

Fintech in India: Revolutionising Access to Finance

Venkatesh Ganapathy

Associate Professor, Presidency Business School, Bangalore.

Abstract

Technology-enabled financial inclusion in India has been on top of the development agenda of the present government. The attempt to bring in the marginalized sections of the society within the ambit of the banking system is laudable. Smart phones have penetrated the nook and corner of India. Yet the rural population is still not too confident about using Internet banking or automated teller machines for withdrawing cash. The infrastructure development for internet connections in rural areas still needs improvement.

The efficiency of existing Automated Teller Machines (ATMs) can be improved by improving the process of money transfers in the ATMs. Linking the Aadhaar number to bank accounts can simplify the process. Our aim is to provide another avenue for money transfers, without having the need for personal internet connection. Thus, those without access to internet can access the ATM for transferring or withdrawing money. This will result in more people reaping the benefits of a formalized financial sector in India eventually leading to a win-win situation. Those, without Aadhaar cards, can enroll for them and this will end up fulfilling the Government initiative of providing Aadhaar cards to all Indian residents. Secondly, those with non-operational bank accounts, especially the Jan-Dhan accounts would have an additional incentive to begin using them.

Additionally, FinTech companies can use the opportunity to expand their business in India's rural areas. Technology enabled innovations in FinTech can be used to support micro finance and micro insurance.

Keywords: FinTech, Financial Inclusion, Digital India, Cashless Payments, Rural Penetration, Technology-enabled entrepreneurship

Introduction

FinTech stands for Financial Technology. Originally, FinTech was used to describe the back-end processes of institutions and companies. But presently, FinTech includes any technological innovation in financial services, financial education and literacy, retail banking, investments and crypto currencies.

Financial Technologies can be extensively used for increasing Financial Inclusion. Financial inclusion is the delivery of financial services, both banking and credit services at an affordable cost to the lower income groups of the economy.

830 million people of the Indian population reside in rural areas. Financial inclusion in India would be complete only when each and every person has access to finance and a no-frills bank account.

India's fintech market is expected to reach US \$2.4 billion by 2020. Digital finance has attempted to enhance the level of financial inclusion in India by exploring different verticals like micro finance, digital payments, credit scoring and remittances. MSME financing is another promising trend. Transparency is the forte of FinTech; faster operating processes have led to reduced transaction times. Around 400 fintech firms operate in India boosted by foreign

E-mail Id: gvenkatesh69@gmail.com

Orcid Id: <https://orcid.org/0000-0001-7500-2877>

How to cite this article: Ganapathy V. Fintech In India: Revolutionising Access To Finance. *J Adv Res Humani Social Sci* 2018; 5(4): 10-13.

Copyright (c) 2018 Journal of Advanced Research in Humanities and Social Science (ISSN: 2349-2872)



investments in fintech-focused start up accelerators and incubators. The interesting aspect is that besides local players like PayTM and MobiKwik, foreign companies like Amazon and Google are also entering this space.

Digital India Revolution

Digital India is a Government initiative that focuses on use of technology in all kinds of services, such as health, agriculture, security, finance, education and so on. Digitization in Finance is very essential, for the economic progress of any country. The Government is pushing towards a cashless economy; an economy where transactions are aided by technology and use of paper money is eliminated. Cash transactions cannot always be accounted for whereas digital transactions using payment wallets or internet banking can be effortlessly traced. Digital transactions are not only convenient but they also enable better tracking of expenses. Cashless transactions reduce the risk of thefts as there is no physical cash involved. More and more Indians can therefore benefit from the digital drive and become part of the formalized financial sector. Over a period of time, it can be expected that the utility of the unorganized financial sector can be vastly reduced due to digitization.

Lack of Penetration: How opportunities can be leveraged by FinTech

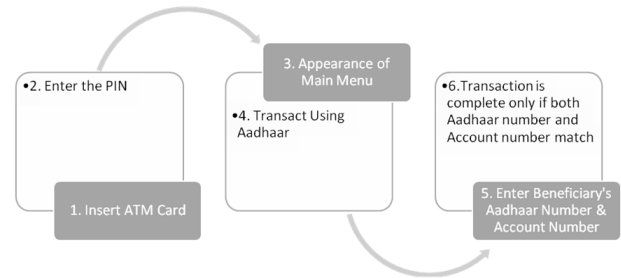
As per reports by Live Mint, 99% of the Indian population has bank accounts, but only 33.4% of the population has access to internet. This is an alarming fact considering that India is one of the largest growing economies in the world. Online banking has now become very popular because it is hassle free, involves minimal paper work and leads to speedy transactions. But the benefits of online banking have not yet reached more than 60% of the Indian population. This opportunity needs to be leveraged by Indian FinTech sector.

Indian Financial Services: Addressing the gaps

A majority of people have bank accounts and have been brought under the purview of the banking system. But, this in itself is not the end. Mere existence of bank accounts is not enough; to benefit from online banking, access to internet is a must. Though our banking infrastructure is vast, poor Internet penetration has led to marginalized sections of population not reaping the benefits of FinTech. Only when this happens, financial inclusion can be considered a success.

To obviate the need for internet, the ATMs can be made more efficient through introduction of Aadhaar enabled money transfers. Presently, ATMs have the basic facilities of cash withdrawals and deposits or checking account

balances. Money can be transferred through ATMs without a personal internet connection. Thus, in the absence of internet or when internet and mobile banking fail, ATMs can come to the rescue. For online banking, usage of IFSC code is mandatory. IFSC code consists of alphanumeric characters, but an ATM kiosk consists of numerals only. Thus, we plan to facilitate exchange of money using one's Aadhaar number.



The current agenda of the government is to ensure every bank account holder seeds his Aadhaar number to his bank account. Thus, it has been made mandatory to link Aadhaar numbers with the respective bank accounts. So, just as every bank branch has a unique IFSC code, every account will have a unique Aadhaar number linked to it.

Since, Aadhaar uses biometric and retina inputs, it is unique for every user and thus cannot be replicated. Risk of duplication is eliminated. It is a single point contact for the Government for auditing someone's financial transactions. Secondly, Aadhaar eliminates the need to present multiple paper documents for Know Your Customer (KYC) purposes. Quoting one's Aadhaar number would provide biometric proof of one's identity.

Primary Benefits

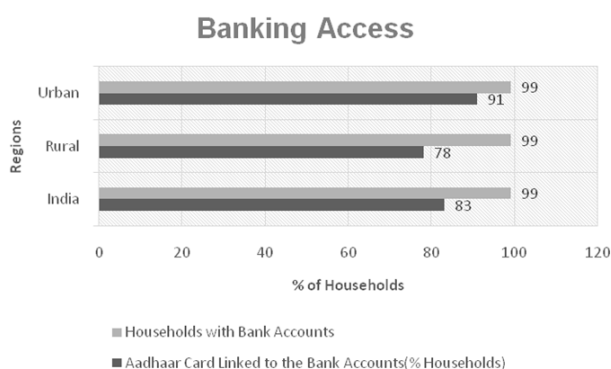
Over 800 million people in India without access to internet get better access to finance. Money transfers can happen speedily. This would reduce the dependence of a huge rural population on money lenders. Success of this simple proposition would instill people's trust in the banking system. Cash transactions can be reduced. For example, daily labourers can get their wages through bank transfer, instead of hard cash. This means that they can withdraw cash only by using an ATM machine and validating the transaction through their finger print.

In the rural areas, we recommend that a few persons who are well-versed with the working of a bank are deployed for a salary to assist people in making the transactions. In this manner, there can be increase in employment opportunities for people in the village who are educated. This will inspire other villagers to get educated and work as gram-sevaks. The rural co-operative banks in India can play a significant

role in this transformation. A national bank like State Bank of India with its wide network can facilitate the process.

Auxiliary Benefits

The ease of money transfers would encourage more people to use this mode of transaction. Thus, more people would be induced to get enrolled for Aadhaar cards – especially those who have not seeded their Aadhaar numbers would get motivated to do so. According to the graph, Aadhaar seeding has not been completed for all bank account holders. They can be encouraged to link their accounts and numbers to gain from additional benefits from the use of ATM for money transfers.



Secondly, people without bank accounts would now have a reason to open bank accounts, and also start transacting using them. Non-operational Jan-Dhan accounts would become operational.

More money would be injected into the banking system, thus increasing money circulation within the economy. This would also improve digitization as people would get better acquainted with technology and technological services.

The Way Forward

Aadhaar-Enabled Payment Systems (AEPS) has been introduced by the National Payments Corporation of India. The prerequisite for this mode of payment is a mobile application, and it can be used at Micro-ATMs and Point of Sale counters. Our proposition is different as it involves use of stationary ATMs. Also, in the future, when gas connection, electricity and phone connections are linked to Aadhaar, bill payments can also be done at an ATM using the same Aadhaar number.

India has 1,50,000 post offices all over, with 1,39,000 post offices in rural areas. Thus, the penetration of post offices is really high. In the future, once our pilot study becomes successful, we would like to extend the same facility to ATMs in Post Offices in the country. Now, ATMs in post offices can only be used for Post Office Accounts transactions. Later,

when all accounts such as normal and Jan-Dhan accounts, become accessible from these ATMs, Aadhaar transactions can be enabled from these kiosks as well. The total number of ATMs would then increase to 3.5 lakhs in the country. Post Offices would be of highest priority in rural areas, where there are minimum facilities available.

The success of the ITC e-choupal model in Indian retail is a reflection of how technology can be used to improve the standard of living in rural areas. Besides providing the benefits of digital transactions to the rural population, such an initiative can also generate additional employment opportunities. This will be a progressive step towards achieving the vision of “a better India” characterized by an empowered rural work force that is receiving the benefits of digitalization. If the pilot model is successful, it can lead to entrepreneurial opportunities across the length and breadth of the country. These start-ups can transform the lives of rural India through intelligent use of technology. This will boost India’s GDP further.

Conclusion

The Indian financial services sector is making gradual progress to match steps with the global peers. Fintech hubs in US, UK, Israel, Singapore, Hong Kong and Sydney reflect the growing importance of fintech across the globe. This also signals a similar trend in emerging economies.

Financial Technology can be implemented anywhere, to improve financial inclusion. Care must be taken to ensure the security of transactions. However, since our idea does not include any unrecognized technology, it is much safer and more plausible.

This proposal is convenient to implement and would not only improve the efficiency of ATMs but also bring about a technological revolution in the country. We need to bring about change, and we need to do it now. Our plan is to initiate a small change that will make a huge difference to India’s economy.

This can promote technology-enabled entrepreneurship in India. This in turn will trigger more employment opportunities – especially rural areas. The formal banking system will be strengthened. Aadhaar based banking transactions through ATM may obviate the need for plastic money and reduce cyber crimes and frauds. Rural India is the pride of India and no developmental agenda can ever be completed without including the bottom of the pyramid segment (the poorest of the poor).

The Aadhaar-based digital transactions through ATMs that function efficiently to help the rural population will move the government’s efforts of reaching financial inclusion

further towards the goal. As start-ups hire skilled people from rural areas, this will trigger a social change. The learning curve in rural areas will be sharpened. The success of Grameen Bank's efforts in Bangladesh is ample proof that rural populace can behave responsibly and rise to the occasion when the situation demands it. It will also give a fillip to the government's efforts of making post offices more productive.

FinTech is redefining the way transactions are being conducted on a daily basis. In India, the scale has been much smaller but the prospects are bright due to a large untapped market. 40% population is yet to be connected to banks while 87% payments are made in cash. The internet penetration is moving up and mobile penetration in India is expected to increase to 85-90% by 2020. Transaction value of digital payments is expected to grow at a rate of 20.2% by 2023. This augurs well for fintech sector.

FinTech firms in India must strive to correct the anomalies in the legacy systems in Indian financial services – poor customer service, operational friction, sub-optimal outreach. These companies must tap the market opportunity and positively influence consumer behavior through use of leaner operating models and innovative ways of assessing risks.

FinTech can create a diverse and stable financial services landscape in India. They can adopt best business practices from across the globe. They can establish robust internal controls and improve compliance. Fintech companies collaborate with existing financial institutions and also research institutions, universities and government associations to expand their business footprint.

The Indian business ecosystem has now provided an opportunity to start-ups to grow exponentially. Innovation and support of technology is aiding this transition. India's demographic dividend is what appeals to the FinTech sector the most. With service quality in banks hitting rock bottom, the stage is set for FinTech firms to tap this opportunity. But they should deliver consistently great service quality so that customer experience is shaped in a positive fashion.

It is said that the journey of a thousand miles begins with the first step. We believe that our proposal will steer India's journey towards a better Bharat where challenges are overcome, rural population is empowered and digital transactions become a way of life. India has begun occupying its pride of place in the world map. Efforts to digitalise the economy will further consolidate India's position. The time is now ripe for Indians to say – "Chodo Kal Ki Baatein, Kal Ki Baat Purani; Naye Duar mein likhenge milkar nayi Kahani"

(Forget the past; we will create history in the new era that is dawning on us).

References

1. <https://www.india-briefing.com/news/future-fintech-india-opportunities-challenges-12477.html/>.
2. <https://www.nasscom.in/knowledge-center/publications/fintech-india-global-growth-story>.
3. <https://www2.deloitte.com/in/en/pages/financial-services/articles/fintech-india-ready-for-breakout.html>.
4. <https://www.analyticsindiamag.com/talent-wars-banks-and-fintech-companies-are-fighting-over-indias-brightest-minds/>.
5. <https://www.statista.com/outlook/295/119/fintech/india>.
6. <http://www.makeinindia.com/article/-/v/growth-of-fintech-in-india>.

Date of Submission: 2019-02-07

Date of Acceptance: 2019-03-07