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LEVEL OF DEEPENING FINANCIAL INFRASTRUCTURE, FINTECH COMPANIES AND FINANCIAL INCLUSION: THEORY AND EVIDENCE

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Abstract

Financial inclusion brings the potential benefits as big part of population gain greater access to financial instruments and services. These benefits are raised up using financial tools so the need of promoting financial inclusion is more than obvious - it is global priority. Financial infrastructure can help in reducing the risks and increase the efficiency of financial markets, but can sometimes contribute to situations where excessive risks are being taken. Financial infrastructure could be considered as a system of roads under which financial intermediation takes place. Better roads reduce travel time and costs, but also increase the potential speed, which has inherent risks. These benefits are raised up using financial tools so the need of promoting financial inclusion is more than obvious, it is global priority. This paper examines that financial developments expand economic opportunity which create positive effects as theory and evidences provide sound reasons for taking this benefits.

Key words: financial infrastructure, fintech company, financial inclusion, opportunities.

1. Introduction

Financial markets play a key role in economic development and stability, as they provide an effective mechanism for risk assessment and return on investment, and then managing and allocating risks and resources in the economy. Credit bureaus provide information needed for accurate and timely risk analysis, especially for consumer credit. Collateral systems provide information to warn creditors of the potential existence of past advocacy interests and to lend to creditors who register, securing their pledge, thereby reducing the risk to creditors and facilitating access to credit. Payments, remittances and securities settlement systems facilitate the execution of financial obligations and the safe transfer of funds over distances and institutions.

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Financial inclusion brings the potential benefits as big part of population gain greater access to financial instruments and services. This kind of inclusion offers to individuals and companies to work themselves far from poverty, women are more employee and better fating with gender equality across societies, as avenues for money laundering may be reduced. These benefits are raised up using financial tools so the need of promoting financial inclusion is more than obvious, it is global priority.

International organizations make this goal – the spread of the financial services – very important priority, especially for developing countries.

2. Literature review

Financial inclusion focuses on population which is “unbanked” to get into the formal financial system. In this way, people will have the opportunity to access to financial instruments and financial services – savings, payments as transfers to credit and insurance. This also is a kind of strategy which correct market failures and eliminate nonmarket barriers to access various financial products and services.

In total, financial inclusion is without doubt an important topic because it can influence the extent to which financial services and innovations can improve our lives. It is key to provide new opportunities for population in societies by driving forward inclusive global growth.

Defining financial inclusion as policy, contributes of finance to economic development and poverty reduction. This underlines the development of policies in finance in developing countries, and gives special place due to the positive impact that finance product and services have on misery index on the countries.

For example, the policies in financial sector take a place through three stages:

1. Fostering state-led industrial and agricultural development through directed credit;
2. Market-led development through liberalization and deregulation;
3. Institution building that aims at balancing market and government failures.

People that are not financially included, are not able to get affordable credit, and are financially at risk due to having no home insurance, struggle to budget and manage money or plan for the unexpected and not know how to make the most of their money (FSD, 2010). For example in the economic literature, Joshi (2011) defines financial inclusion as the process that ensures financial products and services needed by vulnerable groups (low income groups at low cost and transparent manner by mainstream Institutional players. According other authors, financial inclusion is defined as a strategy that should reach everyone who wants to use financial services, especial population with low incomes (Gardeva and Rhyne, 2011).

Further, Cheriyan (2011) numbers all type of accessing financial products and services - no frill bank account, financial advisory services, check in account, entrepreneurial credit,micro-credit,

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savings products, healthcare,remittances & payment services, business correspondence insurance, mortgage, pension for old age and selfhelp group branchless banking. Gardeva and Rhyne (2011) conclude that financial inclusion as global strategy that utilizes on global growth will be reached in the moment when all people have access to a suite of quality financial services, provided at affordable prices, in a convenient manner for the clients.

3. Overview of the financial infrastructure in the time of crisis

Financial infrastructure can help in reducing the risks and increase the efficiency of financial markets, but can sometimes contribute to situations where excessive risks are being taken. This seems to be the case in the current financial crisis. Financial infrastructure could be considered as a system of roads under which financial intermediation takes place. Better roads reduce travel time and costs, but also increase the potential speed, which has inherent risks. For example, fixed collateral can cause a bubble when funds are used to increase lending that increases asset prices. The data of credit bureaus and other financial information have enabled more complex models of consumer behavior. These types of models were behind many derivative products that helped create the current crisis. So, reforms in the financial infrastructure are more than needed today for developing the road and rules of playing.

The current period of dynamism and changes is not a reason to stop building a financial infrastructure; it's a challenge for more creativity and building solid framework for safe lending to modern payment systems which is particularly high today when countries are facing serious economic problems. Financial infrastructure strengthens financial markets, which in turn support business investment and spending on consumption and help boost economic growth. However, the lessons from the current crisis show the importance of establishing clear "road rules", the legal and regulatory framework, and the oversight of finance. Regulators have limited resources and cope so market participants also need to help implement traffic rules. Investors and borrowers need to be educated and proactive in seeking information about the products they buy. Technology can also engage in strengthening financial infrastructure, but must be used reasonably, not justifying or hiding excessive risk taking, as was the case with some derivatives modeling. Technological solutions have the crucial implications taking in account that it could include functions for enhancing stability, such as risk monitoring and could promote diversification of assets and service providers (Demirguç-Kunt and Levine, 2008).

4. Breakthrough in Global Fintech investment

The leading countries showed that financial inclusion has been on the policy agenda for many years. Also, the leading countries underline the value of consistency across all fields of financial inclusion. The reports confirm that these countries have comprehensive, wide-ranging financial inclusion strategies. And as they approved their financial infrastructure and put

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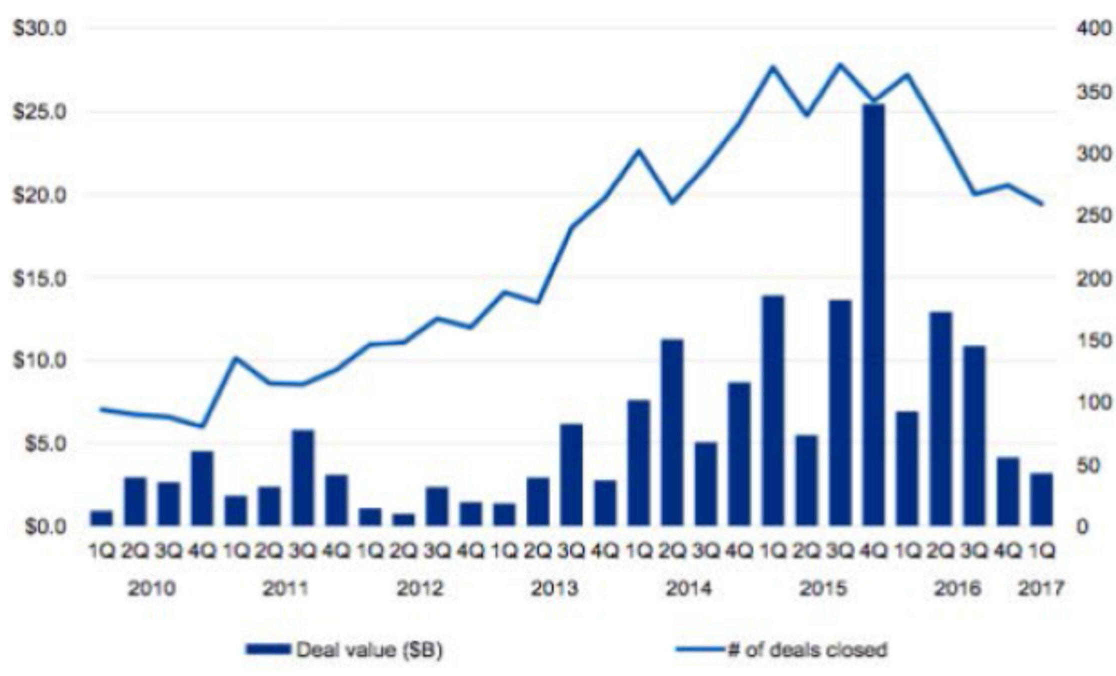
global payments.

Also, there have been a growing number of new financial companies and non-bank payment providers that engage and vibrate the payment world, taking advantage of a range of new technologies and market conditions, and extending alternative business models that could bring up disruption or addition to traditional payment practices. This trend was prompted by the healthy growth of global investments in the Fintex sector, led mainly by venture capital and private equity investors. Last year in the United States, in just one year, investment in the Fintex has almost tripled, and such innovative enthusiasm is apparent throughout the world. London, San Francisco and New York have already established themselves as key innovation centers and are rapidly following new innovative centers around the world. In addition, innovations are emerging in a range of business areas within the financial industry, with a major emphasis on developing solutions that address the needs of retail and middle-sized participants, from lending, payments and "large data" to messaging, security and foreign exchange .

4.1.1. Fintech patterns in VCs

Figure 3. Global Investment activity in fintech companies (2010-Q12017)



Source: Global Analysis of Investment in Fintech, KPMG, 2017.

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strengthening of public development banking institutions in the region to foster financial inclusion through new and innovative practices and instruments. Financial inclusion refers to the efforts and initiatives oriented to grant access to financial services by those segments of the population that are not part of the formal financial system and improve and perfect the use of the financial system for those that are already part of the formal financial system.

Regarding this, the investment in such a system has critical importance for societies. The start point for financial institution is to convince the population and educate them through offering benefits that ease the lives of the people, the purpose that financial institution wants to reach. It is understanding that it will vary from country to country, depending on various challenges the unbanked population faces during their daily lives. So, it is commonly understood that the simple way for financial inclusion is offering new instruments and easy digital technology to companies' employees for transferring and receiving money, even small amounts of money. New technology and innovative communication tools change the financial system improving the speed and safety as determining new lifestyle of population, the easy one.

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