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<u>**Review Research Paper**</u>

Role of Alternate Banking Partners in Financial Inclusions through Leading Private Banks

Shaurya[1*] and Dr. Bhushan Chandra Das[2]
[1]-Research Scholar, Department of Management, Sparsh Himalaya, Dehradun, Uttarakhand, India.
[2]-Associate Professor, Department of Management, Sparsh Himalaya, Dehradun, Uttarakhand, India.

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Corresponding Author:
Raghav Dua

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ABSTRACT

Financial inclusion is a goal that intends to guarantee that every person and company can use useful and affordable financial products and services: services such as transactions, payments, savings, credits, and insurance that are made responsibly and sustainably. Therefore, the role of other banking partners has been critical in realizing this objective, especially through the top private banks. This paper aims to answer the research questions on how partnerships with Fintech firms, Microfinance institutions, and NBFCs can assist in boosting the level of financial inclusion.

1. Introduction:

Financial inclusion provides financial services to needy individuals and businesses, which is defined as the economic and social process of including the excluded in formal financial services. Even with the improvements made, most of the population worldwide is still financially excluded and does not have access to official financial systems, primarily in the developing world. Solving this problem is complex; thus, there is a need to find new and better ways to work together. The traditional providers of financial services, namely the leading private banks, have been extending their relationships with other banking players, including the new age fintech companies, microfinance institutions, and non-bank financial companies.

These other banking partners are not without their specific advantages. Fintech firms use advanced technologies to develop convenient and easy-to-use financial services on mobile devices. This approach practically eliminates the obstacles hindering the unbanked and underbanked populations from accessing financial products and services. It provides them with a simple and affordable way of meeting their needs. Microfinance institutions that deliver small and flexible loans and other services to people experiencing poverty enhance their economic independence and business creation. NBFCs, however, operate in specific segments and offer products not available by traditional banks, thus filling the gaps in the financial system.

Hence, by partnering with these new-age partners, the top private banks can expand their network and increase service delivery without investing in brick-and-mortar branches. They also help the banks access new markets and enhance financial literacy, especially among communities with limited access to formal financial services. This study aims to examine the involvement of other banking partners in the provision of financial inclusion and analyze the Private Banks' case and best practices. Thus, the conclusions of this study stress the importance of partnership, which cannot be overemphasized when it comes to creating a reliable and effective financial system capable of promoting economic growth and development (Arner et al., 2015).

* Author can be contacted at: *Research Scholar, Department of Management, Sparsh Himalaya, Dehradun, Uttarakhand, India*
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2. Laying Out the Territory of Financial Inclusion

2.1 Understanding Financial Inclusion

On the other hand, financial inclusion has been described as the population's provision and use of financial services despite the barriers. It is rather vast and includes financial services categories such as deposit, credit, insurance, and payment services. Against this background, the following is the rationale of this paper that advocates for these services to be offered cheaply, conveniently, and feasible. Consumers require financial services since, through the services, they can invest in education, health, and business, thus enhancing their quality of life and the country's GDP.

2.2 The Global Financial Inclusion Gap

Some efforts have been made using the World Bank data; the level of financial inclusion has been enhanced by around 1. Global data reveal that over seven billion people worldwide are the world's adult population, and seven billion have no access to a formal financial institution. Most of these people are in the developing world, where issues like limited access to infrastructure, poor financial understanding, and tough rules remain a problem. To close this gap, new ideas and partnerships between conventional banks and other FSPs must be created.

3. Alternate Banking Partners: A brief on the research topic:

3.1 Fintech Companies

These firms leverage technology to offer financial services that are cheaper and more efficient than conventional banking systems. Their services include mobile banking, digital wallets, online lending platforms, and blockchain technology. Technological advancements in finance, commonly known as fintech, have ensured that the cost of financial services has greatly been reduced and made easily accessible.

3.2 Microfinance Institutions (MFIs)

Microfinance institutions are defined as providing financial services to people in need, especially the vulnerable in society, who are often disregarded by other formal financial institutions. They are involved in micro-lending, savings, and insurance services targeted at the bottom of the pyramid. MFIs are important in uplifting entrepreneurship and economic development at the pyramid's base (Beck *et al*., 2007).

3.3 Non-Banking Financial Companies (NBFCs)

NBFC stands for Non-Banking Financial Companies, institutions that provide banking services but are not banks. They offer loans, asset financing, and investments. NBFCs are more product-oriented and deliver products to segments or markets that normal banks do not tap.

4. Private Bank-Alternate Banking Partner Collaboration Benefits

4.1 Expanding Reach and Accessibility

Thus, private banks engage with fintech to extend their services to clients through digital platforms. Mobile banking and digital wallets do not require any branch and, therefore, assist the banks in covering distant and deprived areas easily. For instance, Kenya's M-Pesa, a mobile payment system developed by Safaricom, has revolutionized financial inclusion through mobile phones (Ozili, 2018).

4.2 Cost-Effective Service Delivery

Relationships with other banking institutions enable private banks to offer cheaper services to clients. Such solutions facilitate reducing the cost of transactions, and thus, MFIs and NBFCs extend financial services to the low-income population. This efficiency is quite important in enhancing financial inclusion as a sustainable process.

4.3 Innovation and Product Diversification

New banking partners are of great value for developing new tendencies in the banking services sphere. Fintech companies create new solutions, such as Artificial Intelligence and Blockchain, to enhance the services offered and the reliability of the service. MFIs and NBFCs give particular services, such as microcredit and insurance services, to specific groups of customers. They enhance the product offerings of private banks, enhancing the provision of the product.

4.4 Enhanced Customer Experience

Integrating technology adopted in fintech firms enables customers to get efficient and easy services through welcoming interfaces. The digital platforms improve real-time transactions, instant loan processing, and account management, among other things. This enhances and simplifies the process; thus, more people resort to formal financial institutions (Berger & Gleisner, 2009).

4.5 Financial Literacy and Education

Interestingly, cooperation with MFIs and NBFCs often addresses financial literacy, where people can learn about financial products and services. Such programs empower society with the right information that helps them make sound decisions regarding their finances, fostering a culture of saving and investing.

5. Best Practices in Partnerships

5.1 HDFC Bank and CSCs in India

HDFC Bank Limited, one of the leading private sector banks in India, has associated with Common Services Centers to enhance the process of financial inclusion. CSCs are channels via which various e-services find their way to the rural and isolated areas. In this case, HDFC Bank can leverage CSCs to offer banking services to the excluded population, which can access services like account opening, deposit, and loans. Due to the joint venture with SBI, it has been easier for HDFC Bank to attract more customers from rural areas, thereby increasing the number of financially included people in the country.

5.2 BBVA and Atom Bank in the UK

Atom Bank is another example of this. It is a digital-only bank in the United Kingdom, backed by BBVA, a Spanish multinational financial services company. Thus, the cooperation with Atom Bank allows BBVA to use the digital tools of the latter to provide its services to clients. Atom Bank is one of the banks that have adopted a mobile-only strategy. With advanced technology, you can see that efficiency and convenience have been enhanced for the customers. This partnership indicates that conventional banks cannot be left behind in partnering with fintechs, especially in improving financial inclusion (Paniagua *et al*., 2017).

5.3 Equity Bank and M-Kopa, in Kenya.

Equity Bank is one of the largest private banks in Kenya and has decided to partner with M-Kopa, which sells ASP (as seen on TV) solar energy products. This partnership connects financial and energy services, whereby clients can get solar systems on credit and pay through mobile money. This approach eradicates energy poverty and increases financial inclusion, allowing the low-income populace to obtain credit services.

6. Challenges in Collaboration

6.1 Regulatory Hurdles

Another critical challenge affecting these collaborations is the rules in the involved countries. The laws governing banking, fintech, microfinance institutions, and non-banking financial companies are different; thus, bringing these laws together for the said partnerships may be arduous. Such bodies must, therefore, have policies that support innovation in the financial sector while protecting the consumers and the industry's overall stability.

6.2 Technology Integration

It is not very easy to integrate innovations from the fintech area into the main banking structures. The former banking systems may be unable to support the new technologies, which may require additional IT spending. Therefore, managing these collaborations can be considered one of the factors that can influence their success.

6.3 Data Privacy and Security

Since the use of digital platforms is increasing, data protection and security have become crucial. It is vital to have data security and know the applied measures and rules for data protection. Therefore, banks and business associates must improve cybersecurity to protect valuable data (Cull *et al*., 2009).

6.4 Trust and Adoption

Financial inclusion is only possible if there is trust between clients and financial institutions, especially the underserved population. Some may not support the new changes in the financial and technological industries. Understanding the financial aspect and involving the community can greatly help boost the confidence level and usage of innovation.

6.5 Sustainability and Scalability

Among the challenges is how to continue and expand the financial inclusion agendas. This implies that such collaborations have to come up with business models that are financially sustainable in the long run. However, there must be progressive growth and sufficient funding to include more people in these models.

7. Strategies for Enhancing Collaborations

7.1 Developing Enabling Regulatory Frameworks

Government and other authorities should implement measures to encourage banks to cooperate with other alternative partners in banking. Policies should promote innovation and attempt to shield the consumer and the financial system simultaneously. They can be introduced to regulatory sandboxes, which refer to special areas where new financial products and services are approved and tried with the potential to be helpful (Mader, 2013).

7.2 Investing in Technology Infrastructure

The banks and their partners should also ensure that they spend more time and resources developing modern technology to integrate and deliver the services to the customers. Indeed, cloud computing, artificial intelligence, and blockchain technologies are useful in providing financial services. Continuous technology funding is needed to achieve the targeted financial inclusion goals (Demirguc-Kunt *et al*., 2018).

7.3 Promoting Financial Literacy

Financial literacy has to be included in the strategies for financial inclusion. These programs increase clients' understanding of financial management and the benefits of using formal financial services and digital channels. Financial education empowers people and gives them the knowledge to deal with these new products in finance.

7.4 Leveraging Data Analytics

Therefore, data analytics can assist the banks and their allies identify the consumers' trends and requirements, thus providing correct financial solutions and services. Hence, based on the data of transactions, financial institutions can describe the patterns, determine the customers' needs, and provide appropriate products. This analysis leads to enhanced customer knowledge and, in turn, improves customer satisfaction and financial inclusion.

7.5 Fostering Public-Private Partnerships

With that being the case, it can thus be said that PPPs can be very effective in enhancing and encouraging financial inclusion. Here are some of the ways through which the governments can collaborate with private banks and other banking counterparts to reach a large number of financially excluded populations: These collaborations are based on the harmonization between the two sectors with the view of achieving common objectives such as improving on the usage of financial services and the economic inclusion of the population (Allen *et al*., 2016).

8. Future Directions and Opportunities

8.1 Embracing Digital Currencies

The availability of digital currencies provides new opportunities to enhance the financial inclusion level. Today, digital currencies are rising, especially among the central banks and other financial institutions, to improve payment systems. Digital currencies can also reduce the costs of transactions, increase the degree of transparency in the transactions, and facilitate the movement of funds across borders, enhancing access to financial services.

8.2 Expanding Agent Banking Networks

Agent banking, which means giving banking services to agents who are not themselves banks, can be very helpful in enhancing financial inclusion. One way to improve the banking industry's outreach, especially to the unbanked population, is by expanding agent banking networks, especially in rural and remote areas. It has been noted that training and supporting local agents are very important in the operation of these networks (Hannig & Jansen, 2010).

8.3 Improving Relations with the Telecom Firms

Telecom operators are key in the growth of mobile banking and digital wallets, as they have been identified as the pillars of these services. Thus, partnering with telecom companies can complement the efforts of financial inclusion. MNOs can bring the required infrastructure and customer base for digital financial services.

8.4 Emphasizing the Financial Inclusion of Women

The female gender is still largely excluded from using formal financial services. Women must be the focal point of financial inclusion by providing specific financial services. This paper aims to review the literature on how women's financial inclusion can positively affect economic growth and poverty reduction (Gabor & Brooks, 2016).

8.5 Exploring Blockchain Technology

Thus, blockchain technology helps provide secure and transparent means for financial transactions. Some areas where it can be used in financial inclusion are digital identity, secure payment, and decentralized lending. This paper aims to establish that integrating blockchain in delivering financial services can be beneficial.

9. Conclusion

Thus, population integration must involve top commercial banks and other banking partners. Fintech, microfinance, and non-banking financial institutions offer new products to complement banking services, spreading and lowering financial service costs. Such collaborations have also shown that they can help transform the financial system and expand its services to financially excluded groups, boosting the economy. Legal, technological, and data protection issues are downsides (Kumar, 2013). Support legislation, technical advances, financial literacy, and data analysis can also improve collaboration. Future possibilities include digital currencies, agent banking, telecommunications collaboration, women's banking, and blockchain technology. These policies will help build a stronger, more inclusive, and stable financial sector to boost economic growth.

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