

WHAT ROLE DO FINTECH COMPANIES PLAY IN ENHANCING FINANCIAL INCLUSION IN EMERGING MARKETS?

Vansh Gupta*

**Sri Guru Tegh Bahadur Khalsa College, University of Delhi.*

***Corresponding Author:**

Email ID: vansh3gupta@gmail.com

Abstract:

Financial inclusion is important for economic development as it offers access to key financial services to individuals and businesses, especially in emerging markets. The emergence of financial technology (fintech) revolutionized financial inclusion by bypassing the conventional constraints of geographic distance, high transaction costs, and poor banking infrastructure. This paper examines the contribution of fintech companies towards promoting financial inclusion in emerging markets through an assessment of innovative solutions like mobile money platforms, digital lending, and alternative credit scoring models.

By examining the cases of successful fintech implementations like M-Pesa in Kenya and Paytm in India, the research illustrates how fintech solutions have increased financial access, facilitated economic participation, and led to socio-economic development. The paper also discusses challenges like regulatory obstacles, cybersecurity threats, and digital literacy gaps that can impede the adoption of fintech. While fintech offers a viable roadmap for inclusive financial systems, its sustained success calls for cooperation among policymakers, banks, and technology providers. By overcoming existing barriers, fintech holds the key to creating sustainable financial inclusion, decreasing income inequality, and ensuring economic resilience in emerging markets.

Keywords: Financial inclusion, Fintech, Emerging markets, Digital lending, Mobile money platforms

INTRODUCTION

Definition of Financial Inclusion

Financial inclusion refers to the process of ensuring that individuals and businesses, regardless of their socio-economic status, have access to affordable, reliable, and quality financial products and services. These services encompass essential financial tools such as savings, credit, insurance, and payment systems, enabling full participation in the economic activities of society. The aim is to eliminate barriers—such as cost, geographic inaccessibility, and lack of information—preventing underserved populations from accessing formal financial systems, particularly in low-income and rural areas. Financial inclusion consists of two key dimensions: access and usage. Access focuses on the availability of financial service points, including bank branches, ATMs, and digital platforms, providing individuals with opportunities to engage with the financial system. Usage emphasizes the active participation of individuals and businesses in employing these services to manage their financial needs, such as transactions, savings, or borrowing.

The advent of financial technology (fintech) has expanded the scope of financial inclusion by introducing a digital dimension. Digital financial inclusion leverages mobile phones, digital wallets, internet banking, and agent networks to extend financial services to previously unbanked or underserved populations. These innovations address traditional barriers by providing cost-effective and scalable solutions, particularly in remote or low-income areas.

Financial inclusion is recognized as a critical driver of socio-economic development. It supports broader goals such as poverty reduction, economic growth, and social equity, as reflected in the United Nations' Sustainable Development Goals (SDGs). Specifically, Target 8.10 emphasizes developing financial institutions to expand access to financial services globally.

A comprehensive approach to financial inclusion integrates both traditional and digital channels. Traditional inclusion focuses on services delivered by banks and microfinance institutions, measured through metrics like the number of branches, ATMs, and account ownership rates. Digital inclusion highlights the accessibility and usage of mobile money platforms, online payments, and agent networks.

However, access alone is insufficient; active usage of financial services is critical to unlocking the transformative potential of financial inclusion. For example, holding a bank account or mobile wallet only translates into meaningful benefits when actively used for transactions, savings, or credit.

In summary, financial inclusion represents a multidimensional framework that bridges socio-economic gaps by combining traditional and digital financial services, enabling inclusive economic participation and fostering sustainable development.

Overview of Fintech Companies

Fintech companies represent a transformative force within the global financial ecosystem, redefining the delivery and accessibility of financial services through innovative technology. Operating at the intersection of finance and technology, these firms leverage advancements such as artificial intelligence (AI), blockchain, mobile applications, cloud computing, and digital platforms to address inefficiencies in traditional financial systems. By doing so, they offer cost-effective, scalable, and inclusive solutions that extend financial services to underserved and unbanked populations, particularly in emerging markets.

The fintech landscape encompasses a broad range of activities, including payments, lending, investment management, insurance, and regulatory compliance (RegTech). These companies utilize asset-light models to circumvent barriers associated with physical infrastructure, reducing costs and expanding reach. For instance, mobile money platforms like M-PESA in Kenya have revolutionized access to financial services in regions with limited banking infrastructure, empowering millions of users with enhanced financial autonomy.

Beyond payments, fintech companies are diversifying their offerings to meet broader financial needs. Services such as microcredit, insurance, and personal financial management tools enable individuals to build assets, manage risks, and achieve financial resilience. Companies like MicroEnsure, for example, leverage partnerships with telecom operators to deliver affordable health and life insurance to low-income consumers, while remittance-focused platforms such as Xoom and Wise have reduced the cost of cross-border transactions, benefiting recipients in developing economies.

Globally, fintech hubs have emerged in cities like London, Singapore, Shanghai, and Zurich, as well as in smaller regions like Estonia and Malta. These centers drive innovation, supported by favourable regulatory environments and investments from venture capitalists, development finance institutions, and impact investors. Regulatory sandboxes, implemented in jurisdictions such as the UK and Singapore, provide controlled environments for fintech firms to test new products while balancing risks to financial stability and consumer protection.

However, the lack of standardized regulatory frameworks across jurisdictions poses challenges, including the potential for regulatory arbitrage, where firms exploit differences in regulations to optimize operations. Despite these complexities, fintech continues to disrupt traditional models, with advancements such as AI-driven tools and blockchain technology reshaping areas like investment management and decentralized finance.

The rise of fintech underscores its potential to drive financial inclusion, foster innovation, and contribute to economic growth. By addressing critical gaps in financial access and usage, fintech companies not only empower underserved populations but also enhance the efficiency and resilience of global financial systems. Their role in integrating advanced technologies with financial services ensures they remain pivotal in shaping the future of finance.

Importance of Financial Inclusion in Emerging Markets

Financial inclusion is a critical driver of socio-economic progress in emerging markets, where significant portions of the population remain unbanked or underbanked. By providing access to essential financial services such as savings, credit, insurance, and payments, financial inclusion empowers individuals and businesses to participate in formal economic activities, manage financial risks, and enhance overall economic stability.

In regions where traditional banking infrastructure is limited, financial inclusion bridges critical gaps. The introduction of innovative solutions, particularly through fintech, has enabled rapid expansion of access to financial services. Between 2014 and 2017, the percentage of adults with bank accounts in emerging markets increased from 41% to 50%, largely driven by mobile money platforms and digital banking systems. These technologies have effectively addressed barriers of cost, geography, and accessibility.

The economic impact of financial inclusion is profound. Research indicates that a 10% increase in financial inclusion correlates with a 1.7% reduction in poverty rates. Access to credit and savings mechanisms allows micro-entrepreneurs, who are central to many emerging economies, to invest in their businesses and improve productivity. Additionally, financial tools like insurance help mitigate risks, enabling individuals and families to manage financial shocks and invest in critical areas such as education and healthcare.

Technological advancements have played a transformative role in enhancing financial inclusion. Mobile platforms and agent networks facilitate transactions even in remote areas, as demonstrated by the success of mobile money services in countries like Zimbabwe, where such transactions account for 140% of GDP. Despite these advancements, significant challenges remain, including insufficient digital infrastructure, low financial literacy, and regulatory hurdles.

Addressing these barriers requires a collaborative effort between governments, private sector actors, and international organizations. Scalable, inclusive financial solutions tailored to the needs of underserved populations are essential for achieving equitable growth. Ultimately, financial inclusion is not merely a developmental goal but a catalyst for unlocking economic potential and fostering resilience in emerging markets.

The Relationship Between Fintech and Economic Development

Fintech is reshaping the global financial landscape and serving as a catalyst for economic development, particularly in emerging markets. By leveraging cutting-edge technologies such as mobile platforms, artificial intelligence (AI), and blockchain, fintech addresses systemic inefficiencies and barriers in traditional financial systems, promoting inclusivity and driving growth.

The transformative potential of fintech lies in its ability to democratize access to financial services. Mobile money platforms and digital wallets, for instance, have created avenues for unbanked populations to engage with the financial system. This inclusion enables individuals to manage resources efficiently, accumulate savings, and invest in education, healthcare, and entrepreneurial ventures. Fintech-driven credit and insurance solutions further empower micro-entrepreneurs, fostering job creation and income generation.

Moreover, fintech enhances economic efficiency by streamlining financial transactions. Blockchain technology facilitates secure and low-cost remittance services, ensuring that a higher proportion of funds reach the intended recipients. AI and machine learning enable personalized financial products, catering to the specific needs of diverse economic demographics. Emerging markets provide fertile ground for fintech innovation due to widespread mobile phone penetration and the significant size of unbanked populations. Two-thirds of adults without formal financial services in these regions own mobile phones, offering an entry point for digital inclusion. The scalability and asset-light nature of fintech solutions allow rapid deployment in infrastructure-deficient areas, driving financial inclusion and attracting investment.

In conclusion, fintech is a transformative force for economic development in emerging markets. By bridging financial gaps, fostering innovation, and attracting investments, fintech advances financial inclusion, drives sustainable growth, and reduces economic inequalities. Its continued evolution holds immense potential for reshaping the economic future of emerging economies.

Defining Financial Inclusion

Financial inclusion transcends mere access to banking services; it embodies the provision of affordable, timely, and adequate financial products and services to all segments of society, particularly the underserved (World Bank, 2021). In emerging markets, financial inclusion is pivotal in poverty alleviation, enhancing economic resilience, and fostering social empowerment. According to the World Bank, approximately 1.4 billion adults worldwide were unbanked in 2021, with a significant majority residing in low- and middle-income countries (World Bank, 2021). Limited access to financial services perpetuates poverty cycles, restricts entrepreneurial activities, and heightens economic vulnerabilities. Financial inclusion, therefore, serves as a bridge to economic equity, enabling individuals and communities to save, invest, and secure financial stability. Beyond the economic dimension, its cultural and social implications—such as fostering gender equality and empowering marginalized communities—underscore its broader significance.

Emerging markets often face unique challenges that exacerbate financial exclusion, including inadequate infrastructure, low literacy rates, and cultural barriers (Demirgüç-Kunt et al., 2021). However, they also present fertile grounds for innovation. The penetration of mobile technology, coupled with the advent of digital platforms, has created unprecedented opportunities for integrating millions into the formal financial ecosystem. It is within this context that fintech emerges as a transformative force capable of redefining financial access and participation.

Role of Fintech in Financial Inclusion

Fintech, short for financial technology, encompasses a spectrum of technological innovations aimed at delivering financial services efficiently and inclusively. In emerging markets, fintech operates as a disruptor of traditional financial paradigms, addressing gaps in accessibility, affordability, and usability. By leveraging technologies such as artificial intelligence (AI), blockchain, and mobile applications, fintech enables financial institutions to overcome geographic, economic, and cultural barriers that have historically hindered inclusion (Arner et al., 2016).

For instance, fintech platforms such as Paytm in India and Tigo Money in Latin America have democratized digital payments, allowing users to transact without the need for traditional bank accounts. Moreover, alternative credit scoring models, powered by AI and big data, enable the inclusion of individuals previously excluded due to lack of credit history (GPFI, 2020). These innovations not only expand access but also improve the quality and efficiency of financial services. The disruptive potential of fintech lies in its ability to innovate rapidly, adapt to local contexts, and create scalable solutions.

The socio-economic impact of fintech in emerging markets cannot be overstated. It has facilitated the growth of microenterprises, enabled smallholder farmers to access agricultural insurance, and provided women with tools to achieve financial independence. By addressing the unique needs of underserved populations, fintech fosters economic empowerment and contributes to broader development goals. For example, increasing financial inclusion through digital technology could boost GDP in emerging economies by up to 6% by 2025 (GPFI, 2020).

Purpose Statement

This paper explores the relationship between fintech and financial inclusion in emerging markets, examining how fintech innovations have redefined access to financial services and their socio-economic impact. It analyzes the challenges and risks associated with fintech adoption and emphasizes the need for sustainable, inclusive models. The study highlights diverse fintech applications, unconventional impacts, and regional differences, offering a comprehensive view of fintech's role in bridging financial divides. With global inequalities amplified by events like the COVID-19 pandemic, the urgency for financial inclusion is clear. Fintech's potential to innovate and disrupt is crucial, but realizing this requires addressing systemic challenges, fostering collaboration, and ensuring technology is accessible and affordable. This paper contributes to the ongoing discourse on transforming the financial landscape in emerging markets.

Evolution and scope of fintech

Fintech, short for financial technology, refers to the use of technology to deliver financial services in smarter and more efficient ways. Over the years, fintech has changed how people manage their money, save, invest, and make payments, making these services more accessible to a wider audience. This shift has been particularly important in emerging markets, where many people don't have easy access to traditional banking.

In its early days (1980s-2000s), fintech mainly involved digitizing traditional banking services. For example, Automated Teller Machines (ATMs) became popular, allowing people to access their money without visiting a bank branch. In the 1990s, online banking was introduced, letting customers check balances and transfer funds from home. However, these services were mostly available to people in cities with good internet and banking infrastructure, leaving rural populations and the unbanked without easy access (Wesselbaum, 2019).

From the 2000s to the 2010s, technology advanced rapidly, and fintech began to disrupt traditional banking. Platforms like PayPal allowed people to make payments and send money online. Mobile banking apps became more common, enabling people to manage their money from their smartphones. Peer-to-peer (P2P) lending platforms also emerged, where individuals could lend and borrow money directly without needing a bank. This made financial services more affordable, accessible, and flexible (Pereira, 2020).

In the last decade (2010s-present), fintech has expanded significantly. Technologies like blockchain enable secure, transparent transactions without needing middlemen like banks. Artificial intelligence (AI) has transformed how financial companies assess credit, detect fraud, and predict consumer behavior. Mobile money platforms like M-Pesa in Kenya have become critical for financial inclusion, allowing people to send money, save, and access loans using just their mobile phones. Fintech has also led to the rise of insurtech (insurance technology) and regtech (regulatory technology), improving the way insurance and regulatory services are provided (Skan, 2021).

Fintech has huge potential in emerging markets, where many people live in areas with no access to banks. For example, in Kenya, M-Pesa has allowed millions to access financial services without needing a formal bank account, providing a model that has been replicated in other countries. Mobile wallets, digital lending platforms, and micro-insurance products are all helping underserved populations in emerging markets. With smartphones becoming more affordable and internet access increasing, fintech is breaking down barriers to financial inclusion and giving people the tools they need to grow their businesses and improve their financial well-being (Skan, 2021).

In conclusion, fintech is revolutionizing finance in emerging markets, providing accessible, affordable, and innovative solutions to people who were once excluded from the traditional financial system, thereby supporting their economic advancement (Skan, 2021; Pereira, 2020).

Understanding Financial Inclusion

Financial Inclusion refers to ensuring that individuals and businesses, particularly those from marginalized groups, have access to affordable, appropriate, and secure financial services. These services typically include savings accounts, credit, insurance, and payments.

Pillars of Financial Inclusion:

1. Access:

- Access refers to the availability of financial services for individuals and businesses. In many emerging markets, large segments of the population, especially in rural areas, are excluded from the formal financial system due to a lack of physical banking infrastructure, distance from bank branches, or a lack of proper documentation to open an account.
- Fintech solutions such as mobile wallets, agent banking, and digital payment systems enable access to financial services in remote areas, overcoming the limitations of physical bank branches. With mobile phones as the primary tool, people can access financial services anytime and anywhere.

2. Usage:

- Usage involves how effectively individuals use financial products and services once they have access to them. It goes beyond just opening an account to actually using financial services for daily transactions, savings, credit, or investment purposes.
- Many fintech services focus on encouraging the active usage of services, such as peer-to-peer lending platforms, mobile savings programs, and digital wallets that enable microtransactions. The simplicity and affordability of fintech platforms drive adoption and regular usage by individuals who may not have previously trusted or had access to financial systems.

3. Quality:

- Quality pertains to the relevance, affordability, and security of financial services. The services must meet the specific needs of users, ensuring that they are easy to use, cost-effective, and provide a sense of security. For financial inclusion to be meaningful, these services must also be inclusive of various user groups, such as women, rural populations, or low-income individuals.
- Fintech companies are innovating to offer tailored products for underserved groups. For example, micro-insurance products allow low-income individuals to insure themselves against risks, while alternative credit scoring models provide access to credit for those without formal financial histories.

Fintech and Inclusion: How Technology Bridges Gaps, Mobile and Internet Penetration as Enablers for Fintech Growth

Technology is key to improving financial inclusion, especially in places where traditional banks are hard to reach. Mobile phones and internet connectivity have made it possible for fintech companies to offer financial services to people who might otherwise be excluded. Mobile phones, in particular, have become the main tool for accessing financial services in emerging markets. As mobile phone use has increased, mobile money platforms like M-Pesa in Kenya, GCash in the Philippines, and Paytm in India have allowed millions of people to store money, make payments, send remittances, and even access credit—all from their phones. These platforms have brought financial services to people without bank accounts, helping to bridge the gap in financial inclusion.

A great advantage of mobile-based fintech services is that they don't always require smartphones or internet connections. Many services use SMS (text messages) to enable people with basic phones to carry out transactions, which is especially useful in rural areas with limited internet access. This makes fintech accessible to a wider audience.

As internet access improves, more sophisticated financial services are becoming available. With affordable internet, fintech companies can offer services like online banking, digital wallets, and peer-to-peer lending. The expansion of 5G networks will further boost this growth, enabling faster and more reliable digital financial services.

Cloud computing and technologies like big data and artificial intelligence (AI) also support fintech growth. They allow companies to store and analyze data, create personalized financial products, and assess creditworthiness, even for people without a formal credit history. In all, fintech's use of mobile and internet technology is crucial in overcoming financial barriers and promoting inclusion in emerging markets. As these technologies continue to spread, fintech's potential to empower people and drive economic growth will grow as well.

1. Fintech as a Catalyst for Financial Inclusion in Emerging Markets

Fintech companies have gained prominence in recent years as an innovative force in driving financial inclusion. According to Pinar et al. (2019), fintech has the potential to reduce the barriers to financial access in emerging markets by utilizing mobile phones, internet connectivity, and alternative data sources. In many of these markets, traditional banking infrastructure is limited or absent, and a large portion of the population remains unbanked or underbanked. Fintech addresses these challenges by offering digital financial services that can reach populations in remote or underserved areas. Innovations such as mobile money platforms (e.g., M-Pesa in Kenya) have enabled individuals to store, transfer, and manage money using mobile phones, providing essential financial services to those previously excluded from the formal banking system (Jack & Suri, 2011).

Furthermore, mobile phones and internet connectivity are seen as critical enablers for fintech's growth in emerging markets. The widespread use of mobile phones in these regions allows fintech companies to deliver financial services

directly to users, eliminating the need for physical bank branches (Ozili, 2018). Mobile money platforms have been particularly effective in sub-Saharan Africa, where they have significantly increased financial inclusion by facilitating peer-to-peer transfers, bill payments, and access to savings accounts (Mbiti & Weil, 2016). According to a report by the World Bank (2020), over 21% of adults in low- and middle-income economies use mobile money, a clear indication of its transformative impact.

2. Microfinance and Digital Lending

Microfinance is another area where fintech has played a pivotal role in enhancing financial inclusion. Traditional microfinance institutions (MFIs) have long provided small loans to underserved populations, particularly in rural areas. However, they have faced limitations in scaling and reaching more clients due to the high costs associated with traditional banking infrastructure (Morduch, 1999). Fintech companies have revolutionized microfinance by leveraging technology to offer small, short-term loans at a lower cost. Digital lending platforms, such as Branch and Tala, use alternative data (e.g., mobile phone usage, social media activity) to assess creditworthiness, offering loans to individuals without formal credit histories (Pichler, 2019). These platforms have particularly benefited the unbanked, including small entrepreneurs and gig economy workers, who are often excluded from traditional financial systems due to a lack of credit records or collateral (FinTech Futures, 2020).

In addition to digital lending, fintech has also enhanced microinsurance in emerging markets. Mobile-based insurance products, such as weather-indexed crop insurance in Kenya, have allowed individuals to access affordable insurance coverage tailored to their needs (Castronova et al., 2016). These products provide protection against risks that are common in emerging markets, such as droughts or floods, and have been crucial for promoting financial resilience.

3. Payments and Remittances

Fintech's impact on payment systems and remittances has been transformative, particularly in emerging markets where cross-border payments are often expensive and inefficient. Traditional remittance systems, such as Western Union and MoneyGram, have high transaction fees and require recipients to travel to physical locations to collect funds. Fintech has significantly reduced these costs and made remittance services more accessible through digital platforms like M-Pesa, PayPal, and WorldRemit (Parker & Drake, 2020). These platforms allow users to send and receive money via their mobile phones or digital wallets, reducing the cost and improving the efficiency of cross-border transactions.

In Africa, M-Pesa has led the way in enabling affordable, secure, and accessible mobile payments, particularly for low-income households. A study by Suri & Jack (2016) found that M-Pesa has contributed to poverty reduction by improving access to financial services, facilitating economic activity, and reducing transaction costs for individuals and small businesses. In the Philippines, GCash has similarly transformed how users make payments and access financial services, further illustrating how fintech can promote financial inclusion in emerging markets.

4. Credit Scoring Innovations and Alternative Data

A significant barrier to financial inclusion in emerging markets is the lack of access to formal credit scores, which often prevents individuals and small businesses from securing loans. Traditional credit scoring systems rely heavily on data from formal financial institutions, which excludes many individuals in low-income or informal sectors. However, fintech companies have introduced alternative credit scoring models that utilize non-traditional data sources, such as mobile phone usage, social media behavior, and utility payments, to assess an individual's creditworthiness (Binns & Upton, 2018). These AI-driven models enable lenders to offer credit to underserved populations, including gig economy workers and small entrepreneurs, who lack formal credit histories but exhibit financial reliability through alternative data sources.

For instance, platforms like LenddoEFL and CreditVidya use alternative data to create credit scores, providing more inclusive lending opportunities in emerging markets. According to Zeng et al. (2020), the use of alternative credit scoring methods has helped extend access to credit to a broader range of people, fostering greater financial inclusion and supporting entrepreneurship.

5. Challenges and Limitations

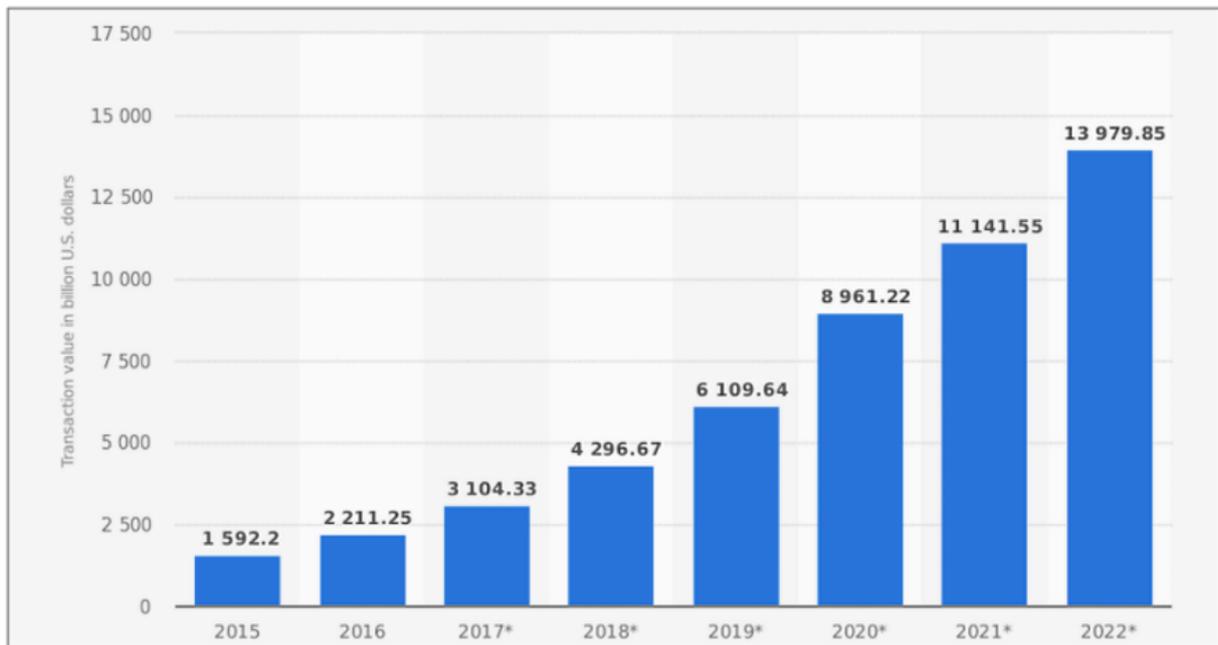
Despite its potential, the growth of fintech in emerging markets faces several challenges. Regulatory hurdles remain a significant issue, as many governments struggle to adapt to the rapidly changing landscape of digital finance (Ozili, 2018). In some regions, there is a lack of clear regulatory frameworks for digital financial services, which can create uncertainty and hinder the growth of fintech companies. Additionally, there are concerns about data privacy and cybersecurity, especially with the increased use of mobile phones and online platforms for financial transactions (Pichler, 2019). Ensuring the protection of user data and preventing fraud will be critical for the continued success of fintech in these markets.

Furthermore, while fintech has made significant strides in promoting financial inclusion, barriers such as digital literacy, internet access, and trust in technology remain issues that need to be addressed. In many emerging markets, low levels of digital literacy can hinder the adoption of fintech services, especially among older adults and rural populations (Gao et al., 2018).

The literature highlights that fintech has the potential to play a transformative role in enhancing financial inclusion in emerging markets. By providing accessible, affordable, and efficient financial services, fintech addresses the critical barriers of access, usage, and quality that have historically excluded millions of people from the formal financial system. Mobile money, digital lending, microinsurance, and alternative credit scoring are just some of the ways fintech is driving inclusion in these regions. However, challenges such as regulatory uncertainty, digital literacy, and data privacy must be addressed to ensure that fintech continues to make a positive impact. As technology continues to evolve and mobile and internet penetration increases, the future of financial inclusion in emerging markets looks promising, with fintech at the forefront of this revolution.

Analysis through case studies

Annual transaction value of mobile payment technology market worldwide



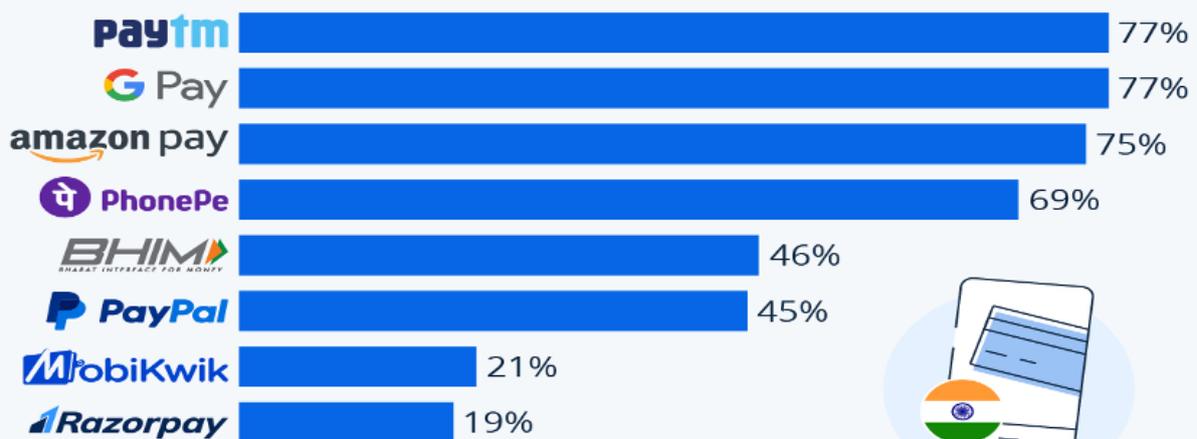
Source: Statista.com

The graph shows the huge growth of mobile payments from 2015 to 2022, which highlights the important role fintech companies play in improving financial inclusion in emerging markets. The value of mobile payment transactions grew from 1,592.2 billion USD in 2015 to an expected 13,979.85 billion USD in 2022. This sharp increase shows how quickly people are adopting mobile payments thanks to new fintech technologies.

In regions where traditional banking is hard to access, fintech companies are bridging the gap by offering digital payment solutions that are easy to use, affordable, and accessible. Many people in emerging markets don't have access to banks, but fintech helps by providing a simple way for them to make payments, save money, and even access credit using their mobile phones.

The significant rise in transaction values, especially during the COVID-19 pandemic in 2020, shows how fintech solutions allowed people to continue financial activities when physical banks were closed or difficult to access. This shift to mobile payments has helped small businesses, rural areas, and low-income individuals take part in the financial system. It also reduces the reliance on cash and speeds up the digital transformation of financial systems, making financial services more secure, efficient, and affordable for everyone.

Share of Indian respondents who said they had used the following online payment brands*



* in the past 12 months

2,500 Indian respondents (18-64 y/o) who use online payments surveyed Jul. 2022-Jun. 2023

Source: Statista Consumer Insights

The chart shows that Paytm and Google Pay lead India's digital payment space with 77% usage, followed by Amazon Pay at 75% and PhonePe at 69%. UPI-based platforms dominate, reflecting the success of India's UPI infrastructure. BHIM and PayPal see moderate usage (46% and 45%, respectively), while MobiKwik (21%) and Razorpay (19%) serve niche markets. The data highlights a strong mix of homegrown and foreign players, with UPI driving widespread adoption of digital payments in India.

Case Study: Paytm

Paytm, founded in 2010 by Vijay Shekhar Sharma, started as a platform for mobile recharges but quickly grew into a full-fledged digital payment system. Over the years, it expanded to offer services like mobile wallets, online payments, bill payments, and even financial products such as loans, insurance, and gold trading. Paytm's growth really took off after India's demonetization in 2016, which pushed many people to move away from cash and adopt digital payments. Today, Paytm is a key player in India's fintech scene, helping people who don't have access to traditional banking services. The platform's services, like point-of-sale systems for merchants, have helped small businesses and brought financial services to rural and semi-urban areas. With millions of users, Paytm is now one of the largest fintech companies in India, playing a major role in the country's shift to digital payments.

Paytm's Business Model & Innovations

Paytm offers several key features that help drive financial inclusion:

- **Mobile Wallet:** Paytm's mobile wallet allows users to store money, pay bills, and make payments to businesses, making it easy for people to manage their finances digitally.
- **QR Code Payments:** Paytm's QR code system lets small businesses accept digital payments without needing expensive equipment, making it affordable for even the smallest merchants to go cashless.
- **Paytm Payments Bank:** Launched in 2017, this service allows users to open digital savings accounts, send money, and pay for services, helping unbanked people access basic banking services without needing to visit a physical bank.

Revenue growth of 38% YoY



*For like-for-like comparisons, Mar-23 revenue in the above chart excludes ₹182 Cr UPI incentives received in that quarter

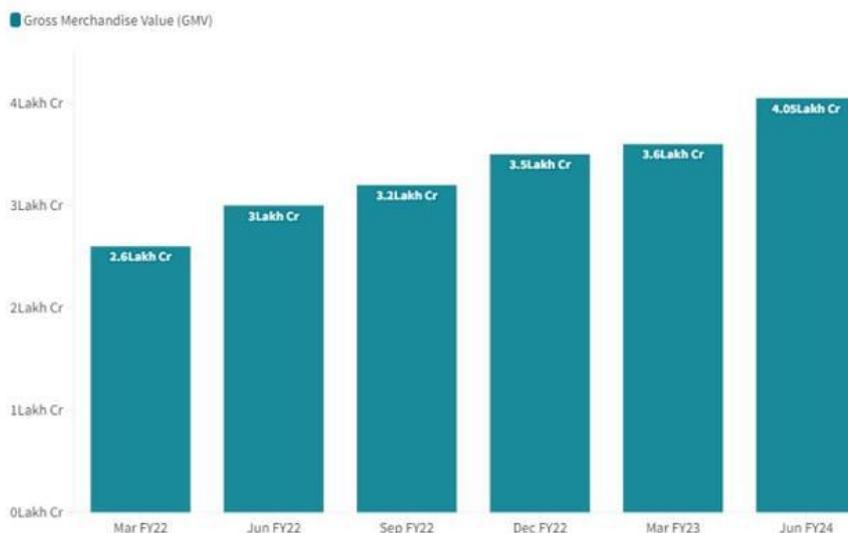
The chart shows that Paytm's revenue has steadily increased over five quarters, rising from ₹2,062 Crore in December 2022 to ₹2,850 Crore in December 2023, which is a 38% growth compared to the previous year. The revenue grew

gradually in each quarter, reaching ₹2,152 Crore in March 2023 (after excluding ₹182 Crore from UPI incentives for a fair comparison), ₹2,342 Crore in June 2023, ₹2,519 Crore in September 2023, and ₹2,850 Crore in December 2023.

This steady growth shows that Paytm is performing well and is successfully expanding in India's fast-growing fintech market. The exclusion of UPI incentives in March 2023 highlights Paytm's focus on earning revenue from its core business, which ensures long-term, sustainable growth. Paytm's performance reflects the growing popularity of digital payments and financial services, showing how fintech companies are playing a major role in improving financial inclusion and transforming payment systems in emerging markets like India.



Consistent growth in merchants payment value



The bar graph of Paytm shows a steady increase in Gross Merchandise Value (GMV) from March FY22 to June FY24. The GMV starts at 2.6 Lakh Crore in March FY22 and grows consistently, reaching 4.05 Lakh Crore in June FY24. Along the way, it shows incremental increases, with values of 3.1 Lakh Crore in June and September FY22, 3.5 Lakh Crore in December FY22, and 3.6 Lakh Crore in March FY23. The graph clearly shows a positive upward trend, with the GMV hitting its peak at 4.05 Lakh Crore in June FY24. This consistent growth highlights Paytm's increasing popularity among merchants, demonstrating its expanding role in digital payments. The graph also indicates strong momentum and business performance, emphasizing Paytm's growing position in the digital payment market.

Impact on Financial Inclusion in India and Other Emerging Markets

In the context of India, Paytm has played a pivotal role in the digital financial revolution, especially following the 2016 demonetization when the government pushed for a move towards cashless transactions. Paytm's growth was fueled by a surge in the demand for digital payment systems. As of 2023, Paytm boasts over 350 million users, a significant portion of whom are from rural and semi-urban areas.

Financial Inclusion in Emerging Markets: Paytm's success highlights the larger trend of how fintech companies are playing a central role in enhancing financial inclusion in emerging markets:

- **Overcoming Barriers:** In countries like India, significant portions of the population do not have access to physical banking services. By leveraging mobile phones and the internet, Paytm has bridged this gap, enabling users to perform transactions that were previously restricted to urban centers with physical infrastructure.
- **Reducing the Cost of Banking:** The digital-first nature of Paytm has dramatically reduced the costs associated with traditional banking services. This reduction in cost has made financial services more affordable and accessible, especially to lower-income populations in rural and underserved areas.
- **Boosting Economic Participation:** By providing access to credit, payments, and financial services, Paytm has empowered millions to participate more fully in the economy, improving their quality of life. The expansion of these services has also spurred the growth of digital businesses, further driving economic development in emerging markets.
- **Enabling Financial Products for the Underserved:** Fintech companies like Paytm are able to leverage data from users' transactions to create more personalized and accessible financial products, such as micro-loans and insurance. These services are often tailored to individuals who may have been excluded from traditional financial institutions due to a lack of credit history or formal documentation.

Conclusion

Paytm's case provides a compelling example of how fintech companies are playing a critical role in enhancing financial inclusion in emerging markets. By providing affordable, convenient, and accessible financial services, Paytm has not only transformed the way Indians manage money but has also paved the way for a more inclusive financial ecosystem. As digital adoption continues to grow, the role of fintech companies like Paytm will be increasingly important in ensuring that emerging market economies are able to achieve broader financial inclusion. However, overcoming challenges such as the digital divide and trust issues will be key to sustaining this momentum.

For researchers, Paytm offers a valuable case study in understanding the practical applications of fintech solutions and their ability to drive socio-economic change in emerging markets.

Case study M-Pesa

Introduction to M-Pesa

M-Pesa, launched in 2007 by Vodafone and Safaricom, is one of the most transformative mobile money services in the world. Initially created to facilitate microfinance loan repayments, M-Pesa quickly grew into a comprehensive mobile payment system that allowed Kenyan users to transfer money, pay bills, and access basic banking services, all through their mobile phones. With the low penetration of traditional banking services in rural areas and a large unbanked population in Kenya, M-Pesa leveraged mobile phones to provide financial services that were otherwise inaccessible to many people in Kenya and other African nations.

M-Pesa's Business Model & Innovation

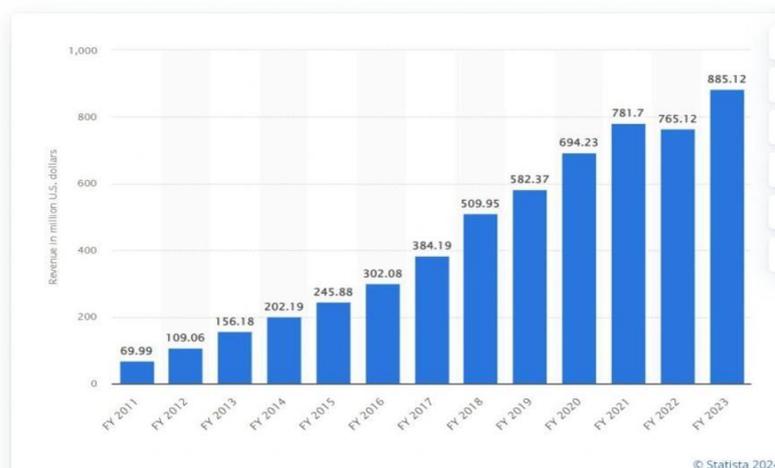
M-Pesa's business model revolves around mobile phones, utilizing text messaging (SMS) and mobile network technology to facilitate financial transactions. This model eliminates the need for expensive banking infrastructure like ATMs or physical branches, making it accessible to people in rural areas who might not otherwise have access to banks. The service works through a network of agents—local entrepreneurs who act as intermediaries for cash deposits and withdrawals.

Key features include:

- **Mobile Wallet:** Users can store money on their phones, send and receive money, and pay for goods and services using a mobile device.
- **Payment System:** M-Pesa enables users to pay for utilities, school fees, and even receive salaries and government disbursements.
- **Savings & Loans:** Through partnerships with financial institutions, M-Pesa offers microloans (M-Shwari) and savings products, expanding access to financial services.
- **Insurance:** M-Pesa has also introduced micro-insurance products, allowing users to access affordable coverage for health, life, and agriculture.

Safaricom M-Pesa revenue generated from 2010 to 2023

(in million U.S. dollars)



The chart showing M-Pesa's revenue growth from 2010 to 2023 highlights the crucial role fintech companies play in enhancing financial inclusion in emerging markets. M-Pesa's revenue growth, from \$69.99 million in FY2011 to \$885.12 million in FY2023, demonstrates the platform's widespread adoption and its success in closing financial access gaps. As a leading mobile money service, M-Pesa provides affordable, accessible, and user-friendly financial services, particularly in areas where traditional banking is limited. This growth reflects the increasing reliance on mobile money for essential financial activities like saving, transferring money, and making payments, especially in rural and underserved regions. The significant revenue spikes between FY2016 and FY2019, along with the peak in FY2023, showcase fintech's role in bridging the financial divide using mobile technology. Even during economic challenges, such as the slight plateau in growth in FY2021 and FY2022, M-Pesa remained vital in maintaining financial transactions, especially during crises like

COVID-19. By offering digital wallets, small loans, and payment solutions, M-Pesa supports small businesses and empowers individuals, ultimately promoting financial inclusion and reducing poverty in emerging markets.

M-Pesa and its competitors in Kenya



Source: Communications Authority of Kenya

The graph shows how M-Pesa is the leading mobile money service in Kenya, with a much larger user base compared to competitors like Airtel Money, Equitel Money, Mobile Pay, and T-Kash. M-Pesa's large number of users highlights its important role in bringing financial services to people who don't have access to regular banks. By using technology, M-Pesa is helping those who are excluded from traditional banking to manage their money easily. Its success comes from offering affordable, easy-to-use, and secure mobile money services, which allow millions of people and small businesses to take part in the financial system.

The small market share of other services shows the difficulties competitors face in gaining the same level of outreach and trust as M-Pesa. Fintech platforms like M-Pesa tackle major challenges to financial inclusion, such as long distances and high transaction costs, by allowing users to send money, pay bills, and access credit easily through their mobile phones. This innovation has become crucial in emerging markets, especially in rural and remote areas where traditional banks are scarce. By enabling people to manage their finances digitally, fintech services promote financial participation, reduce poverty, and support small businesses, ultimately driving economic inclusion.

M-Pesa's Impact on Financial Inclusion

- Reach and Penetration:** M-Pesa's impact is evident from its widespread use—by 2020, it had over 28 million active users, which means more than 70% of adults in Kenya were using it. This shows how mobile money has become a popular and essential service in a country where most people didn't have access to traditional banks.
- Transaction Volume:** In 2019, M-Pesa processed over \$20 billion in mobile payments and money transfers, which is a huge amount for Kenya's economy. This figure demonstrates how important M-Pesa has become in the country's financial system. The graph of M-Pesa's transaction volume over time shows a sharp increase, indicating more people are trusting and using the service.
- Growth of Mobile Money:** The World Bank reports that mobile money use in Kenya grew by over 20% between 2011 and 2020. M-Pesa's growth reflects a larger trend in emerging markets, especially in Africa, where traditional banks are often hard to reach or unavailable.

Conclusion

M-Pesa has proven to be a groundbreaking fintech solution that has significantly enhanced financial inclusion in Kenya. By enabling mobile-based financial transactions, M-Pesa has given millions of Kenyans the ability to send and receive money, access credit, and participate in the broader economy without the need for a traditional bank account. The success of M-Pesa demonstrates the immense potential of fintech companies to bridge the financial inclusion gap in emerging markets.

The case of M-Pesa underscores the role that fintech companies can play in transforming emerging markets by providing accessible, low-cost, and scalable solutions to financial exclusion. By using mobile phones as a platform for financial services, fintech companies can reach previously underserved populations, reduce costs associated with traditional banking, and empower individuals economically.

Unconventional areas of Impact by fintech companies

1. Gender Inclusion

Fintech has significantly empowered women in emerging markets, particularly in rural areas, by overcoming traditional barriers to financial inclusion. Key contributions include:

- Access to Banking & Financial Services: Mobile banking platforms and digital wallets enable women to manage their finances independently.
- Women-Centric Products: Fintech products tailored to female entrepreneurs, such as micro-loans and insurance, support economic participation and growth.
- Empowerment through Digital Services: Services like M-Pesa and bKash have given women greater control over financial decisions, improving both their economic mobility and financial independence.

2. Digital Ecosystems for Farmers

Fintech is transforming agriculture by providing small-scale farmers with access to critical financial services. Key innovations include:

- Mobile Payments and Transactions: Farmers can now purchase inputs (seeds, fertilizers) and make payments via mobile platforms.
- Digital Lending: Fintech platforms provide farmers with access to loans, improving their ability to invest in crops and machinery.
- Risk Mitigation: Weather-based insurance and other fintech solutions help farmers protect their livelihoods from climate-related risks, stabilizing income and productivity.

3. Cross-Border Remittances

Fintech has made cross-border remittance services faster, cheaper, and more secure, helping migrant workers send money home. Notable contributions include:

- Affordable Transfers: Platforms like Remitly and M-Pesa offer lower-cost remittance services compared to traditional banking channels.
- Quick and Accessible: Families in emerging markets can access funds swiftly, reducing dependence on informal and expensive remittance methods.
- Financial Inclusion for Migrants: Cross-border fintech solutions have made it easier for migrants to integrate into the formal financial system, fostering broader financial inclusion.

4. Sustainability and Green Financing

Fintech is also contributing to environmental sustainability by promoting green financing and impact investing. Key impacts include:

- Access to Eco-Friendly Investments: Fintech platforms allow individuals and communities to invest in renewable energy projects and sustainable initiatives.
- Supporting Environmental Projects: Through innovative financial products, fintech companies help fund projects that foster both economic growth and environmental resilience.
- Financial Products for Sustainable Development: Platforms offering green loans and eco-investment opportunities support underserved populations in building a sustainable future.

Overall Impact

Fintech companies are playing a crucial role in enhancing financial inclusion in emerging markets by overcoming traditional barriers and delivering essential financial services to underserved populations. Beyond conventional banking, fintech innovations have expanded access to financial services in several unconventional areas, fostering economic empowerment and social change. One significant area of impact is gender inclusion, where fintech has empowered women, particularly in rural areas, by enabling them to manage finances independently through mobile banking platforms and digital wallets. Products tailored for women, such as micro-loans and insurance, support their economic participation and growth. Services like M-Pesa and bKash have improved women's control over their financial decisions, leading to greater economic mobility and financial independence. These innovations are not only expanding access to financial services but also fostering economic growth, enhancing financial independence, and ensuring that underserved populations in emerging markets can participate in the global economy.

Challenges and Risks

Fintech companies enhancing financial inclusion in emerging markets face several challenges that could undermine their impact. These include data privacy and cybersecurity risks, the technology divide, regulatory hurdles, and technology literacy gaps.

Data Privacy and Cybersecurity

Fintech platforms handle vast amounts of sensitive data, making them prime targets for cyberattacks. Data breaches, fraud, and identity theft pose significant risks, especially in regions with weak data protection laws. According to PwC, nearly 50% of financial organizations experienced cyberattacks in 2020, highlighting the need for robust cybersecurity measures (PwC, 2020).

Technology Divide

In many emerging markets, low-income populations face barriers such as limited access to smartphones, high-speed internet, and digital literacy. The ITU reports that 3.7 billion people globally lack internet access, hindering participation in digital financial services (ITU, 2021).

Regulatory Hurdles

The regulatory environment for fintech can be inconsistent and outdated. In regions like Africa, fintech companies face challenges due to unclear regulations and the absence of supportive frameworks. McKinsey (2020) highlights that regulatory uncertainty can stifle innovation and hinder market growth.

Technology Literacy Gaps

Many individuals, particularly in rural areas, lack the knowledge to use fintech services effectively. The GSMA (2021) found that digital literacy is a major barrier to adoption, with many users unable to navigate mobile money platforms or understand how to protect their data.

Conclusion

Overcoming these challenges is essential for ensuring that fintech companies can continue to enhance financial inclusion in emerging markets. Addressing cybersecurity, the technology divide, regulatory uncertainty, and tech literacy gaps will help maximize the potential of fintech solutions.

Future Trajectory and Trends

Fintech in emerging markets is poised for further transformation through innovations in AI, blockchain, Decentralized Finance (DeFi), open banking, and a focus on inclusivity in emerging technologies. These trends will enhance financial inclusion by making financial services more accessible, efficient, and tailored to underserved populations.

Innovations on the Horizon: AI, Blockchain, and Emerging Technologies

AI can personalize financial products, enhance fraud detection, and improve alternative credit scoring models, which are critical for underserved populations (PwC, 2020). Blockchain offers transparency, reduced transaction costs, and faster cross-border payments, benefiting regions with limited banking infrastructure (ITU, 2021). Emerging technologies like 5G and IoT will further improve transaction speeds and reliability, supporting scalable fintech services (McKinsey, 2020).

Decentralized Finance (DeFi)

DeFi enables peer-to-peer financial services through blockchain, providing lending, borrowing, and insurance without intermediaries like banks. It empowers users in underserved regions, reducing transaction costs and offering financial autonomy (GSMA, 2021). However, challenges like regulatory uncertainty and security risks must be addressed to maximize DeFi's potential.

The Role of Open Banking

Open banking facilitates secure data sharing via APIs, enabling third-party fintech companies to offer personalized financial services. It promotes competition and improves financial access for underserved populations, such as those without traditional bank accounts (McKinsey, 2020). Effective implementation requires clear regulatory frameworks to ensure data privacy and consumer protection.

Inclusivity in Emerging Technologies

Ensuring inclusivity in fintech innovations is crucial. Low-income populations, women, and rural communities need access to user-friendly and affordable financial services. Collaboration between fintech companies, governments, and NGOs can enhance digital literacy and infrastructure in underserved areas (ITU, 2021).

Conclusion

In conclusion, fintech companies are playing a pivotal role in enhancing financial inclusion in emerging markets by addressing the traditional barriers to financial access, such as limited banking infrastructure, high transaction costs, and geographic isolation. Through innovations like mobile banking, digital wallets, and decentralized finance (DeFi), fintech has provided underserved populations—including women, rural communities, and low-income groups—with access to essential financial services. Technologies such as AI, blockchain, and open banking have further boosted accessibility, efficiency, and security, enabling personalized financial products and services. However, challenges such as data privacy concerns, cybersecurity risks, regulatory hurdles, and technological accessibility remain significant. Overcoming these challenges will be crucial for fintech to realize its full potential in fostering economic empowerment and social change. By focusing on inclusivity and addressing barriers to adoption, fintech can drive sustainable financial inclusion, ultimately contributing to broader economic growth and reducing inequality in emerging markets.

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