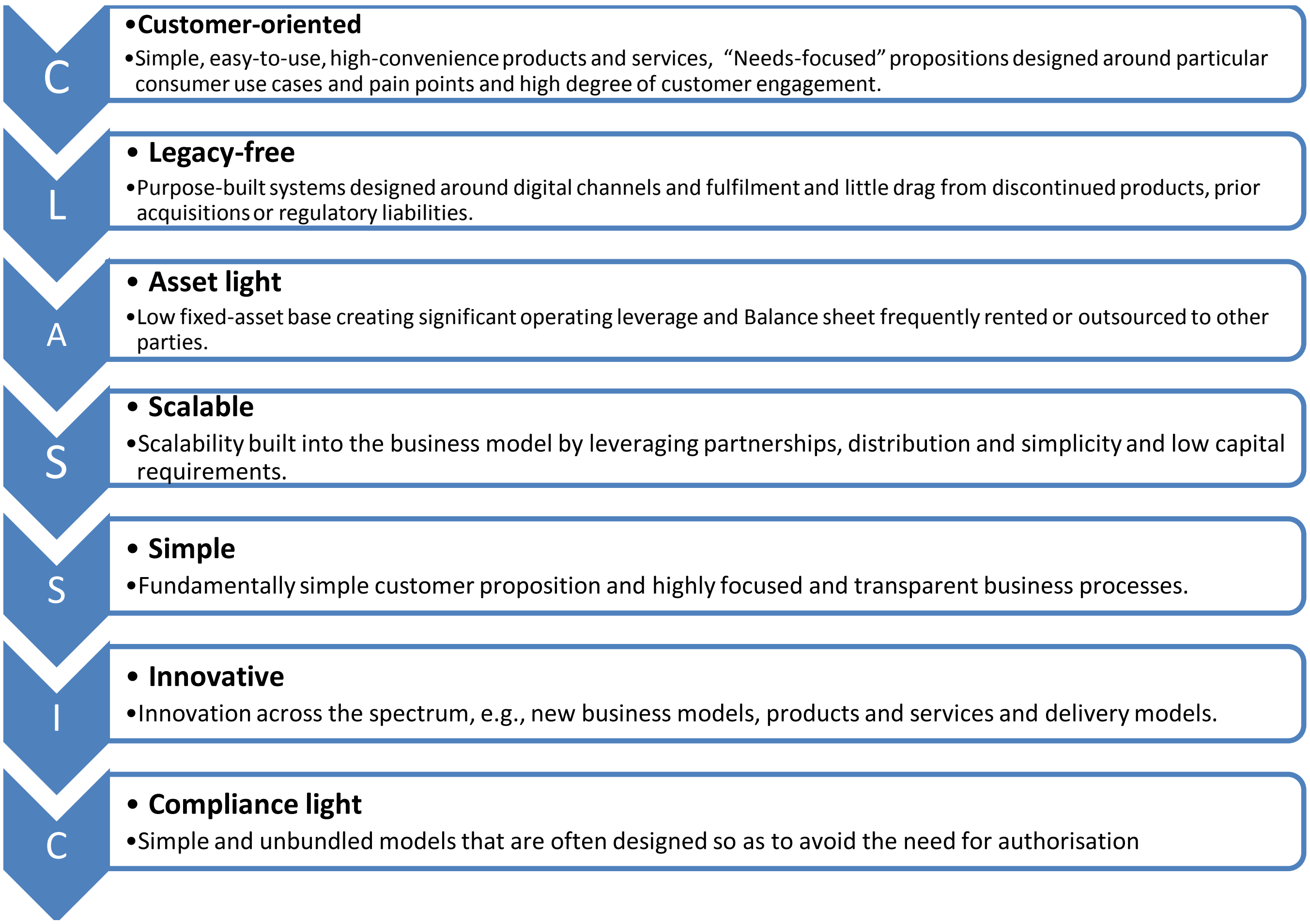
Financial Technology (FINTECH)

FinTech, as the word already gives us the glimpse of what it is, is the portmanteau of two words- Finance and Technology. FinTech is a relatively dynamic fragment right at the juncture of the financial services and technology sectors where technology-focused startups and new market entrant innovates the products and services currently provided by the traditional and once untouchable financial services industry.



Fin Tech is gaining significant momentum and causing disruption to the traditional value chain of financial institutions and to the economic scenario in many Countries and markets. Cutting-edge FinTech companies and new market activities are redrawing the competitive landscape, blurring the lines that once defined players in the financial services and banking industry.

Characteristics of FINTECH:
FinTech is a rapidly evolving segment of the financial services sector where tech-focused startups and other new market entrants are disrupting how the financial services industry traditionally operates. New FinTech companies and market activity are reconstituting the competitive landscape, blurring the definition of a player in the financial services sector. FinTech can be characterized as CLASSIC, i.e.

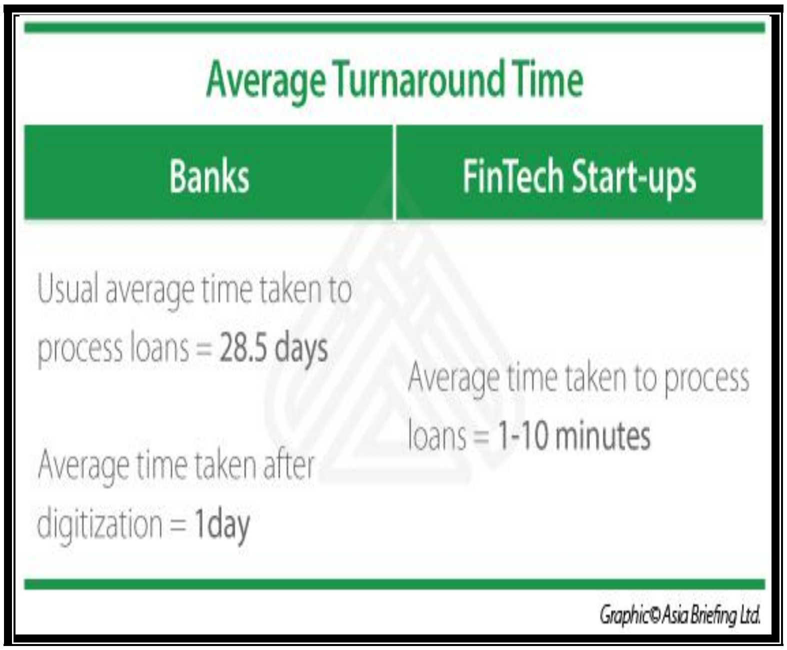


Necessitate of FINTECH:

Based on various research studies and legislative surveys conducted, it is observed that the financial sector needs a boost, not in a linear fashion but exponentially. As an upshot, financial inclusion becomes the need of the hour for a growing economy like ours and to grow exponentially, no alternative other than technological advancement in the field of finance can help. It's a famous saying that 'Technology revolutionizes in itself', so as we are finding out the ways to revolutionize the financial access in India, FinTech could be the solution. FinTech will not just increase the financial access, but will also revolutionize the financial inclusion in the country. FinTech has been sowing the seeds of revolution in the financial industry since 2008. The earlier Industrial revolutions revolutionized the manufacturing and related industries but no revolution was seen in the financial and banking industry. It was the dawn of the Fourth Industrial revolution that bought the revolution in the financial industry via FinTech. FinTech, till 2017, has helped our Indian economy in innumerable ways. We cannot imagine the time in the absence of FinTech when demonetization knocked our economy. During that time, a lot of new accounts were opened and plethora of transactions took place every day. At that time if the same ancient paperwork were to be done, then the conditions would have been worse. FinTech took out the economy out of that unstable scenario with an ease. Also, digitalization of transactions rose from 8% to 32% helping people deal with the cashless economy. It is estimated that 80% of economic transactions in India still happen through cash, as opposed to around 21% for developed economies, thus leaving significant room for growth. This data shows how much we are in need to ensure that we are continuously working to promote the financial availability to everyone in India. Indian financial system needs solutions that are like plug-and play, so they can deal with both the internal and external problems.

Challenges and Opportunities of FINTECH:

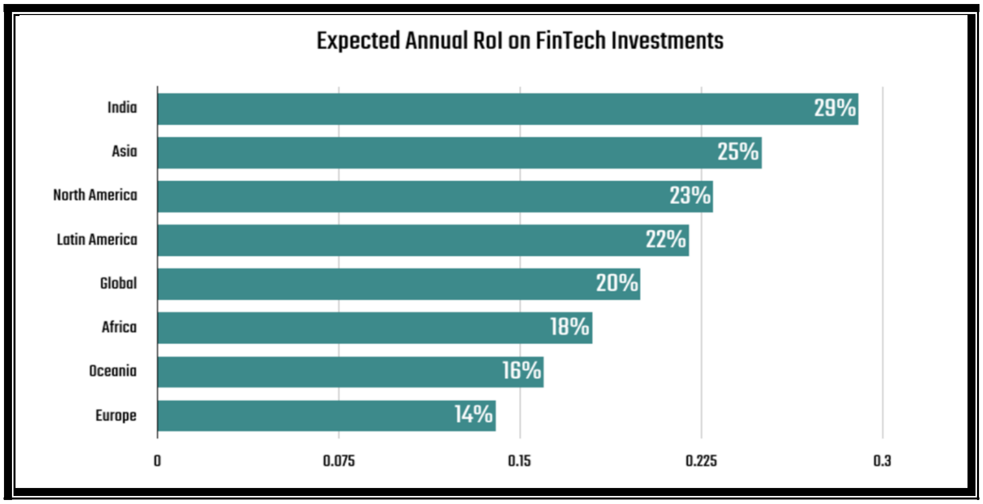
In order to fulfil the vision of attaining financial inclusion in India, the Government of India is facing a lot of challenges, which if dealt aptly would turn into massive opportune for our economy. FinTech firms are infringing the formal finance sector through innovative and dynamic use of technology in the lending process. For instance, while traditional banks (around 100) and NBFCs (around 1100) in India use technology to simply calculate credit scores, FinTech ventures use machine learning algorithms and alternative data points such as social media footprints, call records, shopping histories, and payments to utility service providers to increase efficiency and provide greater access to credit. The turnaround time is also much faster for the approval and disbursal of loans by FinTechfirms despite several banks (State Bank of India, ICICI, HDFC, and Axis bank) digitizing and speeding up these processes markedly.



Taking into account the challenges being faced by FINTECH, the first and foremost concern which comes to the mind is thehitch of lack of trust in financial service providers, so in order to overcome this challenge we can make a governing body to regulate the working of FinTech companies in India. As people of India tend to have more trust in the government, it can solve various problems. India being the second largest populated country on the globe, but still Crowd funding takes the back seat. Only 2% of program applications came from the crowd funding segment, due to a lack of regulatory clarity around such business models. Firstly, the government body can be made to regulate and provide benchmark to the new applications that enter the Indian market. Secondly, transparency of all the processes taking place in the system and applicants can easily track their application at every single step. Thirdly via this body government can regulate different policies to tap the Indian financial system to achieve their goal to reach 90% financial inclusion penetration by 2021. Lastly, the creditworthiness assessment of FinTech provided services by the governing body to rate the working, transparency etc., exactly like what CIBIL does for the borrowers.

This step will bring the non-government FinTechcompanies under the same roof as the government ones which will lead to the leveraging existing data and analytics and data mining all the data from various sources to form a complete database. Secondly, the biggest challenge in India is the lack of awareness about the financial technologies as well as about the advantages of financial access. In order to increase awareness in urban, semi urban and rural areas, workshops can be held with the help of banks and colleges in the area. The lead banks of a particular area can be given targets, which further can be divided to the banks of the area. These banks can pair up with colleges and conduct workshops with the help of well informed students at various places.

The students can first be trained by the bank officials and then the workshops can be conducted by students along with some bank officials. In this case not only the people who will attend the workshop will benefit but also the students who will work in the workshop and their families as they will get the training which will add up to their knowledge as well. The students can in turn be awarded with some stipend, certificates or other benefits for appreciation. For semi urban and rural areas, we can provide coupons for online transactions to push people to atleast try once. Workshops can be held for senior citizens to make them aware of the latest technology so that they don't have to come to the bank and how they can avail all financial services at just a click. Indians have a habit of investing in livestock, land, gold, lend to local borrowers. Also, in case of need of loans, they turn to the moneylenders for credit. These mechanisms are risky and often expensive. So with the help of these workshops, we can educate the masses about the benefits of investing money with banks and availing easy credit. Various government schemes can be discussed to increase awareness. According to pWc report 2017, India offers the highest expected return on investment on FinTech projects at 29% versus a global average of 20%.



Moreover, a whopping 95% of incumbents in the financial services industry believe that the innovation they seek can be brought about by engaging in FinTech partnerships versus 82% globally. India is expected to have more than 10500 start-ups by 2020, providing employment to almost 2.1 lakh people, according to a report by NASSCOM. The data shows that India should emphasize on start-ups which provide FinTech services and special attention should be given to develop appropriate financial products for the poor people.Fourthly, we can have provision to make mandatory bank account at the age of 18 for everyone. This can further be linked with the Aadhaar and PAN details. For a huge population of India and a majority of population residing either in semi urban or rural areas, this step will help the government to transact the money directly to the people like the same way the subsidies are sent to account of the BPL people directly. This step will help to overcome the problem of delayed payment to MGNREGA employed people. India has huge working population with a median age of 27 years. Their accounts can be used to pay income tax and get other benefits provided by the government and other institutions such as students can get their scholarship paid directly to their accounts. With everyone having a bank account, the CIBIL will be able to give the credit worthiness of all the people which further will solve the problem of non-conventional borrowers and the borrowers who are at lack of documentation.

CONCLUSION

India has witnessed the emergence of numerous FinTech start-ups in the last few years. India has everything available to establish itself as a global FinTech core. With a large market of unchartedpatrons, and with favorable demographics, an active start-up ecosystem and a large technology talent pool, India has a potent opportunity that is waiting to be seized in the FinTech space.PwC's FinTech India practice is solely dedicated to this powerful merger between technology and financial services. Mohamed Abbas, one of the founders said, “A transparent borrowing system for our vulnerable community should not be seen as a privilege. It’s an entitlement. We are working towards that vision.” The emerging start-ups of India are concentrating on and accordingly, providing efficient and cheaper financial services with Paytm, Mobikwik, Freecharge, Bank Bazaar etc. leading the way and several others following in to test their Fintech ideas, working towards the vision. Indian financial structure with FinTech is like mountaineering stair case to provide better availability of financial services to the customers by lowering operating cost and easy accessibility. But no visible end to this climbing is visible, at least for now implying a huge amount of opportunity which to some extent is being tapped but need more attention to tap the further ever altering need of the patrons. India with 1.324 billion populations has a large opportunity to widen its services and technology on the other hand is self-evolving, thus gives a better service than the previous day. India not only needs to work on new projects but also work on ways to perk up the current amenities being provided.

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