

A Road Map to Financial Inclusion in India

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Abstract

Financial inclusion is emerging as a new paradigm of economic growth that plays a major role in driving away poverty from the country. It refers to the delivery of banking services to masses including privileged and rural peoples at affordable terms and conditions. Financial inclusion is an important priority of the country in terms of the economic growth of society. It enables the reduction of the gap between the rich and poor populations. In the current scenario, financial institutions are the robust pillars of progress, economic growth and development of the economy. The term is related to increasing the spread of financial services to those who are not aware of or who are not in a position to avail of financial services due to remote areas or lack of technology, etc. A few problems are coming in the path of financial inclusion but it is sure that if some corrective measures are adopted by the authorities, then financial inclusion can be achieved in India to the fullest. Modern Information and communication technology (ICT) can act as a tool to develop a platform that helps us to extend financial services in remote areas. Technology intervention helps banks to reduce their cost, to increase customer reachability and better management of business risk. Improved access to formal financial services boosts economic development, decreases inequality, and benefits people at the bottom of the pyramid, more specifically small and marginal farmers, micro and small enterprises, women, and other excluded segments of the population. The digital disruptions and emergence of innovative business models in the banking and financial sector are enabling factors for the deepening of digital financial inclusion (DFI). The governments, central bank, commercial banks, fintech companies, and other private and public enterprises are contributing to the Digital Financial Services (DFS) ecosystem through innovative payment infrastructure, low-cost digital products and services, unique delivery models, regulation, and so on. In this article, the theoretical aspects of financial inclusion, modes to achieve financial inclusion by creating financial literacy among the public and digitization of financial inclusion are being dealt with.

Keywords: Financial Inclusion, Digitisation, Financial Literacy, Digital Financial Services, Fintech Companies, Financial Exclusion, Micro Finance Institutions (MFI)

1. Introduction

Financial inclusion entails providing basic banking services in rural and low-income communities at reasonable rates. The goal of financial inclusion is to give those who have been excluded access to the formal banking system so they can better comprehend the financial services that are available and gain the confidence to make wise financial decisions. It must be ensured that there is an adequate financial framework in place to help the poor mobilise their savings and allocate them wisely to the nation's expanding credit needs. There are just a few financial institutions, such as banks and microfinance organizations that offer their services in rural areas with the goal of integrating them into the established financial system. The extent to which residents in rural and urban areas use the financial system's services

differs significantly. The financial illiteracy of the rural population may be one of the main causes of the aforementioned observation. Therefore, it is essential to educate and encourage the country's poor citizens to use financial services by offering them at cheap prices. It is essential to provide a platform for serving rural residents that is affordable, widely accessible, and easy to use. The development of a platform that enables us to expand financial services to rural areas can be facilitated by modern ICT. ICT serves as a catalyst for developing a more inclusive and sustainable economic structure. ICT will be a very practical tool via which we may offer services to the country's financially disadvantaged population. ICT helps to lower transaction costs for the client in addition to serving as a competitive medium. It will improve front-end usability while bolstering back-end

efficiency. The Reserve Bank of India and other commercial banks have launched a number of initiatives in recent years to increase financial inclusion in rural areas through the use of ICT. However, there is still plenty of room for banks to use modern ICT to improve their operations and provide more services to economically weaker groups. This would either directly or indirectly demonstrate the success of financial inclusion programmes to date as well as the capability of financial institutions to attract new clients to the mainstream financial system, particularly in rural areas. In order to promote financial inclusion and, eventually, financial stability, financial literacy becomes crucial. In order to promote financial inclusion through financial literacy, the RBI has established an integrated strategy with the aim of educating various target groups, particularly the impoverished in rural and urban areas, about banking concepts, the RBI has launched the project "Project Financial Literacy." In order to teach the public the fundamentals of finance and banking, the RBI also developed a website dedicated to financial education. Several banks and governmental organisations, like NABARD, have started various initiatives to raise awareness among the public. This article emphasises the theoretical aspects of financial inclusion and means for financial inclusion by way of financial education and digitisation of financial inclusion.

2. Review Of Literature

Several academicians have conducted extensive research on financial inclusion in India. The first time the phrase "financial inclusion" was used was in 2005 by K.C. Chakraborty, who was then the chairman of the Indian Bank. Some of the studies that have been conducted thus far are as follows:

Hannig and Jansen examined regional patterns in FI and came to encouraging conclusions about implementing FI policies in countries where 25% of families earn less than \$2 per day.

Jin collected findings regarding the effects of FI on wealth development, eradicating poverty, and enhancing citizen social protection.

Sarma and Pais point out that, in contrast to the ownership structure, the state of the banking industry has a little direct bearing on financial

accessibility.

Han and Melecky draw attention to the beneficial impact on the financial stability of actions to broaden access to bank deposits as a conventional savings service.

Morgan and Pontines identified avenues for expanding access to financial services, acknowledged the advantages of greater inclusion, and concentrated on regulatory and control shortcomings. The current tendencies of creative development in the financial sector determine the population's FI potential.

Allen points out that the financial innovation enables the creation of new goods and services, the development of efficient data processing and storage models, the expansion of consumer reach, the reduction of costs, and an improvement in the delivery of financial services.

Roy researched India's financial inclusion landscape. The investigation concluded that banks have established their branches in the far reaches of the nation. Regulations have been streamlined. According to the report, the banking sector has experienced phenomenal volume growth over the past few decades.

Divya Joseph researched India's degree of financial literacy and inclusion. The researcher made an effort to investigate the connection between deposits made and the type of bank accounts coming into the banks.

Brumberg and Modigliani According to the life cycle hypothesis, financial literacy is a type of human capital needed to balance a consumer's lifetime income between savings and consumption to maximise his utility.

Priya and Subha A higher level of financial literacy enable people and families to manage their money better and aids in better financial decision-making.

Financial knowledge, according to **Tomaskova, Mohelska, and Nemcova**, is the best defence against citizen over-indebtedness. Poor people naturally interact with official financial institutions less frequently and prefer informal means.

The advantages and difficulties of adopting digital payments by public institutions to citizens under the government-to-person (G2P) system were emphasised by **Klapper and Singer**.

To speed up access to finance, **Gabor and Brooks** researched the creation of Fintech philanthropy development complexes that integrate behavioral economics with forecasting algorithms. Mobile money is one example of a fintech invention that operates in an ecosystem of different businesses that compete and work together to achieve a goal. common goal.

Innovation in digital ecosystems typically has one, or a few, major entities that assist in defining boundaries and coordinating across independent institutions. **Lee & Shin, Muthukannan et al.**

Thus it can be inferred that from the above studies financial literacy and digitisation are the means for financial inclusion.

3. Objectives of the Study

- To understand the need and present status of financial inclusion in India.
- To check the weaknesses/shortcomings of the progress of financial inclusion in India.
- To study the role of financial literacy, Micro Finance Institutions (MFI) and Digitisation of financial services

4. Definition

According to the **Planning Commission (2009)**, "Financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products. The household access to financial services includes access to contingency planning, credit and wealth creation. Access to contingency planning would help for future savings such as retirement savings, buffer savings and insurable contingencies and access to credit includes emergency loans, housing loans and consumption loans. On the other hand, access to wealth creation includes savings and investment based on household's level of financial literacy and risk perception."

GOI (2008) defines Financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. The meaning of financial inclusion is delivery of financial services

to the low income groups especially the excluded sections of the population with the provision of equal opportunities. The main target is the access of financial services for better standard of living and income.

Rangarajan committee on financial inclusion defines it as "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

"Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players" **Chakrabarty, 2013**). The aim of Financial Inclusion (FI) is to make easy access of financial services to the large underprivileged population of the country. It is an attempt for achieving inclusive growth of the society by making availability of finance to the deprived section of population. In order to reap the benefits of the financial services, lot of measures has been taken by Government of India in the favour of poor and neglected section of the society.

5. Factors Affecting Access To Financial Inclusion

Since the poor lack the skills and information necessary to appreciate the financial services that are available to them, financial services are increasingly being extended to low-income households, which has been acknowledged as a crucial component of development. The breadth of services and credits available to households and businesses is constrained by a lack of financial access. Even while there is some indication that access is getting better, there are still several issues that have had an impact on it.

- The majority of commercial banks exclusively conduct business in commercial districts, and they locate their branches in lucrative locales. Therefore, it is challenging for the populace who live in remote locations to receive financial services. Although access to these services is influenced by a variety of factors, including population density, rural and

remote areas, population mobility (i.e., highly mobile individuals without a fixed or official address), etc., the effective distance is as much about transportation infrastructure as physical distance.

- Due to a lack of legal IDs, such as original birth certificates and identity cards, minorities, economic and political migrants, refugee labourers, and women are prohibited from using banking services.
- The biggest barriers to obtaining different financial services for people are incomplete basic education and financial literacy. The importance of several financial items, such as bank accounts, check facilities, bank loans or overdrafts, and insurance, is unknown to them. Financial products are used more frequently by various economic agents, such as business correspondents, NGOs, MFIs, and others, as they are financially literate.
- People's ability to receive financial services depends heavily on their financial standing. Even when financial services are designed for lower-income level groups, poor individuals cannot access them. Additionally, there are numerous hidden bank fees in India, which have discouraged the underprivileged from using these services.
- Customers are also less likely to use the kinds of financial services or goods that come with rigid terms and conditions. Many financial institutions have various account usage regulations, such as minimum balance restrictions.
- Nature of the employment plays a significant role in financial inclusion. Small borrowers and unstructured businesses are generally not preferred by banks when it comes to loaning money. Therefore, these loan applications frequently get turned down.

6. Financial Exclusion

It includes the underprivileged population in both rural and urban areas, such as rural peoples, small vendors, agricultural and industrial labourers, those working in unorganised sectors, unemployed women, children, seniors, and persons with physical disabilities.

For developing nations like India, where a substantial percentage of the population lacks access to government services due to the lack of financial services in their area, financial exclusion is a major issue. Financial exclusion comes in a variety

of forms, including the following:

- People who are excluded from credit are unable to use credit facilities to meet their own or their family's needs.
- Unable to access or use insurance services due to a lack of insurance facilities in the area.

7. Need For Financial Inclusion In India

For the following most crucial reasons, policymakers have been concentrating on the financial inclusion of Indian rural and semi-rural areas:

- The lack of savings has left the lower income group always on the verge of financial hardship.
- Up until now, the unbanked population has been extremely dependent on unofficial credit sources including family, friends, and moneylenders. It will be possible for the populace's entrepreneurial spirit to improve outputs and wealth in the countryside if sufficient and transparent credit is available through official banking channels.
- The poorest of the poor are not truly recipients of a sizable amount of money intended for them. Therefore, the government is advocating for direct cash transfers to beneficiaries through their bank accounts as opposed to goods subsidies and cash payments.
- Financial inclusion can help to reduce income disparities. The banks will be able to offer more loans to those in need of loans for investment purposes since more money will be moving through the banking system.
- The level of money supply in the banks determines how quickly the economy grows overall, so financial inclusion can be extremely important for long-term economic growth and development.
- Financial inclusion can be used to develop social security programmes like pension plans or subsidies for various goods. Additionally, financial inclusion plays a critical role in eliminating black marketing, which was formerly practised in industries where subsidies were not provided through bank accounts.
- Recent years have seen a resurgence in interest in inclusive growth as a strategy for economic development due to growing concerns that the rewards of economic expansion have not been distributed fairly. When there are equal economic opportunities, growth is inclusive. Financial

inclusion gradually includes the previously excluded people, enabling broad-based and sustainable growth.

8. Promotion Of Financial Inclusion

- Financial inclusion is not just having access to banks or credit. The long-term solution is achieving full financial inclusion. It is frequently observed that the target of financial inclusion is assumed or stated to have been achieved by just creating a bank account. Several empirical investigations and usage analyses show that, when such bank accounts are opened, scarcely any transactions occur in such bank accounts. Since the rural population is one of the key tenets for the intended success, banks must honestly work to deliver the specified services under the category or scheme of financial inclusion to this population.
- The RBI asked Banks to drop the 'no-frills' tag from the basic savings accounts as the nomenclature has become a stigma. The RBI asked Banks to provide the 'zero-balance' facility in the basic banking accounts along with ATM-cum-Debit Cards without extra charge.
- The SBLP has been India's most significant institutional innovation over the past 20 years for increasing financial system usage and access for the country's poor and underprivileged populations. The project offered an economical SBLP paradigm for helping the underserved poor obtain financial services. Credit discipline for Self Help Groups (SHGs) became standard due to their "savings first, credit afterward" philosophy, and their "social collateral" made them bankable. The model was initially successful in finding a solution to the two issues that banks faced, namely low loan recovery in rural areas and high transaction costs when dealing with small borrowers regularly. This had a significant positive impact on the membership by fostering social and economic empowerment. Despite the notable achievements of SHGs, some problems still exist. For example, inadequate outreach in many regions, delays in opening SHG accounts and disbursing loans, impounding savings by banks as collateral, refusal of repeat loans by banks even when the first loan was promptly repaid, multiple memberships, borrowing by SHG members both inside and outside of SHGs, and unfavourable effects of unhealthy competition between NGO promoted SHGs and Government promoted SHGs are just a few. While the fundamental principles of SHGs as savings-led credit products are still true today, current events have made it necessary for significant adjustments in the strategy and design of SBLP to make it more flexible and client-friendly.
- Although there have been many contentious concerns with some of the MFIs' corporate governance practices and business ethics, the MFIs have increased access to credit for the underserved and unserved populations over the past few years. However, given the current degree of banking system penetration, it has frequently been observed that MFIs do contribute to the financial depth and can continue to represent a significant portion of the Indian financial market. MFIs' intellectual underpinnings need to be revised. To stay relevant in the system, MFIs will need to review their mission and business plan as well as reinvent the industry.
- The ICT-based agent bank model through BF/BCs for ensuring door-to-door delivery of financial products and services are mandated by the RBI to serve as intermediaries for providing financial and banking services and ultimately addressing the aforementioned proverbial last mile problem. Initially created by the banks themselves, this model was later improved by several innovations, bridging the connectivity gap between the service seekers, or the underserved population, and the service providers, i.e. the general viability of the BF/BCs concept has remained a key factor in why the model has not taken off as anticipated. Additionally, due to the economy's continued strong reliance on cash, banks and their BF/BCs are exposed to a significant risk associated with managing cash. To increase the degree of trust among the end users, there is also a significant need for coaching and training of the BF/BCs. In this regard, the present idea of having banks' lean brick and mortar operations (such as extremely small branches) support and oversee the work of a set number of BF/BCs seems to be a step in the right direction. The adoption of technology, which in turn depends on how well the banks' BF/BCs and their BF/BCs integrate that technology, is crucial to the success of the BF/BCs model. There is a belief that banks may also create their internal BF/BC units in

the form of independent trusts or subsidiaries with their hiring processes and compensation plans but with more direct supervisory oversight.

- Banks must invest significantly in technology-based applications, related research and development projects, comprehensive Management Information Services (MIS), monitoring and evaluation systems, and more. On the other hand, they must collaborate with technology service providers (TSPs), mobile network operators (MNOs), corporate entities, and different categories of BCs to develop efficient delivery models to create a facilitating ecosystem.
- The use of digital financial services to achieve financial inclusion is referred to as "digital financial inclusion." It strives to harness digital tools to reach out to the financially unserved as well as underserved people with a basket of formal financial services and products adapted to their requirements in a cheap, safe and transparent manner. Additionally, it encourages effective networking among participants. Any digital financial service is built essentially on three elements: devices, retail agents, and digital transactional platforms. The advantages of digital financial inclusion include faster and more widespread distribution of formal financial services, accessibility for all, relatively lower costs of digital platforms compared to physical "brick and mortar" models, availability of need-based, customised, and more affordable products/services for a variety of customers, and customer convenience.
- Through the use of mobile phones, financial technology businesses are enabling residents of rural areas to apply for loans or open bank accounts. Many people in rural areas of India have mobile phones, and some of them have access to mobile internet, so they can use fintech services to obtain trustworthy financial services. Crowdfunding, digital payment systems, and peer-to-peer lending are a few of the most recent fintech solutions that people employ (P2P), electronic wallets, etc. Many people are using these cutting-edge banking solutions, both in urban and rural settings. But there are still a lot of untapped people who have never dealt with a bank or any other type of financial institution. It is challenging for these individuals to use any financial mobile service.

Many of these low-income individuals frequently fall victim to financial con artists when they conduct financial transactions using cheques or cash. Additionally, when people go to bank or NBFC branches to open an account or seek a loan, they can find up paying exorbitant branch fees. These costs may include transaction costs, processing costs, money order costs, etc. Banks, NBFCs, and fintech firms are working together to develop faster, easier banking procedures that will reduce extra fees to protect the poor from paying such high prices for financial services. As these procedures develop, it will be easier to include the underbanked or unbanked members of society.

- They can use electronic payment wallet systems to pay for goods and services in their local areas. The Indian government has introduced several mobile apps, including Bharat Interface for Money (BHIM), Aadhaar Pay, and many others, that function as electronic wallets. Wallets that can be used electronically, such as mobile phones, are referred to as electronic wallets, or e-wallets. Physical wallets are replaced by these. Both online and offline methods are available for users to use to make cashless payments. To conduct transactions, he or she must download the e-wallet application to their smartphone. These electronic wallets can be used to pay for groceries, e-commerce sites, utility bills, mobile phone recharges, etc. When customers use many digital financial instruments, they often come with alluring deals and discounts. For the portions of society who are less fortunate economically, these are both immensely beneficial and new. They may take advantage of deals, get cashback alternatives, and get incentives. These incentives will help a user save a lot of money.
- With the aid of the Unified Payment Interface (UPI), Unstructured Supplementary Service Data (USSD) banking methods, Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT), Aadhaar Pay, debit cards, BHIM, and credit cards, the Indian government plans to conduct millions of digital financial transactions in the current and upcoming years. In addition, the government wants to make it mandatory for establishments like fertiliser depots, block offices, gas stations, offices for road transport, hospitals, colleges, universities, government organisations, etc. to set up systems for accepting payments for services and goods via

digital payment systems. It makes a lot of sense, especially when clients must submit large payments to these businesses or organisations. The government plans to accomplish this by giving the aforementioned institutions a mandate.

In addition to promoting financial inclusion, these digital financial apps will aid in the eradication of corruption. These applications provide engaging and alluring advantages for both users and merchants to achieve financial inclusion. Customers who utilise these cashless payment tools will be able to take advantage of referral bonus programmes, and businesses that permit customers to use these cashless systems will receive cash-back prizes and points. In addition to providing the underprivileged with digital financial systems, several banks have made mobile banking trucks or vans available to travel to remote or untapped areas of the nation. People in these areas lack access to transportation, communication, and financial services.

9. Fintech Companies In India

Several Fintech companies were recruited in India to clear the way for the digitization or deployment of technology in the financial industry (Fintech). These businesses are categorised according to the services offered. The following is a list of them:

PayTechs: Examples of PayTechs include payment security, card networks, application programming interface (API)/White label solutions, and payment gateways. The top rivals in this market are Google Pay, Paytm, PhonePe, and MobiKwik.

LendTechs: These companies offer services targeted at both businesses and consumers, such as corporate cards, fixed-term financing, trade financing, buy-now-pay-later (BNPL), personal loans, salary loans, gold loans, vehicle loans, education loans, and peer-to-peer lending. Collections management, credit bureau, alternative credit scoring, lending as a service, Loan Origination System (LOS), and Loan Management System are a few of the Fintech services employed in this sector (LMS). Leading financing platforms, such as Google Pay, M-Swipe, and Razor Pay, are emerging for both consumers and companies.

Online banking: In this market, digital subsidiaries of banks, retail neobanks, and small- and medium-

sized enterprise (SME) neobanks are being established. Neobanks are simply commercial banks' digital platforms. Examples of Fintech services used in digital banking include conversational platforms, account aggregators, API providers and aggregators, banks with open APIs, Banking as a Service (BaaS), and core banking. YONO of SBI, Khatabook, and Crazybee are a few of the major companies involved in digital banking.

InsurTechs: supplying services including employee insurance, online insurance, electronic insurance, and platforms for comparing insurance. Fintech may be used in this sector by offering services like claims management, sales platforms, underwriting risk management, insurance infrastructure API, insurance product configurator, and policy admin system. Policy Bazaar is one of the major players in this area.

WealthTechs: WealthTechs provide wealth and cost management services via discount brokers, Robo advisors, mutual fund investing platforms, research platforms, and alternative investment platforms. White-label Robo advisors, portfolio management programmes, and capable management are some examples of Fintech services that can be used in this sector. Zerodha and Small case are two well-known businesses in this area.

RegTechs or Regulation Techs: Fintech is used in the financial sector to meet compliance and regulatory needs for AML, KYC, digital onboarding, fraud detection, anti-money laundering (AML), banking compliances, and risk management solutions, to name just a few.

10. Impediments In Employing Fintech Services For Promoting Financial Inclusion

Due to their delayed embrace of change, legacy concerns, and legal restrictions, traditional financial institutions are now unable to keep up with Fintechs. The traditional financial sector is currently facing a major threat from the burgeoning proliferation of Fintechs, which has sparked an urgent demand for tools for quicker change management.

1. **Security:** In the FinTech era, banks' top concerns have evolved to include the security of consumer funds and personal data. Customers still favour banks because of the security benefits and the trust

that has grown in banks over the years. To supply their digital products, banks should rely on an internal application rather than a third party. The Reserve Bank of India has ordered banks to cut their ties to the fintech industry for third-party goods, particularly when it comes to offering credit through mobile apps. Given that cybercrime is at an all-time high and that FinTech companies are one of its frequent targets, the security and privacy of customers should be the financial industries' top priorities. RBI is considering creating a fraud registry to compile a database of fake websites and phones, which will stop fraudsters from committing the same offences after being blacklisted.

2. Knowledge, Training, and Experience: India's traditional financial institutions are struggling to find employees with the right abilities to manage the current financial system, which is heavily reliant on technology. Recruitment of the proper talent in the financial business is a significant difficulty in a country like India because the majority of workers worldwide and in India lack the necessary financial abilities to succeed in the financial sector. These are a few areas where fintech has surpassed traditional banking in terms of efficiency. Digitally literate staff members are required at the front desk who can comprehend clients' concerns and digital experts at the back desk who can fix them quickly in the current technological environment of the financial system. Banks are competing with FinTech and BigTech for highly qualified employees. The United Kingdom Financial Service Skill Commission's 2020 study made the point that all workers needed to gain skills like digital literacy as well as more specific knowledge in the form of data analytics and software development abilities from the digital side. The application of innovative thinking and behavior-side coaching will increase value. Traditional relationship management will play a smaller role in banking's future than the ability to customise digital services, where FinTech now appears to be ahead. Financial institutions need to be proactive in identifying the skills they will need in the future to keep up with the rapid changes in technology and society. To compete with FinTech companies in the future, it is necessary to upskill and retrain the financial workforce.

3. Customer and Communication: The customer is the central focus of every financial service. Nowadays, customers place a greater emphasis on the services they receive and want hassle-free, affordable services at their fingertips. Traditional financial services rely heavily on their customer base, therefore the banking industry is always seeking new ways to give customers the best security possible. FinTech companies want to steal this customer base from the banking sector. Customers will likely be drawn to FinTech because of the way they are using technology to provide financial services. The time has come for banks to be proactive in providing quick, efficient, and fraud-free customer care by utilising cutting-edge technologies like chatbots. Artificial intelligence and machine learning should be employed for e-wallets, smart chips, biometrics, and fraud detection, among other applications. The banking business should advance by offering smart cards, omnichannel banking, and service customisation that makes customer service appealing and practical. Customer service requires constant engagement with clients, but too much of it can harm the institution's reputation and lose clients' trust. As crucial as communication with customers is communication within the organisation. The crew benefits from being informed of the most recent changes to the financial landscape. It also aids in the distribution of goods and services by authorities' plans and objectives; nevertheless, frequent and pointless plan dissemination may cause worker disinterest. In a financial business, two-way communication is usually encouraged since it enables the back office to build products and services based on client preferences while accepting input from the front office.

4. Undertaking, Merger, or Alliance: There are several theories on how FinTechs are changing the way financial institutions do business and how this is affecting their bottom line and reputation. FinTech has infiltrated the financial industry, which was formerly the domain of banks, but it won't be an easy road for them. Both banks and FinTechs currently have their benefits and drawbacks. Banking institutions have a broad client base and a wealth of experience, but fintech is equipped with digital innovation and tailored services. Their future will depend on the actions they take—against or

with one another—and they may consider an alliance or merger to see how their actions work together. Alliances, mergers, and other forms of cooperation can result in numerous advantages for both parties. For example, they can improve brand recognition, expand digital banking capabilities, reduce capital expenditures and expand banking services to younger generations and new geographies, which will increase financial inclusion, and lower business costs by limiting direct public dealing and redirecting human resources to more profitable tasks like NPA recovery and looking for new sources of capital.

5. **Regulation:** Due to their overlapping and non-linear business models, it has been noted that India does not have a single regulatory framework for fintech companies. Additionally, it has been noted that regulatory actions aimed at ensuring the suitability and safety of customers are always met with resistance. Due to the dynamic nature of their services, FinTechs provide a huge problem for financial authorities. As a result of FinTechs' integration into the Indian financial system, we must realign our regulatory standards to assure both rapid technological advancement and the protection of consumer funds and data. To bring FinTech under a single, comprehensive legal framework, Indian law and finance authorities must perform a lot of research. Geographical barriers are less of a barrier in the FinTech era as a result of the growth of the industry, which is blurring the lines between financial and non-financial enterprises. We must understand that using technologies like regulatory technology (RegTech) and supervisory technology (Sup Tech), which can handle complex regulatory and supervisory requirements like AML (Anti Money Laundering) and KYC, allows for the regulation of the complicated nature of FinTech businesses and traditional financial institutions to be done on an equal footing (Know Your Customer). This task might be completed with the aid of technologies that use data mining, artificial intelligence, machine learning, automation, etc.

6. **Evolution and Innovation:** Before recently, a consumer in need of financial services had to travel to the bank in person. However, with the advent of digital banking, the situation has completely altered. In the rapidly growing digital financial industry, where customers have a wide

range of financial service options and where innovations not only promote success but also ensure survival, customer expectations are changing at an exponential rate. To keep the customers who are moving to FinTech due to superior service options, traditional financial institutions must aim to concentrate on digital product innovation. A paradigm shift in the institution's mentality and engagement at every level of the company is required for innovation in the banking sector to go beyond simply implementing new technologies. Lacking such a bold goal, neo-banks may severely destabilise banking and FinTechs. Innovation enables banks to adapt to changing customer expectations, streamline internal operations, and maintain market share. Innovation in the banking sector should concentrate on providing services that are flexible, quick, and efficient for the consumer. To produce better products and services, banks should concentrate on modifying their operational model to adapt to the rapidly changing digital environment.

11. Role Of Reserve Bank Of India In Promoting Financial Inclusion: RBI Has Adopted A Three-Pronged Strategy Which Involves:

1. **Setting up of financial intermediaries for extending credit:** New financial intermediaries have been developed as a first step in addressing supply-side concerns with financial inclusion. These intermediaries will provide credit and ensure that customers can access financial services on a "when and where basis," translating to really "anywhere anytime banking." This comprises:
 - a. **Peer-to-peer (P2P) lending platform:** When the P2P business was still in its early stages of development, RBI's P2P regulations were the first of such measures. A "Peer to Peer Lending Platform" offers an online on-tap route for investors to lend mainly small-ticket loans as well as borrowers to take advantage of. To protect client interests and minimise systemic risks, the regulations were created in a way that makes sure the framework does not impede on the development of new lending services.
 - b. **Digital-only NBFCs:** Second, RBI released registration criteria for Digital-only NBFCs, which, as their name implies, are NBFCs that only operate

online and do not have any physical locations (except for administrative purposes). By enabling the establishment of an NBFC on a digital platform in 2018, the RBI encouraged healthy innovation in credit intermediation. Although they are not a brand-new type of NBFC, their licencing requirements require them to only offer their products in digital form. Consumer protection has once again been prioritised, and entities are required to keep audit trails by installing the necessary IT infrastructure with sufficient security measures against unauthorised access, manipulation, and destruction of data if any. The nature of regulatory aspects like express consent for data sharing, domestic server locations, keeping audit trails, information security audits, etc. is both progressive and preventive.

- c. **Unit for Digital Banking:** The concept of Digital Banking Units was introduced in the Union Budget 2022–23, and the RBI released guidelines for the operationalization of these units earlier this year, as "brick and mortar" banking outlets and digital banking are now the preferred modes of delivery. The establishment of digital banking units, which are specialised fixed point business units housing a certain minimal digital infrastructure for delivering digital banking products and services and servicing existing financial products digitally in both self-service and assisted mode, has been authorised for Scheduled Commercial Banks. Such devices are anticipated to give clients a more efficient, practical, improved digital experience of such products and services in a safe, connected, paperless, and productive environment, with the majority of services always available in self-service mode.

2. **Creating market infrastructure for inclusive credit:** India has made tremendous progress in building and enabling digital infrastructure in the financial services sector. To name a few, there are UPI, GSTN, TReDS, JAM Trinity, and Account Aggregators (AA). This robust collection of digital infrastructure has reached a point of stability and, as it continues to develop, will open the door for the prompt and seamless extension of credit that might be made digitally available in nearly a paperless environment. Financial service providers would be able to offer their customers personalised products because of

AA's capacity to gather financial data from various financial service providers and use this data to generate analytics and insights to aid consumers in their financial planning. The "electronic consent architecture" component of the AA framework is also significant and is an upgrade over many developed countries' open banking policies. The Account Aggregator can change credit by making it easier and more available for everyone utilising digital infrastructure, much like UPI changed the way people pay. For FI, the JAM trinity has worked beautifully. The next banking revolution in the provision of individualised and inclusive credit services is anticipated to be made possible by the next trinity, which consists of UPI, e-KYC, and AA.

3. **Customer-first regulatory approach:** During the pandemic, a paradigm change in digital financing was observed. After the Covid-19 outbreak, there was a boom in online lending platforms and mobile loan apps, with one study suggesting that during the Covid pandemic, downloads of lending apps jumped by 21%. In the past, people would refer to the banking procedures from the 1950s through the 1970s as following the "3-6-3 rule" since they were straightforward and non-competitive. The rule was to lend at 6% interest, raise deposits at 3%, and play golf after 3 PM. The FinTech revolution has changed this into a 2-1-0 formula, which requires 2 minutes to make a decision and 1 minute to transfer the money without any human interaction. The range of what is conceivable has increased as a result of the change in the banking industry's business model and accompanying technical developments. The Working Group on Digital Lending, which the RBI established last year, stated that banks are still in the early stages of adopting digital lending compared to physical lending which includes lending using mobile apps and online platforms. However, it has been noted that between 2017 and 2020, the whole amount of disbursement by digital means increased by a staggering twelve times. Innovative product delivery models, such as Point of Sale (PoS) transactions-based lending, Bank-FinTech collaboration models, marketplace lending, and bank-led digital models, have rapidly expanded in the digital lending ecosystem. The majority of digital lending is, however, made possible by bank/NBFC-FinTech collaborations, in which

FinTechs serve as Lending Service Providers (LSPs) for banks/NBFCs. However, as digital lending has grown, several worries have also surfaced. These mainly concern the unrestrained use of third parties, misselling, data privacy violations, unfair business practises, high-interest rates, and unethical collection techniques. On June 24, 2020, the RBI released a circular on digital lending as a preventative measure. In this circular, it was advised that digital lending platforms disclose the name of the bank or NBFC upfront on whose behalf they are providing credit, ensure that the sanction letter is on the letterhead of the bank or NBFC concerned, and banks/NBFCs, in turn, will ensure adequate oversight over the digital lending platforms they engage. The issues raised by the ecosystem for digital lending were further explored by the Working Group on Digital Lending. The RBI's strategy of putting the needs of the consumer first in regulations is encapsulated in the recently unveiled regulatory framework for digital lending. The framework is intended to find a balance between the requirement for an innovative and inclusive system and the need to prevent regulatory arbitrage from being taken advantage of at the expense of the interests of the customer. Another underlying idea of this regulatory framework is that the regulated entities are responsible for adhering to the rules, and they must make sure that the loan service providers and digital lending apps with whom they have outsourcing agreements operate within the regulatory ecosystem in both letter and spirit.

12. Conclusion

The article highlighted the theoretical aspects of financial inclusion, the means to achieve financial inclusion, etc. As far as financial inclusion is considered, it is the need of the hour as the public is more reliant on the unorganised sector for getting credit. Hence, the public should be protected from the clutches of the unorganised sector for getting credit and other non-banking services. For this purpose, financial inclusion is highly emphasised. RBI also emphasised more on financial inclusion and took several steps such as creating a digital financial inclusion platform, developing fintech companies, introducing a digital payment mechanism, etc. despite these measures,

there exist issues and challenges in digital financial inclusion. But, financial literacy and digitisation in financial inclusion are the main weapons to promote financial inclusion and it is concluded in this article that financial inclusion can be achieved by promoting financial education among the public and introducing various ICT enabled services.

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