

Travel Report for Sten A. Olsson Foundation Scholarship 2018

Firstly, we would like to thank the Sten A. Olsson Foundation for making it possible for us to conduct the data collection for our thesis abroad in order to bring further value to our thesis on the topic of the role of FinTech companies for financial inclusion in India.

Research in Bangalore, India.

The scholarship was used to travel to India and conduct interviews with FinTech companies in the city of Bangalore. The reason why we wanted to go to India to conduct interviews for our thesis was that the current conditions of this country fits perfectly to the research we wanted to undertake. India is a country that is facing a severe problems of financial exclusion where for example only 53% of the population had access to a bank account in 2014. At the same time, India is also emerging as a global FinTech hub currently having over 600 FinTech companies. Many of these emerging FinTech companies are located in Bangalore, which is also known as “the Silicon Valley of India”, thus making it a natural choice for us to travel to as the chances of getting interviews with relevant companies likely would be higher there.

Overall, we spent six weeks in India, between March 27th to 11th of April, to conduct the interviews and gather the data we needed. A total of 10 FinTech companies were interviewed, and in addition to that, we also managed to set up meetings with several ‘experts’ within the field of FinTech and financial inclusion during our time in India to gain further input and inspiration. The main objective of the trip was thus to be able to conduct these interviews in a face-to-face fashion in order to gain a better understanding of the subject under investigation as well as to take consideration to the situation and environment.

One of the major things that we learned and experienced during our time in Bangalore was that the business culture in India is very unlike the one in Sweden. Setting up interviews with the FinTech companies was a real hassle as rescheduling as well as cancellations happened very frequently, and once a time and date was confirmed, being on time to that meeting did often not seem to be a priority for the respondents. Therefore, having as much time as six weeks in India was invaluable, as reschedulings then did not mean that the interview would not take place at all but that it still could be accommodated later on during our stay in India.

Research objectives & research question

Today, many individuals and small businesses all over the world have highly limited, or no access at all to basic formal financial services such as bank accounts, credit, digital money transfers etc. This carries large negative implications for the financially excluded, as it hinders them from escaping poverty and entails big risks and uncertainties.

Instead, the financially excluded do then often have to turn to informal financial services and products, which are unregulated and often more costly as well as risky. Although many initiatives from governments and private actors to promote financial inclusion have taken place throughout the world, the progress towards financial inclusion has been very slow. However, recent developments in digital technologies has allowed a new financial services sector to emerge, namely the FinTech sector, which is mainly constituted of new companies with new business models that leverage technology to provide financial services and products. Thus, FinTech is now frequently proposed as a potential solution to financial exclusion. At the same time, little research has been undertaken within the field of FinTech, especially in the context of financial exclusion, which led us to discover a need for investigating how FinTech companies could actually contribute to financial inclusion. This leads us to our main research question with its two sub-questions, which follow as:

How could FinTech companies contribute to the improvement of financial inclusion in the Indian economy?

- *How do Indian FinTech companies' business models account for the barriers to financial inclusion?*
- *What will the main challenges for Indian FinTech companies to improve financial inclusion be?*

Key Findings

What we found was that the FinTech companies are increasing the availability and affordability of formal financial services to the financially excluded by acting as intermediary platforms between existing providers of financial services and the financially excluded by leveraging their technologies to reduce the costs and risks for these other financial services providers and the financially excluded segment to interact with each other. To be able to act as such an intermediary platform, banks and other financial institutions become crucial partners for the FinTech companies. By basing distribution on mobile technologies, the FinTech companies are able to further increase the availability and affordability of financial services. To be able to penetrate and communicate with the financially excluded segment, the FinTech companies apply a combination of offline and online communication channels, where an emphasis is put on accessing local social networks by establishing a physical presence in the segment. To

do so, the FinTech companies leverage local entities that have pre-existing trust and legitimacy which thereby helps them increase the awareness and acceptance of their services in the segment.

Two major challenges for FinTech companies to be able to improve financial inclusion were however identified. Firstly, due to the physical presence needed in the financially excluded segment to spread awareness of their services and products, the FinTech companies face high customer acquisition costs in the lower parts of the financially excluded segment where the need for a physical presence is most acute, which thus lowers their incentives to serve the lower half of the segment. Secondly, by just focusing heavily on increasing the simplicity and usability of their services, and thereby just enabling the use of them for the many consumers that are digitally or financially illiterate, they are not really providing any education about how basic financial services and products function and the responsibilities, benefits and drawbacks they entail, to the people in the financially excluded segment who often lack such crucial knowledge. As the services FinTech companies provide might be their first contact with formal financial services, the consumers might have difficulties accepting and understanding the use of them. At the same time, the simple and user friendly interface of the services the FinTech companies provide help the FinTech companies to overcome some of the barriers of understanding, but if the consumer does not have sufficient knowledge of the underlying logics and dynamics of a financial service or product, they might spend their highly limited income on services and products unfit for their needs.

Thus, FinTech companies could likely greatly contribute to financial inclusion in India in the upper half of the financially excluded segment where acquisition costs are lower and the levels of financial and digital literacy are higher. Due to increasing costs of acquiring customers in the lower half of the segment however, the FinTech companies' ability to actually provide sustainable and affordable solutions to the excluded becomes questioned, and even if they were to solve the issue of acquisition costs, serving the lower half of the financially excluded segment might turn out harmful if the appropriate financial education is not simultaneously provided.



This picture is taken in a local market in Bangalore where two very curious vegetable sellers wanted to take a picture with us (6th April 2018)