



The FinTech route to
greater financial inclusion
in India

Financial inclusion in India has seen extensive improvement in the past few years. The number of Indians with bank accounts has increased in recent times and it is estimated that nearly 80% Indians have bank accounts at present.¹ As the Government of India (GoI) continues to work towards extending financial services to the underbanked segment of the population, FinTech companies in India are gradually making their presence felt. With over 1,300 FinTech start-ups and investments worth USD 5.7² billion in FinTech from 2014–2018, India has managed to secure the second position in the global FinTech adoption index.³ However, the country continues to face challenges in achieving financial inclusion as 76%⁴ of India's adult population is financially illiterate, resulting in 48% of the bank accounts being inactive (in 2018).⁵ India needs to work towards improving financial inclusion to extend financial services to the underbanked segments of the population and provide a stable platform for FinTech companies to operate.

Financial inclusion will act as a catalyst for not just economic growth but also eradication of poverty. It will also help in achieving the Sustainable Development Goals (SDGs) set by the United Nations (UN).⁶ But financial inclusion does not merely mean an individual having access to a bank account. It means ensuring that individuals have full access to affordable and useful financial services and products so that they can fulfil their needs in terms of payments/transactions/wealth management, leading to:

What is financial inclusion?

“The process of ensuring access to financial services and timely and adequate credit for vulnerable groups such as weaker sections and low-income groups at an affordable cost”.

– Dr C Rangarajan, Chairman, Committee on Financial Inclusion, Reserve Bank of India



More savings



Greater access to credit



Reduced income inequality



Availing insurance easily

While the growing number of FinTech companies in India is a positive sign, their presence is not enough to bring more people under the ambit of financial inclusion. For financial inclusion in India to expand, a collaborative effort is needed from FinTechs, banks and regulatory authorities. Flexible regulations on operations by FinTechs, creating greater awareness on financial inclusion through the media, and making financial literacy a part of the curriculum in educational institutions are some steps that can be taken to improve financial inclusion in India. Financial inclusion has a multiplier effect and will eventually strengthen the economic status of the country, thereby aiding the achievement of SDGs.



1 <https://globalindex.worldbank.org/>

2 <https://www.investindia.gov.in/>

3 <https://www.rbi.org.in/>

4 <https://gflec.org/initiatives/sp-global-finlit-survey/>

5 <https://data.worldbank.org/>

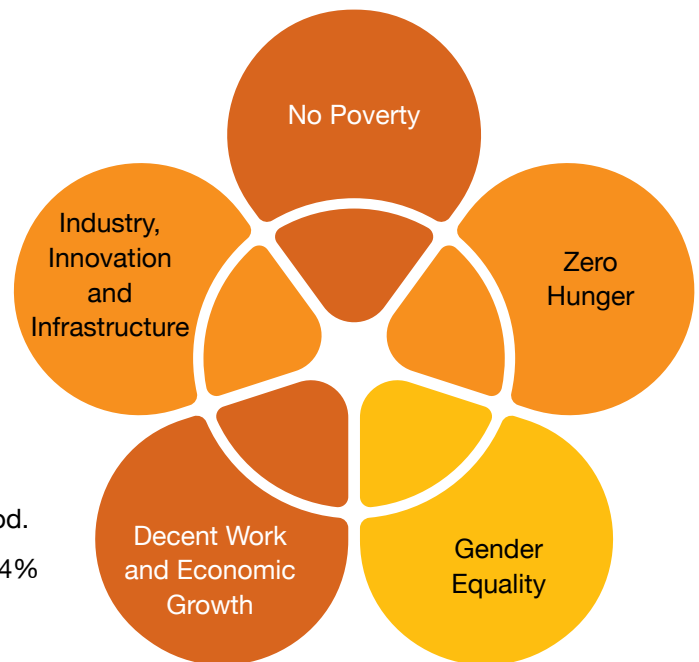
6 <https://sustainabledevelopment.un.org/>

How financial inclusion can help achieve SDGs

In 2015, 17 global goals were set by the United Nations General Assembly (UNGA), designed to be a “blueprint to achieve a better and more sustainable future for all”.⁷

Investments amounting to USD 2.64 trillion are required to achieve the SDGs, which will also offer an investment opportunity of over USD 1.12 trillion for the private sector by 2030.⁸ So as we get stronger in achieving the below mentioned goals, we will not only enable poverty reduction, but also make our society more financially inclusive.⁹

Financial inclusion with SDGs



Source: The UN's SDG report

01

- Access to financial services will enhance livelihood.
- With open banks, rural poverty has reduced by 14% to 17% points, as per the World Bank.
- Income inequality can be curbed with resilient financial system which also can help achieve SDG 1.

02

- SDG 2 focuses on improving food security and if our farmers become part of the financial inclusion initiatives, it can lead to better investments and hence higher yields. Thus we can achieve both our goals.
- Schemes like rainfall insurance should be introduced.

03

- Women should be looped in more when it comes to increasing account ownership among unbanked adults as they are unemployed and financially illiterate. Thus, we can achieve SDG 05.
- Self-help groups (SHGs) can help achieve this goal.

04

- Excluding poor from the formal financial system weakens the overall economic growth. There is an urgent need for promoting job creation and servicing the unbanked which will stimulate economic growth.

05

- Faster and easy access to credit can promote innovation and sustainable industrialisation. Financial services, that can facilitate investment and business innovation, should be accessible.
- Micro loans will help achieve this goal.

Source: PwC analysis of data from the UN's SDG report

⁷ <https://sustainabledevelopment.un.org/sdgs>

⁸ <https://unstats.un.org/sdgs/report/2019/The-Sustainable-Development-Goals-Report-2019.pdf>

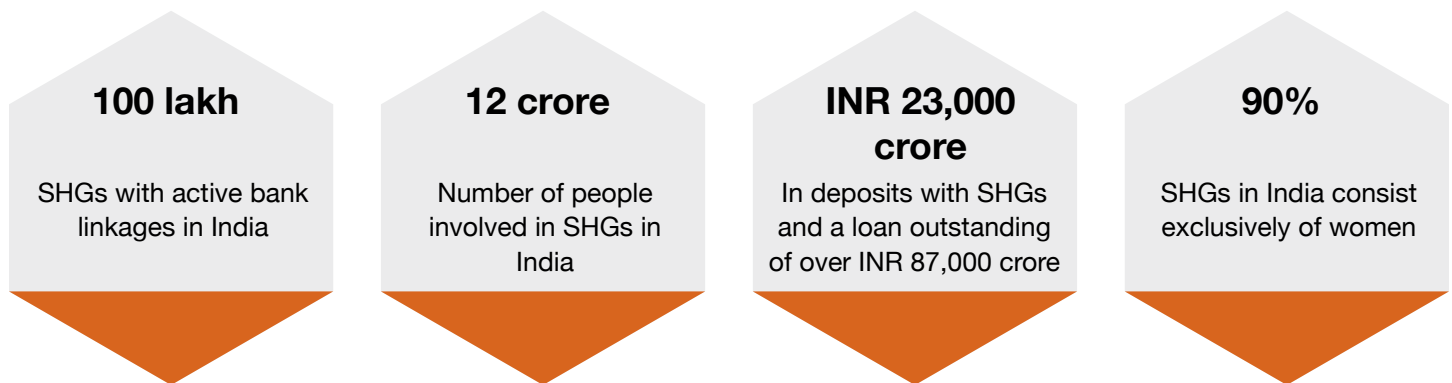
⁹ <https://www.unCDF.org/financial-inclusion-and-the-sdgs>

The role of SHGs in financial inclusion¹⁰

SHGs are small, informal groups of 10–20 individuals who are homogenous with respect to social and economic backgrounds and come together voluntarily to promote the habit of savings among members and raise funds and manage financial resources for the benefit of the group members.¹¹ SHGs act as platforms for financial inclusion and empower many working women, especially in rural areas.

With the COVID-19 package bringing relief to every sector of the society, the Government of India (GoI) has doubled the amount of collateral-free loan to INR 20 lakh. This will help almost 7 crore families via 63 lakh SHGs.¹²

Key numbers related to SHGs in India¹³



Source: National Bank for Agriculture and Rural Development (NABARD)

FinTechs can tie up with SHGs to reach out to women and bring about more gender equality in terms of financial inclusion. The GoI has already undertaken many initiatives to tie up FinTechs with SHGs and improve overall financial inclusion. This has led to women setting up various services like textile and dyeing businesses, beauty salons etc.¹⁴ With direct benefit transfer (DBT) in place, direct transfer of financial benefits to women recipients has improved their financial literacy. The credit absorption capacity in rural areas has also increased with creation of enabling rural infrastructure as per the Reserve Bank of India (RBI).¹⁵



10 https://www.cgap.org/sites/default/files/Working-Paper-Achieving-Sustainable-Development-Goals-Apr-2016_0.pdf

11 https://www.nabard.org/auth/writereaddata/tender/0609185415Cir_230_E.pdf

12 Covid-SHG

13 <https://www.nabard.org/>

14 <https://www.thehindubusinessline.com/economy/sitharaman-showers-incentives-on-women-self-help-groups/article28297779.ece>

15 https://m.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1089

Regulatory initiatives¹⁶

Providing access to financial services and products at affordable rates to the economically weaker section of the society has been an agenda of successive governments in India. Below are some of the initiatives undertaken by the current government to improve financial inclusion:

1. The National Strategy for Financial Inclusion (NSFI) was launched in January 2020 to boost job creation, reduce vulnerability to economic downturns and increase investments in human capital.
2. Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched in August 2014 to extend universal banking services to unbanked households.
3. Atal Pension Yojana was relaunched in May 2015 to provide pensions for employees in the unorganised sector.

4. Pradhan Mantri Suraksha Bima Yojana was launched in May 2015 to provide financial coverage to people in cases of death or disability due to accidents.
5. Bharat Interface for Money (BHIM), a mobile payment app, was launched in December 2016 and facilitates digital payments.

These regulatory initiatives have helped India to disburse COVID-19 relief packages via the DBT scheme. For example, an ex-gratia payment of INR 500 was disbursed to 200 million women Jan Dhan account holders from April to June 2020.¹⁷



¹⁶ <https://rbidocs.rbi.org.in/>

¹⁷ <https://www.hindustantimes.com/india-news/over-200-million-women-jan-dhan-account-holders-to-get-rs-500-for-may-from-monday/story-lqMb310GEha01X9ZMsboxK.html>

Emerging CSR models driving financial inclusion during COVID-19

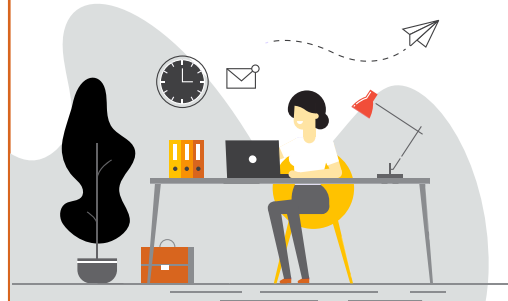
As per the UN, 400 million workers employed in the informal sector in India may sink into poverty due to the impact of the COVID-19 crisis.¹⁸ Globally, over 195 million full-time jobs are expected to be lost due to the pandemic.¹⁹ Given the unprecedented nature of the crisis, several countries have announced relief packages to

support their economy, aid frontline workers and micro, small and medium enterprises (MSMEs), though access to capital during the crisis remains difficult. Significant efforts are underway to deliver financial and non-financial benefits to the vulnerable sectors.

How CSR consulting firms are channelising funds towards financial inclusion initiatives

An emerging CSR consulting firm has collaborated with companies to develop impactful CSR initiatives which include:

- providing financial aid to ease the access to essential goods and services
- helping repay dues to sustain businesses
- providing security through insurance
- transferring cash to beneficiary bank accounts via the DBT scheme.



A decade-old CSR consulting firm is helping companies define their social impact goals with the focus on solving critical problems and finding scalable solutions. They worked with companies to build digital financial inclusion programmes in a few states where women were trained in personal finance and digital financial literacy. These women would further train 1,000 others.

One of India's oldest, well-established trusts has made its mark when it comes to financial inclusion by:

- making formal sector credit accessible to the beneficiaries in a fair and transparent way
- promoting community-led models for insuring against unforeseen risks
- ensuring financial awareness and education of the communities.

Source: PwC analysis of data from industry research

¹⁸ https://economictimes.indiatimes.com/news/economy/indicators/about-400-million-workers-in-india-may-sink-into-poverty-un-report/articleshow/75041922.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

¹⁹ <https://news.un.org/en/story/2020/04/1061322>

Key FinTech models that will impact financial inclusion

FinTechs face multiple challenges like lack of trust due to security concerns, non-availability of physical branches, almost zero awareness of financial products and lack of proper infrastructure. Nevertheless, with the shift in regulations to provide more support to NBFCs and incumbent FinTech players, disruptive innovation and increasing funding, FinTechs are becoming a key catalyst in the expansion of financial inclusion. Below are a few key models of financial services which can have an impact on financial inclusion, if they are adopted on a larger scale:



Incorporation of e-KYC or video KYC for faster processing by SHGs/ authorised kirana stores



Bank on bike initiative in which banking services are extended to remote villages



Instant money transfer (IMT) facilities or kiosks to facilitate IMT



Initiation of no-frills account



Alternative database for customer onboarding to approve loans and check credit repayment history



Electronic benefits transfer (EBT) schemes



Smart villages and smart panchayats where kiosks are set up for banking

Source: PwC analysis of data from industry research

Conclusion

FinTechs are not encumbered by traditional processes or systems which exist for other financial institutions and hence, they can tap into the huge market potential more easily. FinTechs have a diversified range of products and services and are well established in Tier-1 cities. Moreover, they have an established framework, which should help them not just expand but create more awareness about financial products which will increase financial literacy in Tier-2 and Tier-3 cities and thus not just earn more revenue but also work towards financial inclusion and economic growth at a macro level. Given the unprecedented nature of the current crisis, if more banks partner with CSR consulting firms, the COVID-19 situation will turn into a driver for financial inclusion.



About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with over 276,000 people who are committed to delivering quality in advisory, assurance and tax services. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

For more information about PwC India visit us at www.pwc.in

Contact us



Vivek Belgavi
Partner and India FinTech Leader
PwC India
vivek.belgavi@pwc.com

Author

Shivangi Maheshwari

pwc.in

Data Classification: DC0 (Public)

In this document, PwC refers to PricewaterhouseCoopers Private Limited (a limited liability company in India having Corporate Identity Number or CIN : U74140WB1983PTC036093), which is a member firm of PricewaterhouseCoopers International Limited (PwCIL), each member firm of which is a separate legal entity.

This document does not constitute professional advice. The information in this document has been obtained or derived from sources believed by PricewaterhouseCoopers Private Limited (PwCPL) to be reliable but PwCPL does not represent that this information is accurate or complete. Any opinions or estimates contained in this document represent the judgment of PwCPL at this time and are subject to change without notice. Readers of this publication are advised to seek their own professional advice before taking any course of action or decision, for which they are entirely responsible, based on the contents of this publication. PwCPL neither accepts or assumes any responsibility or liability to any reader of this publication in respect of the information contained within it or for any decisions readers may take or decide not to or fail to take.

© 2020 PricewaterhouseCoopers Private Limited. All rights reserved.

SG/September 2020-M&C8063

