Financial Inclusion Through FinTech – A Case of Lost Focus

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***Abstract*—Financial Inclusion and inclusive growth is the clarion call given by nations all across the globe as they become increasingly aware that growth is more sustainable when it is inclusive. Close on the heels of this awakening comes the FinTech revolution which questions the role of traditional players in promoting the inclusion and fosters the same. While the regulated traditional banking channel has been engaged in meeting the challenges of inclusive growth, the emergence of technology is sweeping across the sub-continent marked by stupendous growth in electronic market, smart phone penetration, cloud based solutions and the emergence of financial technology companies providing services and products similar and parallel to banking. Even as FinTech seems to redefine the service quality and product delivery through innovative use of technology in design and delivery of financial products and services, there is a need to moderate the hype by introducing a robust regulatory framework to strike a balance between innovation and compliance and to ensure a service orientation over and above the pure commercial instinct. The instant paper attempts to examine the phenomenal role of FinTech in filling the wide gap of Financial Inclusion, the need for its reorientation towards poorest of the poor and the road ahead in the light of multiple challenges that it faces and poses to the traditional players.**

Keywords—*FinTech, Financial Inclusion, Sandbox, G-20, Blockchain, HLPs, Artificial Intelligence*

I. INTRODUCTION

Prosperity cannot flourish in pockets insulated from the stretches of poverty. History bears testimony to the fact that the oasis of prosperity has only a limited life in the vast desert of poverty. Growth and the resultant economic development, in order to be sustainable, have to be inclusive as the riches cannot survive for long in isolation. Financial Inclusion implies that individuals, households and small businesses have sustainable access to useful services and products like savings, micro-credit, payments, remittance, insurance, and a host of financial services for which a transaction account is considered the gateway to begin with. Financial access marks the beginning of a financially planned life covering a range of medium to long term financial goals and ability to meet unforeseen emergencies. The account holders tend to improve the quality of their lives by taking loans, starting and expanding business, investing in education and health and learning to absorb financial shocks. "Financial inclusion can help reduce poverty and inequalities by helping people invest in the future, smooth their consumption, and manage financial risks. Financial services are known to substantially benefit the women and poor Adults. "The use of financial products—such as payments services, savings accounts, loans, and insurance—can contribute to inclusive growth and economic development."[14] The world's conscious move towards financial inclusion since 2011 has brought more than a billion Adults in to the banking fold. Though an estimated 69% of the adult population has an account today, roughly 1.7 billion adults are still unbanked. The World Bank and IFC have launched the initiative called Universal Financial Access (UFO 2020) to enable by the year 2020 one billion unbanked adults gain access to the financial system through a transaction account to store money and to send and receive payments as the first step towards a financially planned life. The next step in the direction would be to ensure adequate usage of the accounts. Financial inclusion has a key role in pushing people towards an interconnected, innovative, and sustained economic growth and development [1].

FinTech leverages on technology for design and delivery of financial services and products in an innovative way. FinTech usually covers all aspects of the bank-client relationship and creates digital alternatives that are more efficient, offering lower cost, more convenience and overall a better user experience. It facilitates transactions in digital money through electronic, magnetic, or mobile channels. It enables individuals and businesses to make a variety of financial transactions with utmost ease and confidence without standing in bank queues or filling multiple forms.

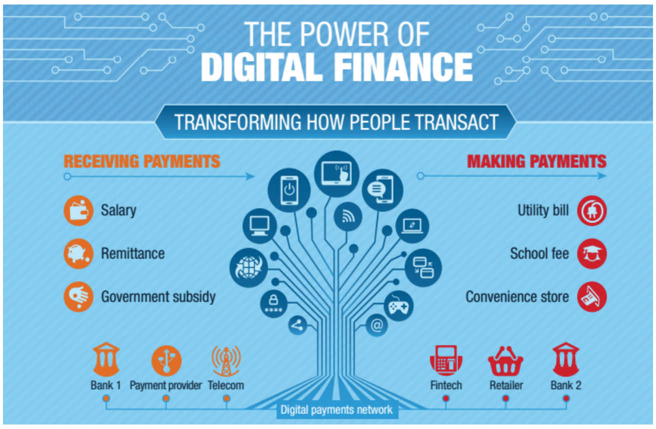

Fig. 1. The Power of Digital Finance – How people Transact [12]

FinTech has emerged as the platform bringing together banks and major service providers such as utilities, telecom, transportation, card schemes, retailers, healthcare, education, etc. and has transformed the payment and settlement process from complex to a highly simplified. FinTech has simplified personal banking for consumers and has made way for collaboration of many industries with financial institutions for their mutual benefits. Responding to the changing rules of the game, banks are investing in adoption and integration of financial technologies, promoting digitization and aggressively adapting their business models to the FinTech matrix. Alternately, they are giving rise to Digital Payment

Networks in collaboration with the FinTech companies as portrayed in the diagram below.

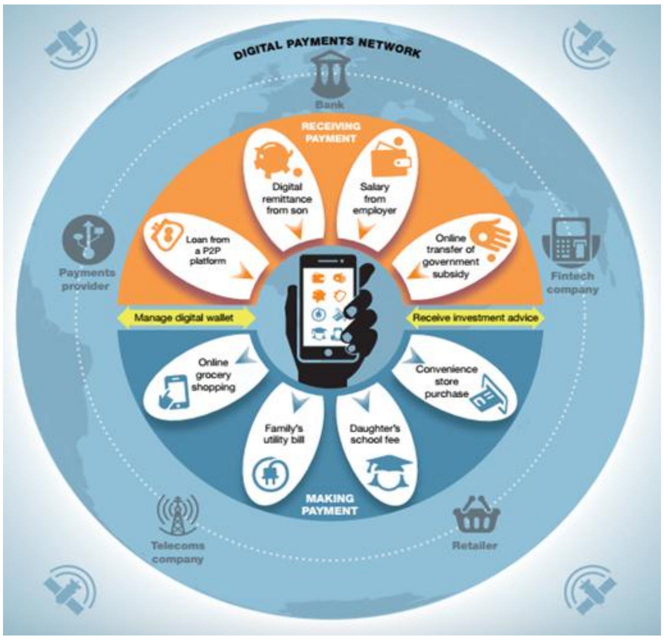

Fig. 2. Emerging Digital Payment Networks [12]

II. LITERATURE REVIEW

M/s S. Sinha, K.R. Pandey and N Madan argue that in spite of the push towards digitized payments in developing countries, for instance after demonetization in India, the low income groups in the population are ill prepared and unwilling to adopt digital payments for reasons like low smart phone penetration, non-acceptance of digital payments across value chains, limiting features of bank accounts and the non-viability of small value transaction [4].

S. Burns (2018) uses the mobile money revolution in Sub Saharan Africa to establish that the most effective models of financial inclusion and development are driven by market – led approach which enjoys freedom from repressive regulations and provides the industry with complete freedom to use innovative ways for accessing the unbanked population. He argues that the success of any financial inclusion drive is contingent upon the enabling rather than restrictive regulatory approach towards the FinTech entrepreneurs [5].

PRNewswire – The Center for Financial Inclusion at Accion (CFI) and the Institute of International Finance (IIF), with the support of MetLife Foundation (2017) affirm that the financially underserved and unserved population in the emerging markets is beginning to enjoy the benefits of the synergies generated on account of comingling of the traditional mainstream financial institutions and FinTech. [6].

A report co-authored by Credit Ease, IFC, a sister organization of the World Bank and member of the World Bank Group, and Stanford Graduate School of Business titled “Financial Inclusion in the Digital Age” (2018) says that the FinTech companies are significantly promoting financial inclusion through increased use of emerging technologies such as digital identity, Internet of Things (IoT), Artificial Intelligence (AI) and innovative business models [7].

J.P. Morgan and the Indian Institute of Management Ahmadabad’s Centre for Innovation, Incubation and Entrepreneurship (CIIE) collaborated to set up a Financial Inclusion Lab. This $9.5 Mn initiative is directed to identify and promote in the Indian FinTech segment the early startups who aim to take financial services like savings, insurance and credit to Low and Middle Income households having earnings in the range of $2-$10 per day[8].

C. PRATT (2018) in her paper titled “Alternative lenders undermine financial inclusion” argues that the algorithm of alternative lenders should be examined and they be adequately regulated as their goal is not service but making money. She argues that the FinTech formula for lending is to take away the good performing loans out of the unbanked lot leaving the underprivileged high and dry.. The FinTechs ultimately undermine and defeat the objective of financial inclusion, she upholds [9]

Cover Stories –The study titled “FinTech and Telecom Go Hand In Hand For Digital Financial Inclusion In Pakistan” (2018) highlights that the Information and Communication Technology, telecommunication and financial services have partnered to bring millions of financially excluded people into the financial fold by linking them with banks. The existing exclusion has opened up opportunities for FinTechs to come up with digital solutions for inclusion [10].

III. FINTECH – THE VEHICLE OF FINANCIAL INCLUSION

In India, quite like many emerging economies, while the traditional banking system has made a headway towards financial inclusion through initiatives like “Jan DhanYojana”, 100% banking villages, business correspondents, business facilitators, Direct Benefit Transfers, promotion of Self Help Group model, no-frill and zero balance accounts, etc. to name a few, there still remains a gap in terms of the coverage in a huge nation like India. Just as meeting the credit demand of a large segment of the population in unorganized sector is aided by non-banking finance companies, the efforts of the traditional banking channel towards financial inclusion have come to be supported by Fin Tech companies through a parallel banking-like channel providing basic financial products to the burgeoning millions and holding out a fresh promise for inclusive growth.

Universal financial inclusion can only be achieved with lowered operational cost, enlarged scale and the force of deeper penetration of financial services to the remotest areas hitherto unbanked and untouched by financial services . This seems to coming true with the digital wave taking financial services to the women, poor, youngsters, farmers and the SME’s through the spread of mobile technology, network coverage and mobile based banking and financial solutions. The financial and technology players get the opportunity to interconnect under the aegis of Digital approach and this alliance can be a game changer in promoting financial inclusion globally.

The fusion of FinTech with various other technologies creates room for enormous innovation. FinTech occupying the central position closely interacts with and leverages platforms like Blockchain, regtech, e-kyc, e-wallet, cloud, bio metric, and many more as depicted in the figure below [11]-

Fig. 3. Technology Platforms Leveraged by FinTech [11]

IV. CHALLENGES FOR BANKS – TO COMPETE OR TO COLLABORATE

The competition between the banks and the FinTech players is not of equals as the latter is spared from the regulatory stringencies which the former is routinely subjected to. FinTech companies also enjoy he liberty to mobilize data from unconventional sources neither accessible nor permissible to the banks. Further, the credit information companies are sharing customer information with FinTech firms who are leveraging on their technological superiority and weaning away the prime customers of the banks.

Adapting to, rather than competing with, FinTech may be a viable alternative for the banks. The Boston Consultancy Group (BCG) conducted a study in May 2016 titled "Banking on Digital Simplicity" and concluded that the banks, in comparison to their peers, can firm up their revenue line by as much as 50% per customer if they can simplify their banking services through digitalization and newly discovered data capabilities and at the same time enhance customer experience through scaled up quality and efficiency, faster operational speed and reduced cost. It goes on to add that a high level of digitization is the pre-requisite for the success of any FinTech initiative in achieving the objectives of financial inclusion as it has been observed in London's FinTech revolution.

The banks committed to out compete their peers will require a four-pronged strategy to capture larger market share – (i) Understand, strengthen, and deepen customer relationships (ii) Re-imagine customer journeys from front to back using digital technologies (iii) Create agile, simple, and highly collaborative organizations and (iv) Enhance digital capabilities [13].

With the emergence of technology companies providing financial services parallel to banks, the latter has started allocating resources to FinTech solutions and is forging alliances with the former in their bid to retain the market share. It is being increasingly considered old-fashioned to think of financial technology companies as competition for conventional banks. Instead, the best results may be obtained if the banking acumen and technology join hands. Both will stand to gain if the two realize the win-win proposition of collaboration rather than competing with each other. Banks and startups are joining hands to accelerate financial inclusion. The end gainer will be the targeted underserved customer. The best of FinTech may be absorbed in banking treating it as an opportunity while making accessible the much needed capital support to the former which they lack. The diagram below points out the shared space representing features like scaled and innovative solutions, deeper and analytics driven customer engagement, improved product efficiency, enhanced risk mitigation, and improved and more accessible products which is common to the Financial Institutions and FinTechs adding to the viability of their collaboration.

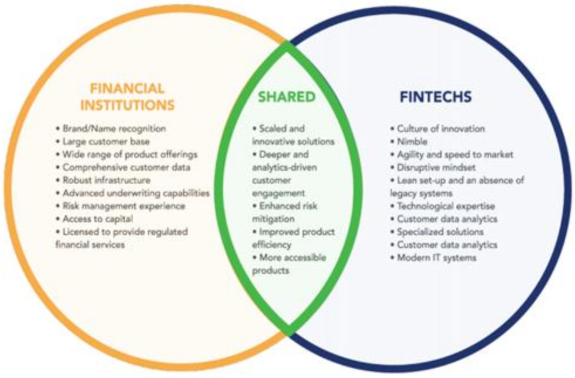

Fig. 4. FinTech and Traditional FIs – Shared concerns [16]

V. CHALLENGES FOR FINTECH ENTITIES

The geography of the targeted clientele in Financial Inclusion are villages where the infrastructure needed for FinTech is absent like electricity, telecom signals and availability of minimum 3G spectrum to support mobile telephony. Smart phone penetration with adequate RAM and battery life is yet to take place to allow running most of the FinTech apps. To add to the woes is the illiteracy of the targeted segment which inhibits their ability to access and use digital financial services. Most of the FinTech services materialize on the web, and are available via a computer or a mobile device with internet connectivity. People in remote rural areas with limited awareness, and access to the internet and digital infrastructure, cannot be expected to handle FinTech. That apart, the interfaces developed by the FinTech firms are customized to suit to the affluent and middle class population and not tailored for low income market and therefore are not user friendly for them. There is a need to understand the needs, perception, aspirations and behavior of the low income groups to design FinTech solutions that they can handle with confidence. Another challenge is of trust deficit. Dealing with money is a serious business that normally rests on personal relationships. Trusting the entities offering technology they scarcely understand is challenge for the customers and likewise for the FinTech firms. Further, the regulatory framework and consumer protection measures in FinTech segment are either too weak to adequately secure the poor or are less known to the users which is a factor responsible for confidence deficit in dealing with the FinTech entities. The record of an in-built bias of FinTech entities towards well-off segment establishes their disconnect with the poorest of the poor who is the ultimate target in any financial inclusion drive. In this backdrop, any serious claim about FinTech helping the poor and having achieved financial inclusion seems dubious and deserves to be re-evaluated. [15].

Fig. 5. FinTech and its elite bias – Is the target Missed? [15]

VI. Need for Regulatory Clarity and Trust

The highly innovative FinTech solutions have features involving overlap of regulatory jurisdictions for which even regulators need conceptual clarity and insight in to the solutions offered. Any firm planning to enterthe micro-insurance business will have to align with telecom players and insurance providers for distribution needs, and for underwriting risk, respectively. The firm in question must have regulatory clarity as the designed product will have a bearing on multiple regulatory jurisdictions. At the same time the regulators should be able to accurately assess the risks associated with the offered product and be prepared to offer suitable guideline and disclosure norms to be adhered to. At the same time they must be willing to coordinate with one another within a well-defined statutory framework. Regulatory gaps or ambiguity will abort the launches of many budding entrepreneurs and would perpetuate the trust deficit in the end users [17].

A step in the direction of giving FinTech a regulatory framework is “Sandbox” - an entity which provides a limited scale live testing of new FinTech products in a controlled environment so as to evaluate the benefits and the risks involved in it before taking it forward to the market. It obviates the need for an expensive and full-scale implementation for testing the viability of the product. Sandboxes are gaining wide popularity in a host of countries experiencing and experimenting with the FinTech wave. Some of the key features which a Sandbox must possess are addressing issues in all concerned regulatory jurisdictions, striking a balance between fostering innovation and regulatory compliance, having a robust mechanism for identifying, monitoring and controlling the risks involved in the ever-evolving products rolled out to the market, and having a single point of contact, time bound action and metrics driven assessment. Sandbox relieves FinTech firms from the stress of dealing with multiple data requests by multiple regulators as the sandbox serves as a ready storehouse of all information on the products and processes involved. [17].

VII. Tackling Imminent Threats

For some of the most imminent threats likely to materialize are those related to cyber security, financial privacy of individuals and financial frauds. The technology which holds out an assurance against these threats is the Blockchain technology. Blockchain uses secured “blocks” of records that are time stamped and linked through a distributed database. It use a decentralized network and distributed information which can go a long way in preventing frauds as they are more likely in any set up holding information in one location. Other important innovations in cyber security include payment authentication, approval and release technologies, diagnostic tools and early warning systems for detecting potential threats.

VIII. Conclusions

FinTech and Financial Inclusion – Will the Enabler be Able to Deliver?

Having glorified FinTech for all its potential and all it has contributed to the financial inclusion space, it is necessary also to underline the shortcomings and the lapses of FinTech drive which may take the sheen and the hype out of it. One of the major shortcomings of FinTech is reported to be its urban and elite bias which translates to bypassing the clientele primarily target under Financial Inclusion. The hype that is created in pinning the hopes of financial inclusion on FinTech and the manner in which it has lived up to that role needs a careful assessment. A recent J P Morgan study reveals that FinTech is catering only to the affluent and elite – having served around 23% of them - in large cities and urban centers leaving the weak, poor and the underserved in remote rural areas out of its coverage. A large number of savings bank accounts were opened but most of them remain non-operational to date and any uptake of financial services beyond account opening is yet to take place. Online payments still have the trust gap that needs to be filled up. Poor literacy, limited access to internet, electricity, telecom, etc. and the inability to pay even small costs of FinTech services has restricted the adoption rate of FinTech to mere 33% in rural areas as discovered by J P Morgan report [18]. C. Pratt (2018) in her paper titled “Alternative lenders undermine financial inclusion” comes up with almost similar observations [9].

There is nothing to controvert that FinTech has enormously contributed to the political and corporate efforts for capacity building on the financial inclusion landscape. It is high time the capacity built up is directed pointedly towards the weaker segment. Further, with evolution of technology and its application in design and delivery of financial products, the regulatory inputs of measurement, monitoring, management and control must also catch up to ensure compliance and reporting for effective implementation and attainment of set objectives. The regulators are faced with the challenge to develop a robust new framework that not only promotes innovation and market confidence without compromising regulatory priorities but also incentivizes a leaning towards social service attitude away from mere commercial considerations. On a parallel basis, it is equally important to promote digital literacy in the underserved masses through well designed and adequately funded institutional efforts.

In 2016, G20 came up with the eight High Level Principles (HLPs) for Digital Financial Inclusion which form the basis of FinTech driven transformation to financial inclusion. 1: promote a digital approach to financial inclusion; 2: balancing risk with innovation benefits; 3: providing a legal structure and a regulatory set up for the financial inclusion to grow in; 4: expand the digital financial services infrastructure ecosystem; 5: protecting consumers against digital risks and potentially injurious digital practices; 6: strengthen digital and financial literacy and awareness; 7: facilitate customer identification for digital financial services; 8: track digital financial inclusion progress [2]

The need of the hour is to balance ambition with caution. In line with the eight principles of G20, the challenge is to carefully monitor the direction and pace of FinTech evolution and fitting fresh innovations in their regulatory set up to ensure that the evolution which has assumed the proportions of a revolution reaches its ultimate culmination in meaningful financial inclusion. The developments are curiously observed with as much hope as skepticism on how the FinTech growth is orchestrated through the collaboration of financial acumen with digital precision on one hand and its alignment with technologically upgraded and matching regulatory set up on the other without succumbing to operational pitfalls and attendant cyber threats.

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