

# A Study on Role of Fintech in Financial Inclusions in India

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**Abstract** - This paper explores the role of fintech in promoting financial inclusion. It analyses how fintech has bridged the gap between the traditional banking system and underserved populations. By leveraging technology and innovative solutions, fintech has enhanced access to financial services, particularly in developing regions. The paper discusses various applications of fintech in expanding financial inclusion, comparisons with traditional banking methods, challenges, and opportunities for future research.

**Key Words:** Financial inclusion, Fintech, Banking services, Microfinance, Digital payments, Remittances, Access to finance, Economic development.

## 1. INTRODUCTION

Financial inclusion, the access and usage of financial services by all individuals and businesses, is vital for economic growth and development. However, traditional banking systems often fail to reach the unbanked and under banked populations, leading to exclusion from basic financial services. Fintech, the integration of technology into financial services, has emerged as a solution to address these gaps and improve financial inclusion.

## 2. Review of Literature

In 2017, Badar Alam Iqbal and Shaista Sami evaluated the effect of financial inclusion on the expansion of the Indian economy over a period of seven years. Multiple regression modeling was used to analyze secondary data, and the study's findings demonstrated that the bank branch and credit deposit ratio had a noteworthy and favorable impact on the GDP of the country.

Ms. Divyani Datta (2023) concentrated on giving a conceptual explanation of how fintech aided in the post-pandemic financial inclusion of India. The study's descriptive approach provided an imaginative picture, and it also made mention of how fintech may assist put the economy back on track by addressing its overall effects on the people as a whole.

Guild (2017) investigated FinTech and the Future of Finance, the Impact of Technology on the Financial Sector, and the Relationship between Technical Innovations in FinTech and Technological Advancement and Innovation. FinTech developments include, among other things, digital currency

transfer systems available in Kenya and India. His paper's main focus is on how FinTech has changed the way that millions of people in emerging nations like China and India access finance, with an emphasis on the role that regulatory frameworks play in facilitating this process. He concluded that technological advancement might transform global finance by fostering greater inclusivity, decentralization, and egalitarianism in FinTech.

## 3. Concept of Fintech

Fintech has revolutionized the financial sector by offering digital payment solutions, mobile banking, peer-to-peer lending platforms, and microfinance services. These innovative technologies have enabled individuals without access to traditional banks to participate in the financial system. Fintech companies such as mobile money providers have allowed users to conduct transactions, save money, and access credit using their mobile phones, thus reducing the barriers to financial access.

In comparison to traditional banking methods, fintech offers lower costs, faster transactions, and greater convenience. Mobile banking apps and online payment platforms have simplified financial processes, making them accessible to a wider audience. Furthermore, fintech companies leverage data analytics and artificial intelligence to assess creditworthiness and offer tailored financial products to underserved populations.

Despite the benefits of fintech in promoting financial inclusion, challenges exist, such as cyber security risks, data privacy concerns, and regulatory barriers. Additionally, digital literacy and internet connectivity issues can hinder the adoption of fintech services in certain regions. Addressing these challenges will be crucial to ensuring that fintech can truly enhance financial inclusion for all.

**Financial inclusion** as a driver of economic development Challenges faced by marginalized populations in accessing financial services The emergence of fintech as a solution to enhance financial inclusion

**3. Fintech and Access to Banking Services** Mobile banking and its role in expanding access to banking services Digital banking platforms and their impact on financial inclusion Case studies illustrating successful fintech initiatives in

improving banking accessibility Challenges in ensuring inclusivity in digital banking solutions.

### 3.1 Fintech and Microfinance

The evolution of microfinance and its impact on poverty alleviation The integration of fintech in microfinance institutions (MFIs) Peer-to-peer (P2P) lending platforms and their role in extending credit to underserved populations Case studies demonstrating the effectiveness of fintech-enabled microfinance.

**Fintech and Digital Payments** The rise of digital payment solutions and their contribution to financial inclusion Mobile money platforms and their role in promoting cashless transactions Block chain technology and its potential to revolutionize digital payments Challenges in ensuring the security and interoperability of digital payment systems.

**Fintech and Remittances** The significance of remittances in supporting household incomes in developing countries The role of fintech in reducing the cost and enhancing the efficiency of remittance transfers Case studies showcasing innovative fintech solutions in the remittance market Regulatory challenges and opportunities in the cross-border remittance space.

**Opportunities and Challenges of Fintech** Adoption Opportunities for fintech to bridge the financial inclusion gap Challenges related to regulatory compliance, data privacy, and cyber security The importance of digital literacy and infrastructure in fostering fintech adoption Future directions for research and policy initiatives to maximize the impact of fintech on financial inclusion.

### 3.2. Market analysis of fintech in India:

India's fintech market has been experiencing significant growth over the past few years, driven by various factors such as increasing smartphone penetration, rising internet usage, government initiatives promoting digital payments, and a growing demand for convenient and accessible financial services.

#### Key Aspects of the India fintech market:

- Digital Payments:** India has witnessed a rapid shift towards digital payments, fueled by initiatives like Unified Payments Interface (UPI) which enables instant fund transfers between bank accounts using mobile phones. Fintech companies like Paytm, PhonePe, Google Pay, and others have capitalized on this trend, offering digital wallets, payment gateways, and other payment solutions.
- Lending:** Fintech lending platforms have gained traction in India, especially among underserved segments of the population who have limited access to traditional banking services. These platforms

leverage technology and data analytics to assess creditworthiness and provide quick loans to individuals and small businesses. Examples include platforms like Lendingkart, Capital Float, and KreditBee.

- Personal Finance Management:** Fintech companies are offering solutions to help individuals manage their finances more efficiently. These include budgeting apps, investment platforms, and robo-advisors that use algorithms to provide personalized financial advice. Players like Scripbox, Groww, and ET Money are prominent in this space.
- Insurance Technology (Insurtech):** Insurtech startups are leveraging technology to simplify the insurance buying process, improve underwriting efficiency, and enhance customer experience. Companies like Policybazaar, Coverfox, and Acko are disrupting the traditional insurance industry by offering comparison platforms, digital policies, and innovative insurance products.
- Blockchain and Cryptocurrency:** While the regulatory environment around crypto currency in India has been uncertain, fintech start-ups are exploring block chain technology for various applications beyond crypto currency, such as supply chain management, identity verification, and smart contracts.
- Regulatory Environment:** The regulatory landscape in India is evolving to accommodate the growth of fintech while ensuring consumer protection and financial stability. The Reserve Bank of India (RBI) and other regulatory bodies are introducing guidelines and frameworks to govern different aspects of fintech, such as digital payments, peer-to-peer lending, and data protection.
- Collaboration and Partnerships:** Traditional financial institutions are increasingly collaborating with fintech start-ups to leverage their technology and innovation. Banks and financial institutions are partnering with fintech firms to enhance their product offerings, improve customer experience, and streamline operations.
- Challenges:** Despite the growth opportunities, the Indian fintech market faces several challenges, including regulatory uncertainty, cyber security risks, infrastructure limitations, and the need for greater financial literacy among the population. Additionally, competition is intensifying as more players enter the market, leading to pressure on margins and the need for differentiation.

### 4. Industry Scenario

**Fintech Funding & Valuation** India's Fintech industry has received money, making over 14% of global funding. India comes in second for deal volume. By 2030, the Fintech Market Opportunity is projected to reach \$2.1 trillion. In 2022, Indian fintechs ranked as the country's second most funded startup industry. In 2022, fintech startups in India raised \$5.65 billion. Between 2021 and 2022, the overall number of unique institutional investors in Indian fintech increased from 535 to 1019, nearly doubling.

Indian FinTech companies have the potential to reshape the financial services landscape in three ways:

- The FinTech start-ups are likely to reduce costs and improve quality of financial services. Not being burdened with legacy operations, IT systems, and expensive physical networks, benefits of leaner operating models can be passed on to customers.
- The FinTech industry will develop unique and innovative models of assessing risks. Leveraging big data, machine learning, and alternative data to underwrite credit and develop credit scores for customers with limited credit history will improve the penetration of financial services in India.
- FinTech will create a more diverse, secured, and stable financial services landscape. FinTech companies are less homogenous than incumbent banks and offer great learning templates to improve, both, capabilities and culture.

#### 4.1 Digital Payments:

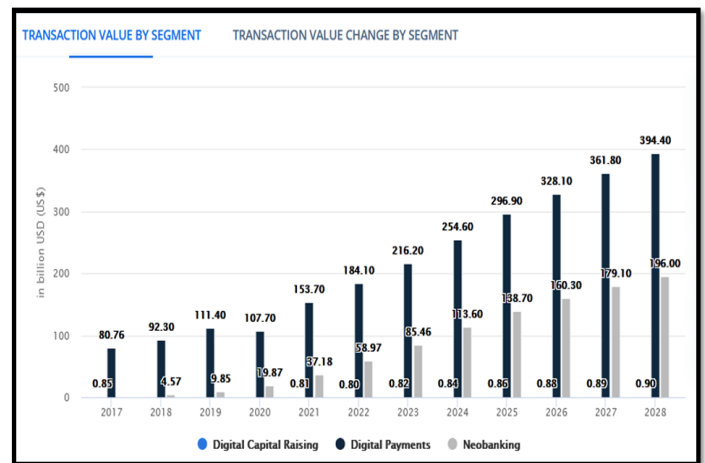
- UPI has surpassed the historic 10 billion transactions since 2016, when there were only 1 million transactions.
- In March 2024, UPI recorded 13.4 billion transactions, the greatest amount ever.
- By 2025, daily transactions on the UPI platform might reach \$1 billion.
- The value and volume of digital payments climbed by 91% and 76%, respectively, by 2022.
- According to a 90,000-person pan-Indian digital payments survey, 42% of participants have utilized digital payments.
- There has been a 53% increase in the number of touch points (from 170 million to 260 million) accepting digital payment infrastructure.

#### 4.2 Fintech's and financial inclusion's current state:

- With an AUM of US\$1,294.00m in 2024, Digital Investment will be the largest market.

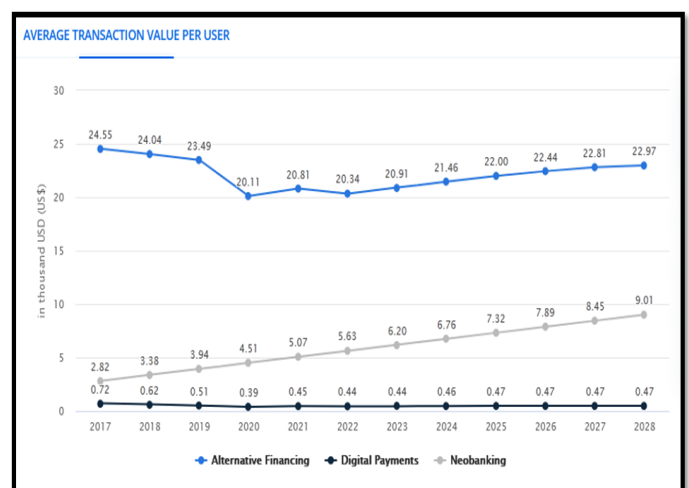
- In the digital investment sector, the average annual maintenance unit (AUM) per user is expected to reach US\$9.38 by 2024.
- In 2025, the market for digital assets is projected to increase at a rate of 11.81% in revenue.
- It is anticipated that there will be 837.20 million users in the digital payments sector by 2028.
- In 2024, the market for digital investments is expected to have total assets under management of US\$1,294.00 million.
- The unique attributes of KPIs in the FinTech domain prohibit their amalgamation and exhibit as a solitary figure emblematic of the FinTech industry as a whole.

Figure 1: Transaction Value by Segment in Fintech



Source: Statista Market Insights

Figure 2: Transaction Value by Users in Fintech











Source: Statista Market Insights

From the above two figures it is evident that by 2028 \$394.90 billion of digital payments is booming up where as \$254.60 billion in the 2024 it shows the landscape of the

growth in the digital payments. So that future of the financial markets is going in to new horizons. There is an huge revolutionary changes are taking place in this market.

### 5. Fintech Unicorns: India

Name of the Company	Valuation of Company	Type of Business
 CRED	\$6.4 billion	CRED is an Indian fintech company, iis a reward-based credit card payments app.
 ACKO	\$1.1 billion	Acko follows an online-led model and hence all operations for the company are offered through the digital platform
 BharatPe	\$2.9 billion	BharatPe is an Indian fintech company that sells digital payment and financial services to small merchants and Grocery stores
 Mobikwik	\$1.9 billion	<b>MobiKwik</b> is an Indian payment service provider founded in 2009 that provides a mobile phone-based payment system
 digit	\$4 billion	<i>Digit</i> Insurance is one of the leading General Insurance companies in India on a mission to Make Insurance Simple for people
 Groww	\$3 billion	<i>Groww</i> is India's growing financial services platform where users can find their investment solutions pertaining to mutual funds
 zeta	\$1.45 billion	Zeta is a next-gen banking tech company The company provides credit and debit card issuer processing
 Pine Labs	\$5 billion	<i>Pine Labs</i> is a leading merchant platform empowering any businesses to accept multiple modes of payments, get in-depth customer insights

Fintech unicorns, which are startup companies valued at over \$1 billion, play a significant role in India's economic development in several ways:

- Job Creation:** Fintech unicorns often experience rapid growth, leading to the creation of numerous job opportunities. These companies hire a diverse range of talent, including engineers, data scientists, product managers, marketers, and customer support staff. By providing employment opportunities, fintech unicorns contribute to reducing unemployment and driving economic growth.
- Innovation and Disruption:** Fintech unicorns are at the forefront of innovation in the financial services industry. They develop disruptive technologies and business models that challenge traditional banking and financial institutions. By introducing new products and services, such as digital payments, peer-to-peer lending, robo-advisors, and blockchain-based solutions, fintech unicorns drive efficiency, reduce costs, and enhance financial inclusion.
- Financial Inclusion:** Fintech unicorns play a crucial role in expanding access to financial services, especially in regions with limited banking infrastructure. Through mobile banking, digital wallets, and other innovative platforms, these companies enable underserved populations to participate in the formal financial system, access credit, make payments, and save money. By promoting financial inclusion, fintech unicorns contribute to poverty reduction and socioeconomic development.
- Foreign Investment and Capital Inflows:** Fintech unicorns attract significant investment from venture capital firms, private equity investors, and multinational corporations. This influx of capital stimulates economic activity, fosters entrepreneurship, and promotes the growth of the startup ecosystem. Moreover, successful exits, such as initial public offerings (IPOs) or acquisitions, generate returns for investors and further fuel investment in the economy.
- Digital Infrastructure Development:** Fintech unicorns invest in building digital infrastructure, including payment gateways, mobile apps, data analytics platforms, and cyber-security solutions. These investments strengthen the country's digital ecosystem, improve connectivity, and enhance the overall efficiency of financial transactions. A robust digital infrastructure is essential for supporting e-commerce, online banking, and other digital services, driving economic growth in the digital age.

### 5.1 Applications and Use Cases:

Fintech applications in financial inclusion include digital wallets, crowdfunding platforms, insurtech services, and block chain-based solutions. These technologies have empowered individuals and small businesses to access capital, manage risks, and improve financial management. For example, block chain technology enables transparent and secure transactions, expanding financial opportunities for marginalized communities.

### 6. CONCLUSIONS

Fintech plays a crucial role in promoting financial inclusion by leveraging technology to provide accessible and affordable financial services to underserved populations. As fintech continues to innovate and expand globally, there are opportunities for further research on optimizing these solutions, addressing challenges, and maximizing their impact on financial inclusion. Fintech has the potential to significantly enhance financial inclusion in India by providing convenient, affordable, and accessible financial services to underserved populations, ultimately contributing to economic growth and poverty reduction.

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