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# THE ROLE OF FINTECH IN BRIDGING THE DIVIDE FOR ECONOMIC EMPOWERMENT

Muhammed MIAH

*Tennessee State University, Nashville, TN, USA*  
*Corresponding author's e-mail: mmiah@tnstate.edu*

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**Abstract.** The financial industry is experiencing transformation through the emergence of Financial Technology (Fintech) which brings forth fresh and innovative approaches to accessing and managing financial services. As digital financial services continue to disrupt traditional banking systems, they have the potential to significantly reduce disparity. This study explores the impacts of Fintech on promoting inclusion enabling access to capital and fostering economic empowerment. It sheds light on how Fintech advancements play a role in addressing economic gaps. Through a comprehensive review, this research highlights how Fintech innovations improve access for underserved populations. It examines both success stories and challenges faced in regions emphasising how adaptable Fintech solutions are within socioeconomic contexts, and ultimately underscores the power of Fintech as a catalyst for promoting inclusivity and empowerment in the economy. By providing insights into how Fintech divides, this study offers guidance for policymakers, financial institutions, entrepreneurs, and researchers who aim to leverage financial technology for fostering inclusivity and prosperity.

**Keywords:** *Bridging divide, challenges, financial technology, Fintech, impact, role.*

**JEL Classification:** O32, O33

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## INTRODUCTION

The rise of Financial Technology (Fintech) has brought about a transformation, in the financial sector. Fintech is the merging of finance and technology encompassing advancements that aim to improve the efficiency of financial services and widen access to them. The emergence of Fintech has garnered attention. There are sparked discussions about one of the most crucial issues we face today – economic inequality – among policymakers, financial institutions, entrepreneurs and researchers.

Economic inequality, which refers to the distribution of income, wealth, and access to services has been an issue of concern for governments and societies worldwide for a considerable amount of time. Structures, cultural differences, and historical circumstances are often the factors influencing these disparities. Consequently, they create divisions among individuals and communities. This leads to a portion of the population being excluded from the formal financial system

resulting in limited availability of essential financial services, credit facilities and investment prospects (Stiglitz, 2013).

Fintech has become a game changer, in the realm of services offering a solution to bridge the gap, in economic disparities. This research article delves into the ways Fintech contributes to narrowing the divide fostering financial inclusivity and empowering marginalized communities who have been underserved for far too long.

### **The Rise of Fintech**

The growth of Fintech happened due to the combination of factors. The advancements in technology in communications, data analysis and cloud computing have laid the foundation for the expansion and accessibility of digital financial services. People from underserved areas can now easily access services, thanks to smartphones and the internet.

Furthermore, the evolving habits and demands of consumers have fuelled the need, for services that are easily accessible, convenient and user friendly. Nowadays customers are actively looking for options that can cater to their financial requirements, including payments, savings, investments and insurance (Demirgüç-Kunt et al., 2015).

Additionally, both emerging Fintech companies and established financial institutions have made investments, in research and development thereby promoting innovation and fostering healthy competition in the industry which created a surge in the availability of ground-breaking products and services that cater to a wide range of consumers.

### **The Promise of Financial Inclusion**

The core of Fintech's ability to bring about transformation lies in its power to promote inclusion, which is an essential element of both economic progress and reducing poverty. Financial inclusion pertains to ensuring that individuals and businesses regardless of their standing have access to and utilize formal financial services (Chen & Yang, 2020; Sarma & Pais, 2018).

In the past, many individuals have faced challenges in accessing services due to the distance from banks, extensive documentation requirements and high transaction costs. This approach has unfortunately resulted in billions of people globally being unable to access services, like saving accounts or affordable credit.

Fintech provides a way to overcome these challenges by using technologies to remove limitations, lower transaction expenses and simplify the process of becoming a customer. With the help of mobile banking applications, digital wallets and peer-to-peer lending platforms, people who were previously unable to access services can now conveniently enjoy a diverse range of offerings.

Fintech organisations also have been able to evaluate the creditworthiness of individuals who do not have credit histories by utilizing data sources such as mobile phone usage and social media activity.

This advancement has opened up opportunities for marginalized communities to access microloans and other types of credit that were previously out of reach.

## **Economic Empowerment through Fintech**

Apart from ensuring inclusivity, Fintech also plays a role in empowering economies. Having access to services acts as a driver for development allowing individuals to make investments in education, healthcare and business ventures. It serves as a safety net against expenses and aids individuals and businesses in managing financial obstacles.

For example, in developing economies digital payment systems powered by Fintech have played a role in supporting the expansion of small and medium sized enterprises (SMEs). These businesses, which are often overlooked by banks, have the ability to receive payments, broaden their customer reach and obtain necessary funds through digital lending platforms.

Moreover, the emergence of Fintech has paved the way for accessibility to investment opportunities enabling individuals to engage in markets with reduced fees and minimum investment thresholds. This breakthrough has the capacity to mitigate wealth disparities by granting people access to wealth accumulating assets, such as stocks and bonds (Akerlof & Shiller, 2003).

## **Research Objectives**

In light of the profound impact of Fintech on financial inclusion and economic empowerment, this research article aims to achieve the following objectives:

- To provide a comprehensive analysis of the ways in which Fintech innovations enhance financial access for underserved populations;
- To examine the success stories and challenges faced by Fintech adoption in various regions, highlighting the adaptability of Fintech solutions to diverse socioeconomic contexts;
- To assess the implications of Fintech adoption for traditional financial institutions, regulatory frameworks, and public policies, with a focus on mitigating potential risks associated with rapid technological advancements;
- To elucidate Fintech transformative potential as a catalyst for financial inclusion and economic empowerment, contributing to a more equitable global economic landscape.

Fintech is situated at the crossroads of finance and technology with the potential to make an impact on billions of lives by reducing disparities and promoting financial inclusivity. This research article aims to explore the aspects of Fintech role in bridging gaps offering valuable insights for policymakers, financial institutions, entrepreneurs and researchers who are interested in leveraging technology to foster economic inclusiveness and prosperity.

## **1. LITERATURE REVIEW**

The rise of financial technology, commonly known as Fintech, has brought about changes in the global financial industry. Fintech offers ground-breaking

solutions that can help bridge gaps and address challenges related to financial inclusion, accessibility, affordability and economic empowerment.

Ensuring that both individuals and businesses have access to services has been a significant focus for policymakers and researchers. Fintech is now widely acknowledged as a tool in promoting inclusion. For example, according to research by Jack and Suri (2018), mobile money services have successfully extended the reach of services to areas in developing nations.

The increasing popularity of smartphones and the advancement of user, Fintech apps have greatly enhanced people's access to services. According to a study conducted by Demirgüç-Kunt and Klapper (2018), Fintech advancements like mobile banking applications and digital wallets have made it simpler for individuals to handle their finances in regions with traditional banking facilities.

Small and medium sized enterprises play a crucial role in economic growth and job creation. Fintech has facilitated SME financing by providing alternative lending platforms. Allen et al. (2019) explored how Fintech lending platforms enabled SMEs to access capital more efficiently and at lower costs, thus fostering entrepreneurship and economic development.

Although Fintech has potential, it comes with its share of challenges and risks. In order to safeguard consumers and ensure stability, regulatory frameworks need to adjust to the changing Fintech landscape. The literature provided by G20 Insights (2019) emphasises the importance of cooperation in tackling the obstacles connected to Fintech.

To fully harness the potential of Fintech in closing the gaps, it is increasingly important to prioritize literacy and education. It is crucial to have designed financial education initiatives that empower people with the knowledge needed to make financial decisions utilising Fintech tools as highlighted by Lusardi and Mitchell (2014).

Chen and Wu (2023) present an analysis of the existing research regarding the impact of Fintech in addressing the gap. They highlight the avenues through which Fintech can contribute to enhancing inclusivity and diminishing financial disparities. Moreover, they delve into the obstacles and prospects that await us on this front.

According to the study conducted by Demirguc-Kunt et al. (2022), valuable insights into inclusion and digital payments have been gathered from more than 100 countries. The findings suggest that Fintech has significantly contributed to expanding access in developing nations.

The comprehensive overview of the Fintech industry provided by Gomber et al. (2022) delves into the trends and technologies that are propelling the Fintech revolution. It also thoroughly analyses how Fintech is affecting both the system and the economy.

The report from the World Bank explores how Fintech has the potential to bridge the gap in access. It highlights the ways in which Fintech can promote inclusion and reduce inequality citing successful examples of Fintech initiatives worldwide (World Bank, 2022).

To sum up, Fintech has become a driver in promoting inclusivity, accessibility, affordability and economic empowerment. Although the advantages are clear, it is

essential to tackle obstacles and encourage literacy to fully unlock Fintech's potential in narrowing economic gaps. Researchers and policymakers are actively studying the changing Fintech landscape to leverage its benefits while mitigating any risks.

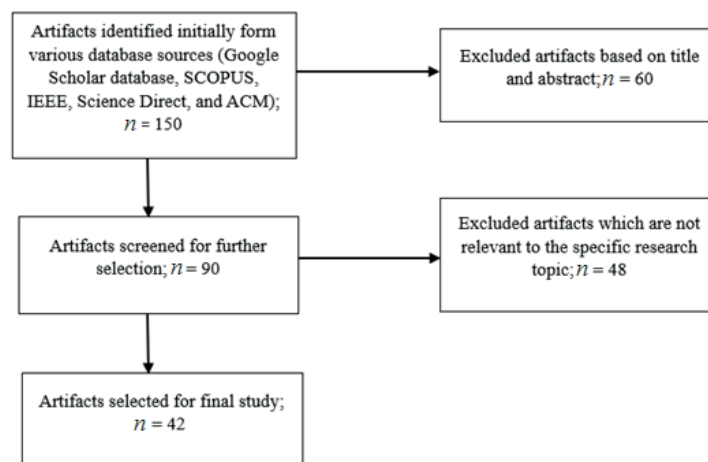
## 2. RESEARCH METHODOLOGY

In order to gain a comprehensive understanding of the potential of Fintech, a systematic literature review (SLR) was conducted by gathering openly available online content and published articles. Brocke et al. (2015) recommend that researchers conducting SLRs should make well-defined decisions regarding their choice of databases and journals, search term definitions, criteria for including or excluding papers, and strategies for citation analysis. In this particular study, special emphasis was placed on collecting sample articles from various database sources, including the open-access Google Scholar database, SCOPUS, IEEE, Science Direct, and ACM due to the innovative nature of Fintech.

The review criteria required that the content be published in its entirety, whether in a journal, conference proceedings, technical report, white paper, or blog, and that it be written in English. Various search terms were employed to adhere to the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) conditions (Moher et al., 2009). The PRISMA framework provides an evidence-based minimum set of items for reporting in systematic reviews and meta-analyses, and it has been widely adopted in academic research (Kruse et al., 2016).

The utilization of PRISMA in our analysis enabled us to employ clear guidelines to address well-defined research questions and to use systematic and explicit methods for the identification, selection, and critical evaluation of relevant publications to support the research objectives of this paper. In addition to academic publications, technical reports and notable blogs were also reviewed to capture the ever-evolving landscape of Fintech.

Figure 1 displays the screening and selection process of the artifacts finalized for the study.



**Fig. 1.** Screening and selection process of the artifacts finalized for the study.

### 3. SUCCESSFUL EXAMPLES OF FINTECH IN BRIDGING THE DIVIDE

Fintech is becoming more and more significant in addressing the gap by offering financial services to those who have limited access. Some major successful examples of Fintech in bridging the divide are described below.

*M-Pesa (Kenya):* M-Pesa has been a game changer in Kenya empowering the population. This mobile money transfer service enables individuals to effortlessly send and receive money, settle bills and even save using their devices. The influence of M-Pesa on the economy cannot be overstated; it has fostered inclusivity and played a crucial role in alleviating poverty (Musila & Otieno, 2018).

*Alipay (China):* Alipay is a mobile payment platform that has simplified the shopping and payment process for individuals in China. It seamlessly connects with e-commerce platforms and physical stores within the country. Additionally, Alipay has gained popularity as a method for sending and receiving money (Niu & Zhang, 2020).

*Paytm (India):* Paytm is a wallet platform that enables users to make online and in-store payments within India. In addition, Paytm provides a range of services, including loans, insurance and investment products. This has made Paytm increasingly favoured among individuals in India who may have limited access to banking services (Bhattacharya & Chandra, 2022).

*Branch (Nigeria):* Branch is a banking application designed specifically for Nigeria catering to individuals who have limited access to banking services. It utilises a range of data sources, including phone activity and social media insights to evaluate creditworthiness. By leveraging these approaches, Branch has successfully facilitated inclusion in Nigeria by providing easier access to essential financial services and empowering individuals to enhance their overall financial stability (Owolabi & Awosika, 2021).

*Kiva (Global):* Kiva functions as a platform for microlending facilitating connections between lenders and borrowers in developing nations. Lenders have the option to provide loans to individuals or groups catering to a range of needs like launching a business or covering costs. Kiva has made an impact by enabling more than 5 million individuals across 80 countries to access essential financial services (Dupas et al., 2015).

*Affirm (USA):* Affirm is a buy now, pay later (BNPL) company that offers consumers the ability to purchase goods and services in instalments without interest. Affirm has made it easier for people to access credit, especially those with poor credit history (Li & Yang, 2023; Nilsen & Viswanathan, 2023).

*Credit Karma (USA):* Credit Karma is a company focused on finance that offers credit scores and reports, along with valuable resources for financial education. Through its services, Credit Karma has assisted individuals in enhancing their understanding of matters and gaining access to credit opportunities (Bhutta & Skiba 2022b; Melzer, 2021).

*Chime (USA):* Chime is a bank that provides a range of financial solutions, such as checking and saving accounts, debit cards, and loans. Chime has significantly

improved access to services for individuals who have limited options with conventional banks (Agarwal & Bhutta, 2023; Bhutta & Skiba, 2022a).

*Klarna (Sweden)*: Klarna is a company that provides a buy now, pay later service in more than 45 countries. They offer payment options, such as dividing the payment into four instalments paying within 30 days or financing. Klarna has made it more convenient for individuals to obtain credit for those with a limited credit history (Li & Yang, 2023; Nilsen & Viswanathan, 2023).

*Nubank (Brazil)*: Nubank is a bank that provides a range of solutions, such as current and saving accounts, credit cards, and loans. Nubank has played a role in improving accessibility for individuals in Brazil, particularly those who have been overlooked by conventional banks (Agarwal & Bhutta, 2023; Bhutta & Skiba, 2022a).

Some notable instances of Fintech mentioned above are actively working to close the gap among financial services. The field of Fintech is progressing quickly with new companies emerging. Fintech has the potential to make services more accessible and affordable for individuals regardless of their income, credit history or location.

#### 4. WAYS FINTECH IS BRIDGING THE DIVIDE

In the evolving world of finance, Fintech is emerging as a game changer effectively closing gaps that have historically impeded economic advancement and access to financial services. Next, we discuss how Fintech is involved in bridging these gaps particularly by emphasising accessibility, affordability, and empowering individuals economically.

*Accessibility*: Fintech is making an impact by transforming the availability of financial services effectively bridging the gap that once separated millions of people from the formal financial system. Earlier, individuals faced exclusion from banking due to factors such as living in remote areas or lacking access to established banking facilities. Now, with the rise of smartphones and the introduction of Fintech applications this scenario has undergone a change. Research conducted by Jack and Suri (2018) has demonstrated the impact of mobile money services, which fall under the umbrella of Fintech in empowering individuals residing in underserved areas of developing nations. By utilising Fintech applications, people now have the ability to conveniently access banking facilities, conduct transactions, and even save funds. This increased accessibility is playing a role in promoting worldwide financial inclusion.

*Affordability*: Traditional banking services can be quite expensive and make it difficult for people with lower income to access them due to high fees and strict minimum balance requirements. However, the emergence of Fintech has brought about alternatives. Arner et al. (2016) highlighted how Fintech solutions like peer-to-peer lending and microfinance apps are revolutionizing the industry by offering cost options that are accessible to a wider range of individuals. These platforms enable borrowers and lenders to directly connect with each other eliminating middlemen and lowering expenses. As a result, people who were seen as risky by banks now have the opportunity to obtain credit and capital. This transformation is

not only fostering expansion but also empowering individuals to manage their financial destinies.

*Economic Empowerment:* Small and medium sized businesses (SMBs) play a role in driving economic growth and employment opportunities. However, they often face challenges when it comes to obtaining funding through traditional ways. The emergence of Fintech has changed the game by providing a level playing field. Research conducted by Allen et al. (2019) highlights how Fintech lending platforms have facilitated more cost-effective access to capital for SMBs. This improves entrepreneurship and economic development. Moreover, Fintech solutions are empowering individuals to handle their finances. Through the use of wallets, investment applications and robo advisors (Robo-Advisor: The Next Big Thing in Bundle Checking, 2016) people now have the ability to make informed financial choices and invest in assets that were only accessible to the wealthy before.

Fintech plays a vital role in transforming the financial industry by providing accessible, affordable and empowering services. As it progresses, Fintech can bridge gaps, promote well-being for people and businesses irrespective of where they are or their economic standing. Fintech is taking the lead in the path to achieving inclusion and empowerment.

## 5. BENEFITS OF FINTECH IN BRIDGING THE DIVIDE

Some of the major benefits of Fintech in bridging economic divides are described in Table 1.

Fintech has emerged as a powerful force in bridging economic divides, offering a range of benefits that are transforming the financial landscape. By expanding access, reducing costs, empowering individuals and businesses, and promoting financial literacy, Fintech is paving the way for a more inclusive and equitable financial system. As Fintech continues to evolve, we can expect to see even more innovative solutions that further bridge economic divides and create a more prosperous world for all.

**Table 1.** Major Benefits of Fintech in Bridging Economic Divide

Area/Venue	Benefits
Increased Financial Inclusion	The emergence of technology (Fintech) has created possibilities for individuals residing in underserved or geographically challenging regions granting them access to previously inaccessible financial services. As a result, people who were previously excluded from banking services can now actively participate in the system (Chen & Yang, 2020; Sarma & Pais, 2018).
Lower Transaction Costs	Fintech platforms frequently provide cost options with lower fees and decreased transaction expenses in comparison with traditional banking. This in turn makes financial services more accessible and affordable for a range of individuals (Egan & Bhargava, 2018).



Access to Credit	Fintech lending platforms provide access to credit for individuals and small businesses that may have been excluded by traditional banks, fostering entrepreneurship and economic growth (Altman & Tenev, 2017).
Digital Financial Literacy	Fintech platforms frequently incorporate functionalities to assist users in enhancing their understanding of finances and making knowledgeable choices regarding their financial matters (Demirgüç-Kunt et al., 2015).
Facilitating Cross-Border Transactions	Fintech services play a role in facilitating more economical cross-border transactions thereby increasing accessibility and affordability for international trade and remittances (Demirgüç-Kunt et al., 2015; Egan & Bhargava, 2018).
Micro-Investing and Wealth Accumulation	Fintech applications and automated financial advisors provide individuals with the opportunity to begin investing with small funds enabling them to build wealth and prepare for their financial future (Demirgüç-Kunt et al., 2015; Egan & Bhargava, 2018).
SME Financing and Growth	Fintech lending platforms provide SMEs with faster and more accessible financing options, contributing to business growth and job creation (Altman & Tenev, 2017).

## 6. CHALLENGES OF FINTECH IN BRIDGING THE DIVIDE

With a lot of benefits, Fintech is not out of challenges. Some major challenges of Fintech in bridging economic divides are described in Table 2.

**Table 2.** Major Challenges Benefits of Fintech in Bridging Economic Divide

Area/Venue	Challenges
Regulatory Complexity	The Fintech industry operates within a framework that is constantly changing and both startups and established institutions face difficulties in meeting compliance requirements (Financial Stability Board, 2021).
Data Security and Privacy	The increased reliance on digital platforms exposes users to potential data breaches and privacy concerns (Acquisti et al., 2015).
Uneven Digital Literacy	Not everyone has the necessary digital literacy to effectively use Fintech tools, which can create disparities in access and adoption (Lusardi & Mitchell, 2014).
Cybersecurity Threats	The Fintech industry is susceptible to cyberattacks and fraud, necessitating robust cybersecurity measures concerns (Acquisti et al., 2015).
Digital Exclusion	Not everyone has access to the necessary digital infrastructure (such as internet connectivity and smartphones) required to fully benefit from Fintech services, leading to digital exclusion (Lusardi & Mitchell, 2014).

Compliance and Risk Management	Fintech companies face the challenge of manoeuvring through landscapes and establishing strong risk management protocols to safeguard financial transactions effectively (Brunnermeier & Sanfilippo, 2018; Financial Stability Board, 2021).
Lack of Interoperability	The smooth transfer of funds and information can be impeded by the lack of compatibility between Fintech platforms and traditional banking systems (Demirgüç-Kunt et al., 2015; Egan & Bhargava, 2018).
Consumer Protection	Fintech users may face challenges related to fraud, misrepresentation, and dispute resolution, necessitating strong consumer protection measures (Acharya & Sundararajan, 2020; Financial Stability Board, 2021).
Technological Gaps	Socioeconomic disparities can lead to technological gaps where certain populations lack access to the latest Fintech innovations, exacerbating divides (Allen & Lepenies, 2017).
Scalability and Infrastructure	Expanding Fintech services to underserved areas often requires building the necessary infrastructure and addressing scalability issues (Bordo & Fazio, 2013; Demirgüç-Kunt et al., 2015; Egan & Bhargava, 2018).

By addressing these challenges and adopting a comprehensive approach, Fintech can truly fulfil its potential to bridge economic divides and create a more inclusive and equitable financial landscape.

## 7. OPPORTUNITIES OF FINTECH IN BRIDGING THE DIVIDE

Fintech has a lot of opportunities in bridging economic divides, some of the major opportunities are described in Table 3.

**Table 3.** Major Opportunities of Fintech in Bridging Economic Divide

Area/Venue	Opportunities
Global Reach	Fintech has the potential to reach underserved populations globally, breaking down geographical barriers (Bordo & Fazio, 2013; Demirgüç-Kunt et al., 2015; Egan & Bhargava, 2018).
Customized Financial Products	Fintech allows for the innovation of customized products designed to meet the requirements of various user demographics (Brynjolfsson & Peppas, 2016; Demirgüç-Kunt et al., 2015; Egan & Bhargava, 2018).
Blockchain and Financial Inclusion	Blockchain technology has the potential to improve transparency and security in transactions, which can be especially advantageous for individuals seeking affordable financial services (Brunnermeier & Sanfilippo, 2018;

	Cecchetti, 2017; Demirgüç-Kunt et al., 2015; Egan & Bhargava, 2018).
Financial Education and Inclusion	Fintech platforms can incorporate financial education features, improving users' financial literacy and decision-making capabilities (Demirgüç-Kunt et al., 2015).
Cross-Border Transactions	Fintech has the ability to simplify and streamline cross-border transactions, which in turn makes international trade, remittances and investment more convenient and cost effective (Demirgüç-Kunt et al., 2015; Egan & Bhargava, 2018).
Financial Inclusion through Digital Identity	Fintech can employ digital identity solutions, like biometrics and blockchain based identity verification to provide services to individuals who do not possess identification documents (Demirgüç-Kunt et al., 2015; Egan & Bhargava, 2018).
Collaboration with Traditional Financial Institutions	Fintech firms have the opportunity to partner with banks and financial institutions expanding their influence and providing solutions while leveraging existing infrastructure (Brynjolfsson & Peppas, 2016; Demirgüç-Kunt et al., 2015; Egan & Bhargava, 2018).
Blockchain-Based Cross-Border Payments	Blockchain technology has the potential to simplify cross-border payments bringing down transaction expenses and making international remittances more economically feasible (Brunnermeier & Sanfilippo, 2018; Cecchetti, 2017; Demirgüç-Kunt et al., 2015; Egan & Bhargava, 2018).
Microinsurance and Risk Mitigation	Fintech can facilitate the distribution of microinsurance products, offering vulnerable populations protection against financial shocks and risks (Akhtar & Franco, 2020; Demirgüç-Kunt et al., 2015; Egan & Bhargava, 2018).
Financial Inclusion Partnerships	Governments, NGOs, and Fintech companies can form partnerships to foster financial inclusion through initiatives that provide financial literacy training and support (Brynjolfsson & Peppas, 2016; Demirgüç-Kunt et al., 2015; Egan & Bhargava, 2018).
Alternative Credit Scoring Models	Fintech firms can develop alternative credit scoring models that take into account non-traditional data sources, allowing individuals with limited credit history to access credit (Bordo & Fazio, 2013; Chen & Yang, 2020).

These opportunities showcase how Fintech can have an impact on bridging gaps. It does by widening the reach of services enhancing financial education and boosting economic resilience for marginalized communities. However, it is crucial to evaluate these prospects within the circumstances of regions and communities.

## CONCLUSION

The role of Fintech in narrowing the gap is undoubtedly transformative and full of promise. Fintech has emerged as a tool for reducing social and geographical disparities worldwide. By introducing solutions like banking, digital payments and blockchain technology, Fintech has significantly increased financial inclusion by providing essential financial services to millions of previously underserved individuals. Moreover, Fintech has made investment opportunities to people enabling them to participate in the global economy. Platforms for crowdfunding, robo advisors and peer-to-peer lending have lowered barriers for entrepreneurs and investors alike fostering growth and reducing wealth inequalities. Nevertheless, it is important to acknowledge that while Fintech has the potential to bridge the gap, it also faces challenges related to data security, compliance and ensuring access for all in our digitally connected society. The role of Fintech in narrowing disparities is an evolving process that requires development and ongoing innovation. With these efforts combined, Fintech can contribute towards driving growth and creating a more equitable world that is interconnected.

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### **AUTHOR'S SHORT BIOGRAPHY**



**Dr Muhammed Miah** is a Professor and Interim Chair of Business Information Systems Department at Tennessee State University. Dr Miah has many years of teaching experience at both graduate and undergraduate levels. He graduated with a PhD in Computer Science from the University of Texas at Arlington, an MBA in Computer Information Systems from Quinnipiac University, a Master degree in Computer and Information Science from the University of New Haven, and a Bachelor degree in Engineering from Khulna University of Engineering and Technology, Bangladesh. He has a significant number of journal and conference publications. Dr Miah also serves in several journal editorial boards. His research interests include data analytics, data mining, database, information retrieval, technology changes, social media, online education, e-commerce, etc.

E-mail: [mmiah@tnstate.edu](mailto:mmiah@tnstate.edu)

ORCID iD: <https://orcid.org/0000-0003-4800-2681>