

Role of Financial Technology in Advancing Social Inclusion

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Abstract

The concept of financial inclusion entails offering convenient and cost-effective financial services to every section of society, which helps to facilitate equitable economic development. In spite of the many policies put in place, a sizeable number of people in the developing world still lack access to banks and other forms of financial services. One approach through which this can be overcome is FinTech, which offers an effective way of ensuring accessibility and effectiveness in provision of financial services. This research paper analyzes the role of FinTech in furthering social inclusion through such innovations as mobile banking, digital payment methods, micro lending, and blockchain platforms. This research paper will adopt a descriptive approach that will use secondary sources of information, which include academic publications, official government and policy documents and trustworthy online publications.

Keywords: Financial Technology, FinTech, Financial Inclusion, Digital Finance, Social Empowerment, India.

Introduction

Financial inclusion can be defined as a mechanism that ensures that everyone, especially the economically vulnerable and underprivileged sections of the society, has access to the right kind of financial services, which are affordable, timely, and available. These services include bank accounts, credit services, savings, insurance, and payments, and are key to empowering people and helping them come out of poverty and foster inclusive economic development. Financial inclusion will not only improve economic stability but also help empower individuals and communities by allowing them to engage in educational, health, and entrepreneurship activities.

In India, despite having many programs and initiatives by the government like PMJDY (Pradhan Mantri Jan Dhan Yojana), Digital India, and rural banking, there are many people who do not belong to the formal financial environment. Issues like financial illiteracy, geographical limitations, transaction costs, and bureaucratic processes pose a challenge to accessing the financial services. Rural and semi-urban places lack the banking infrastructure that will allow individuals and enterprises to engage in economic activities.

Financial Technology (FinTech), has been recognized as a game-changing approach that will fill these gaps. FinTech is defined as the application of advanced technology to provide financial services that are more efficient, secure, and accessible. Using technologies such as mobile applications, digital payment systems, blockchain, P2P lending, and micro insurance solutions, FinTech has transformed the accessibility and provision of financial services. For example, through Unified Payments Interface (UPI) it becomes possible to conduct instant, cost-effective digital transactions, even in remote areas, while with

the help of mobile banking applications, it becomes possible to do all the banking activities from home without the need to visit a bank office. Likewise, micro lending websites make it possible to offer small loans to poor entrepreneurs who lack collateral, thus fostering economic development and job creation.

Through FinTech, not only accessibility but transparency, reduced costs, and convenience can be provided to the users. FinTech helps women, rural population, and marginalized segments of population to gain financial skills and knowledge to operate in the financial market. Moreover, with the help of integrated financial education modules and advice, FinTech platforms enable users to make well-informed financial decisions.

The objective of the research is to analyze the use of FinTech in promoting financial and social inclusion in India. The research will highlight the impact of digital financial services on marginalized segments of society, problems associated with their use, and possible ways through which these technologies can be used to promote equal access to financial products. In doing so, the analysis of government and industry-level policies related to FinTech will be conducted.

Review of Literature

(Prasada, Rama, Mahadewi, & Putra, 2024): This research examined how technology influenced traditional methods of payment in Indonesia, focusing on the rise of digital currency and fintech. Applying the socio-legal perspective, the research analyzed the legitimacy, advantages, and fairness of fintech in regard to several important regulations, namely, Bank Indonesia Regulation No. 19/12/PBI/2017 and OJK Regulation No. 77/POJK.01/2016. The development of fintech has greatly changed the dynamics of financial transactions by moving from traditional to digital means, having flourished in the time of the pandemic caused by COVID-19.

(Lestari & Rahmanto, 2023): The fast development of technology has significantly influenced consumer behavior and the banking sector, increasing efficiency, decreasing cost, and supporting financial inclusion, especially because of COVID-19. Fintech is one of the main innovative forces, providing innovative digital solutions and advertising, and, at the same time, being capable of disrupting traditional banks. The banks still play an important intermediary role and try to innovate by creating mobile banking, e-money, and ATMs, investing in fintech and corporate governance.

(Miah, 2023): Fintech is bringing changes to the world of finance through providing better access to digital banking, transactions, and investments, fostering inclusivity and minimizing socio-economic disparities. In spite of being beneficial to the underprivileged and fostering entrepreneurship, there are some problems such as data safety, compliance, and accessibility issues. Generally speaking, Fintech promotes financial inclusiveness and economic growth.

(Lagna & Ravishankar, 2022): There is a huge possibility of using Financial Technology (FinTech) to foster financial inclusion and alleviate poverty by offering financial services to poor people. Still, there has been little attention from Information Systems (IS) research in this matter. A framework is suggested, which includes five research streams – business strategy, digital artifacts, business environment, micro-foundations, and development outcomes. Academic research alone cannot have any direct impact, but it can have some effect on policy and practice.

(Giglio, 2021): The study explores the growth and development of FinTech and outlines the three main phases of its evolution resulting in FinTech 3.0, characterized by higher levels of competition, diversity and technological integration in the field. By analyzing the existing literature using systematic review of 14 studies, six main FinTech business models are identified – payments, wealth management, crowdfunding, loans, capital markets and insurance services. FinTech is defined internationally by such institutions as IMF, World Bank, FSB, OECD, IOSCO, and BIS, and nationally for such countries as USA, UK, Singapore, China, Switzerland, Australia, and EU.

(Allen, Gu, & Jagtiani, 2021): Innovation in lending, payments, blockchain, cryptocurrencies, and artificial intelligence made possible by the growth of FinTech resulted in democratization of credit and increased transparency. The current situation with the global COVID-19 pandemic has led to rapid digitization and the need to consider the algorithm resilience, performance of the loans, and regulation. These technologies have brought benefits in terms of efficiency and consumer empowerment, however, there are cybersecurity and privacy concerns related to them.

(Knewton & Rosenbaum, 2020): This paper describes FinTech and creates a framework for classifying the new FinTech industry, including the subsectors and FinTech firms. The authors create the basis for future research in the field of the economic importance of FinTech industry. But it is necessary

to emphasize that to maintain technological agility is important for the FinTech firm, and when growing up, the company will become a large multiline technology firm.

(Gomber, Koch, & Siering, 2017): The development of the financial sector is happening very fast due to digitalization, which helps to improve customer and back-office operations as well as offers new possibilities for business through Digital Finance. FinTech firms provide new products, services, and communication channels to change the traditional financial models. Research conducted on the Digital Finance Cube demonstrates that attention shifts towards crowdfunding and digital finance, but other sectors such as crowdfunding, digital insurance, digital money, and robo-advisory are still not developed.

Objectives

Objectives of the study have been formulated with a view to obtaining a complete understanding about the significance of FinTech in ensuring financial and social inclusion.

The objectives of the study are as follows:

- To understand the concept and scope of Financial Technology (FinTech) in facilitating financial inclusion.
- To understand the role of FinTech in the empowerment of marginalized people and social inclusion.
- To understand the government and institutional support in developing inclusive finance through FinTech.

Thus, by pursuing the above-stated objectives, the study tries to obtain a complete understanding about the FinTech revolution in the field of finance.

Research Methodology

This study identifies the contribution made by Financial Technology (FinTech) towards financial and social inclusion. This is a descriptive research study which takes into account various FinTech innovations, which include mobile banking, digital payments, micro lending, and blockchain based platforms. Also, the study analyzes how these technologies help to offer accessible, affordable, and timely financial services to the disadvantaged groups.

The study relies on secondary data collected from scholarly journals, news sites, policy documents, government publications, and other reliable sources related to the topic. Prior studies related to FinTech and financial inclusion have also been considered for the literature review.

Concept of Financial Technology (FinTech)

FinTech, short for Financial Technology, refers to the use of technology to offer financial services and solutions in an efficient, secure, and inclusive manner. FinTech employs technology to revolutionize traditional financial systems, save costs, and offer financial services to people and enterprises, especially those that have been under-served or excluded from them.

The scope of FinTech is broad and encompasses several key areas:

- **Online Payments:** The FinTech industry has made payments convenient through mobile wallets, UPI services, QR code-enabled payments, and contactless payment solutions. Using such tools, individuals can execute secure and low-cost transactions, even in those distant locations where banking systems are not very well developed.
- **Microfinance & Peer-to-Peer (P2P) Lending:** Through FinTech services, people are able to get themselves loans and financial credit services, which do not require collateral and also don't involve banks. With P2P lending, lenders get to lend money directly to borrowers without involving traditional banks.
- **E-Banking:** Online banking services like mobile banking applications, neobanks, and other such services provide cost-effective banking services to users. Through e-banking, customers can execute their various banking tasks, such as transferring money and paying bills.
- **Insurtech:** Insurtech refers to technology-based insurance schemes, and they make micro-insurance as well as custom-tailored insurance schemes possible. They ease the processes involved in handling policies, risk assessments, and claims, thus making insurance products affordable to disadvantaged people.

- **Blockchain and Cryptocurrency:** Blockchain technology provides security in financial transactions, and cryptocurrencies and distributed ledger technologies help to effectuate cross-border transactions. They lower transaction costs and improve financial transparency where there is underdeveloped banking structure.

Financial technologies eliminate both geographic and socio-economic restrictions on accessing financial products and thus allow people and enterprises to become participants of the financial system. By reducing transaction costs, improving efficiency, and ensuring transparency, FinTech enables those who had no access to savings, borrowing, insurances, and investment opportunities to become a part of it. In addition, it contributes to financial education and entrepreneurship.

Government Initiatives Supporting FinTech and Financial Inclusion in India

Several programs have been introduced by the Government of India in order to bring about financial inclusion and encourage the adoption of FinTech. The purpose of these programs is to bring about increased access to financial services along with enhancing the digital literacy of people and fostering innovation in the financial sector.

- **Pradhan Mantri Jan Dhan Yojana (PMJDY)**

The PMJDY program was started in the year 2014. It focuses on ensuring that all the citizens have access to banking facilities through the provision of zero balance savings account for all the citizens especially from the rural and disadvantaged regions. In addition, it provides other services including credit, insurance, and pension facilities which will enable the excluded groups to become part of the formal financial system. The program has been able to link millions of people to the banking facilities and thus providing the platform for FinTech financial inclusion.

- **Digital India Program**

The Digital India is an initiative that is meant to turn India into a digitally empowered society and knowledge economy. It ensures improved digital infrastructure, Internet connectivity, and digital literacy among others. By creating more awareness and access to digital facilities, it facilitates the adoption of FinTech services such as mobile banking, digital wallets, and online payments system.

- **Unified Payments Interface (UPI):**

UPI is a pioneering technology that enables quick, safe, and inexpensive digital payments from one bank account to another using a mobile phone. Through its seamless peer-to-peer and merchant payments, the UPI has revolutionized digital payment processes in India. With the help of its convenience and ability to interoperate across different banks, it has managed to bridge the digital divide for people in remote locations.

- **RBI Guidelines for Digital Banking and FinTech:**

The Reserve Bank of India (RBI) has formulated regulatory guidelines for promoting innovation in the field of FinTech while securing consumers' interest and finance. It covers digital banking licenses, cybersecurity regulations, payment systems regulations, digital lending regulations, and many other relevant areas. The RBI provides a well-structured and secure regulatory framework for FinTech startup companies.

- **Micro-finance and FinTech Partnership:**

Collaborations between the FinTech companies and the MFIs have been very beneficial for extending financial services to the underprivileged people. FinTech companies provide a platform which disburse small amounts of money as loans, insurance, and savings to poor people. They help to assess creditworthiness and ensure smooth financial transactions.

As a whole, these initiatives by the government provide an excellent ecosystem for FinTech solutions to flourish, leading to digital transformation as well as financial inclusion. Through offering banking facilities, raising digital awareness, and developing innovations for finance, these initiatives have the potential to empower marginalized communities in India.

Challenges in FinTech-Driven Financial Inclusion

Despite the transformative potential of Financial Technology (FinTech) in advancing financial and social inclusion, several challenges hinder its widespread adoption, particularly among marginalized and underserved populations. These challenges can be categorized into technological, socio-economic, regulatory, and cultural dimensions:

- **Digital Literacy and Awareness**

Many people, especially those residing in rural and semi-urban areas, lack digital literacy, making it difficult for them to take advantage of mobile banking, digital wallets, or other FinTech platforms. This can pose problems for the potential users since the use of these platforms requires awareness. Awareness campaigns or programs are generally ineffective in some ways.

- **Infrastructure Constraints**

Internet access, smartphones, and electricity are some of the key infrastructure that is required for the use of digital finance. Lack of the above infrastructure prevents people from using FinTech platforms. Apart from that, poor network coverage and internet connectivity may interrupt transaction, and this would reduce user confidence.

- **Cybersecurity Threats**

Since FinTech services operate in a digital manner, they make users susceptible to cybersecurity risks such as fraud, phishing, identity theft, and data breach.

- **Regulatory and Compliance Issues**

The rapid pace at which innovation is being made within the realm of FinTech might sometimes surpass existing regulations. This can result in uncertainties surrounding guidelines, inconsistencies in enforcing policies, and complex compliance requirements that could hinder the growth of FinTech startups. This problem could arise when there is any dispute or failure of transactions in a digital space.

- **Socio-Cultural Barriers**

Cultural attitudes, social traditions and mistrust in digital technology could pose challenges to the adoption of FinTech. For instance, certain cultural groups might prohibit women from using digital phones or being part of financial decision-making processes. Also, elderly people might avoid embracing new technological solutions because of fears of making mistakes.

- **Lack of Financial Literacy and Knowledge**

Even if people have access to digital tools, they might not have enough knowledge to use them correctly. Not understanding the terms associated with loans, how digital transactions work, and other financial products could limit usage of digital services.

- **High Cost of Implementing Technology**

Developing secure, user-friendly and reliable technology requires money, especially for small FinTech companies who seek to operate among low-income populations.

- **Trust Deficit in Digital Systems**

The marginalized individuals could have some skepticism towards the digital platforms owing to past instances of fraud, opacity, or lack of a grievance redressal system. It is essential to establish trust in the FinTech solutions for their adoption and sustenance.

To meet these challenges, a multi-faceted approach has to be adopted including government intervention, public private partnership, customer awareness, strong regulations and technological innovations. Once these challenges are surmounted, FinTech will go on to improve financial inclusion and foster social inclusion of the marginalized sections of society into the formal economy.

Conclusion

Financial technology, commonly known as FinTech, has proven to be a revolutionary way towards financial and social inclusion especially for developing nations including India. Through technologies such as mobile banking, digital payments, peer-to-peer lending, micro-insurance and block chain platforms, FinTech has ensured access to financial services that were previously out of reach due to issues of availability, costs and inefficiencies. FinTech has empowered the marginalized population groups by providing services such as banking, access to credit and insurance, education on financial literacy and support of entrepreneurship.

The government initiatives like Pradhan Mantri Jan Dhan Yojana (PMJDY), Digital India, Unified Payment Interface (UPI) and the regulations issued by the Reserve Bank of India have provided an enabling environment for the adoption of FinTech solutions. However, several factors continue to hamper universal adoption of FinTech services. These include lack of digital literacy, lack of required infrastructure, cyber security issues, socio-cultural issues and trust deficit.

Solving the above challenges through appropriate policy measures, awareness creation, training and development programs as well as designing inclusive technology will go a long way in realizing the positive impact of FinTech.

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