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DIGITAL FINANCIAL INCLUSION IN INDIA

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Abstract

Digital financial inclusion refers to the internet access to use the formal financial services by excluded and underserved population. E-Banking activity in rural India results in increased usage of financial services and improved living conditions due to the technological involvement in financial inclusion. Financial inclusion, as a result of digital financial services, also promotes economic growth. The purpose of this research is to identify the factors that influence the adoption of digital financial services, as well as people's intentions to use them. This will aid in determining how the correct technology and strategy may help India achieve financial inclusion. The study also tries to identify the role of digital financial inclusion in the country's economic growth. This study is exploratory in nature, with an emphasis on utilizing secondary sources of data related to financial inclusion to better understand new banking technology and people's perceptions on adoption and usage of banking services.

Keywords: COVID-19 Pandemic, Digitization, Economic Growth, Financial Inclusion, Financial Technology, Mobile Banking.

Introduction

Digital financial inclusion is described as affordable digital access to and use of formal banking services by the unserved and underserved people (Lauer and Lyman 2015). Despite the government of India's various legislative measures aimed at reaching the final mile, financial inclusion for the average person remains elusive. While legislative measures and changes such as demonetisation (2016) and the goods and services tax have contributed in the adoption of digital financial systems, the COVID-19 pandemic has increased acceptance across all socioeconomic sectors. Despite the fact that digital technologies have boosted growth, improved opportunities, and enhanced service delivery, their overall impact has been small and unequal (World Bank 2016).

Mobile technology has made its way into every facet of professional and personal interactions. Mobile devices aren't just for communication; they're also an important part of the growing business paradigm (Aggarwal2019).Over 80 nations have now adopted digital financial services, with a few reaching significant scale. As an outcome, millions of previously ignored and underprivileged users are shifting away from money transactions toward formal financial services such as payments, fund transfers, savings, credit, health coverage and even securities all of which are accessible via mobile phone or other digital media. The image is rapidly evolving due to the development of ever more advanced technology (World Bank 2021).

In India, financial inclusion policy is essentially divided into two components, each directed by the Reserve Bank of India (RBI), India's monetary authority, and the Government of India. The RBI promotes bank account ownership by using inflation-targeting procedures and enacting measures to increase the density of banking and financial services across the country.

Apart from business correspondents (BC), payment banks, and small financing banks, digital financial inclusion has gained significance. Payments have been revolutionized due to innovations like IMPS, UPI, and AEPS. According to reports, 280 crore worth of transactions were done over UPI alone in June 2021, reflecting the uptick in digital payment acceptance across socioeconomic groups throughout the month.

Previously, there was a cash-based economy that gave way to a card-based economy. Now, mobile payments are rapidly taking their place (Sharma, Aggarwal and Gupta 2019). Technology is facilitating India's digital inclusion revolution by providing individuals with simple-to-use mobile applications, many regional language options, speed, security, and privacy. It promotes digital financial inclusion throughout the country through the use of digital payment gateways such as RuPay, BHIM, and other digital payment solutions. The acceptance of electronic payment by over 15 million kirana outlets throughout

India is a remarkable an instance of how digital inclusion through digital literacy is boosting the Indian economy across the board (Financial Express, 2021).

Review of Literature

Stella & Durai, (2019) tries to understand the Impact of Digital Finance on Financial Inclusion. Financial inclusion is defined as having access to financial goods and services such as bank accounts, insurance, remittance and payment services and financial advisory services. It allows consumers to plan for future stability by providing a high rate of bank deposit that provides a stable deposit base as well as chances to save, invest, and get credit. Several banks have implemented new banking technology to handle the "Digital Finance" scenario, which really is novel to banking customers. Thus, digital finance has restructured the banking business.

Malladi et al, (2021) analyzes the challenges and opportunities in digital financial inclusion.Digital technologies are boosting adoption and having a beneficial influence on individuals' livelihoods. This paper addresses what has been accomplished in the field of financial inclusion in this country so far, what will be accomplished in the upcoming time, as well as how individuals could use and harness digital technology to build a more inclusive society. This paper discusses the various barriers to developing a more inclusive society.

Shen et al, (2020) intends to present a study on digital financial inclusion and economic growth: A cross-country.The purpose of the study is to provide a methodology for evaluating digital financial inclusion that can be used to compare countries. Using World Bank and IMF data, it generates the index of digital financial inclusion and measures the amount of digital financial inclusion in 105 economies. The linkages between digital financial inclusion and economic development were then explored for 86 neighbouring countries utilising geographical data and methodology. Based on the research, digital financial inclusion boosts economic growth and has a regional impact on nearby nations.

Mondal, (2020) explored India's digital financial inclusion and inclusive growth.The study includes that an effective financial system is a requirement for a country's socioeconomic success. It serves as a foundation for the mobilisation of savings and their allocation to productive resources.

Recent advancements in communication technology may be leveraged extremely effectively to bring financially excluded persons into the digital financial inclusion fold in a cost-effective manner. Financial inclusion is critical for inclusive economic growth, and digital financial services can help.

Agrawal and Jain, (2019) did a study on digital financial inclusion in India.It includes that financial inclusion is a multidimensional notion. As a result of technology engagement in financial inclusion, mobile banking activity across rural India contributes to higher use of financial services and greater living circumstances. Despite growing industry, many users of mobile phones continue to lack access to banking goods and financial services. This shows that commercial banks have a sizable untapped market. Mobile banking in India is still in its early phases of development.

Mishchenko and Naumenkova (2019) investigated the impact of Ukraine's present stage of economic digitalization on financial inclusion.The goal was to determine how much of the adult population could participate in the official financial services system through new channels and financial service systems, how prevalent price and non-price obstacles were for the Ukrainian community in comparison to other communities. The study's conclusions emphasise the significance of digital financial inclusion for keeping an eye on banking companies' and their representatives' involvement in the supply of digital financial services.

Bachas et al (2018) did a study on how digital financial services go a long way. As per the study, debit cards shorten the distance required to access bank accounts, hence improving financial inclusion. In Mexico, recipients of money transfers who had their funds stored into bank accounts and accepted debit cards reduced their distance travelled to the account from 4.8 to 1.3 kilometres and mentioned being less likely to give up essential tasks in order to withdraw their transfer. They identified a significant negative correlation between travel distance reduction and financial behaviour using account-level data: users with the highest distance reduction increased both the frequency of withdrawals and the amount saved.

Koh, Phoon, & Ha (2018)contributes to the literature on digital financial inclusion in surveying the current status of such inclusion in South East AsiaThe G20 Financial Inclusion Indicators and the conceptual digital financial inclusion growth pathway framework are used in this paper to examine the current state of financial inclusion, the efficacy of policy measures to deliver financial services, and potential development pathways for South East Asian (SEA) nations towards financial inclusion, despite the fact that there is no single, widely accepted concept or definition of financial inclusion.

Ogawa, Khera, Ng& Sahay (2022) examined is digital financial inclusion enabling economic growth? Digital financial services have been a key determinant of financial inclusion in past years. While there is proof that traditional financial inclusion boosts growth in the economy, do the same conclusions apply to digital financial inclusion? What is the push behind digital financial inclusion? Why does it move quicker in certain countries compared to others? Based on the results of a cross-sectional instrument variable method research, the exogenous component of digital financial inclusion is positively connected to GDP per capita growth from 2011 to 2018, meaning that digital financial inclusion can increase economic growth.

Singh (2017)outlines a few of the key concepts underlying financial inclusion, including banking access, digital payments, and financial literacy, as well as the markets for health insurance, crop insurance, agricultural credit, and small business financing. After that, it analyses several empirical research on crucial facets of financial inclusion in emerging nations. The research then looks at a number of recent studies conducted in India and supported by the International Growth Centre that are related to these particular facets of financial inclusion. The study concludes by outlining future research objectives and their potential policy consequences.

Rationale of Study

While India has made considerable progress in digital literacy, digital financial inclusion remains a major challenge. The country's comprehensive engagement in digital finance will pave the road for economic prosperity. As a developing country, digital financial inclusion is vital to ensure that the benefits of digitalization are shared fairly. People will finally be able to dream and live their lives on their own terms as a result of financial inclusion. It will provide a fresh lease on life to millions of Indians across the country. This study explains how the digital financial inclusion contributes to the country's overall economic growth and how the digitization can help in financial inclusion.

Research Methodology

The current study is exploratory in nature, relying on secondary data sources such as national and international journals, magazines, papers, and studies issued by research groups like as Deloitte, KPMG, Forbes, and Mckinsey etc. For the purpose of the study, reports issued by various regulatory bodies such as the Reserve Bank of India (RBI), the National Payments Corporation of India (NPCI) etc. were also taken into account.

Objectives

- To identify various factors that influences the adoption of digital financial services.
- To identify various challenges faced in rural areas for digital adoption.
- To understand the role of digital financial inclusion in the economic growth of the country.

Findings

Factors influencing the adoption of digital financial services:

- **Exposure through travel and physical engagement**: Travel and physical involvement provide opportunities for exposure. The more a rural person interacts with individuals in more urban surroundings outside of their block or tehsil, the more inclined they become to accept digital payments. This might simply be due to increased engagement with digital environments (more usage, individuals adopting digital payments, and more advertising).
- **Exposure through advertising:** Advertising provides exposure. Advertising on television, radio, and at cricket matches is a factor for influencing the uptake.
- **Aspirations:** Adoption was boosted by the aspirational link with "Digital India" (or "Digital Bharat"), especially among younger people. Even in rural towns with low internet access, Digital payments appear to be a substitute for a forward-thinking, technologically hopeful image of India that pertains with

some aspiring individuals. Adoption of digital payments is motivated by a desire to be more connected to the digital economy than by any specific use.

- **Significant hand-holding:** Due to the issues of digital literacy, financial and general literacy, interested people in remote regions who were willing to try out and maybe adopt digital payment received a lot of help. This was frequently obtained via a financial institution's agent, a corporation in the value chain's agent, or relatives or friends.
- **Convenience and safety:** As in metro cities, convenience was commonly quoted as a justification for using digital payments. Rural businesses have more to gain by engaging in a local digital ecosystem than their urban counterparts as their expenses of keeping currency (including driving time to and from a bank, leading to lost income) are higher. The simplicity of receiving money digitally and sending it to suppliers without having to worry about security can be a key driver of digital adoption.
- **Long term value:** People who use mobile payments stated they were prepared to deal with the inconvenience of altering their behaviour in the short term because it helps in saving money in the long run.

Challenges faced in rural areas for digital adoption:

Several things need to happen for digital financial companies to spread their operations into rural regions at a scale. At present the ecosystem for growth is quite thin and there are various challenges involved which are:

- Many individuals in rural parts of the country are yet to enjoy access to the infrastructure needed to foster trust and regular usage of digital services. Despite rising smart phone penetration, digital payment applications remain a niche product that competes for limited mobile space with popular usage apps such as WhatsApp and Facebook.
- As there is no reliable electricity, keeping the phone charged might be difficult. Despite initiatives like the Bharat Broadband Network, that intends to extend fibre optic

connection to all of India's nearby villages, as well as corporate sector efforts, many rural areas lack the bandwidth required to run the data-heavy apps offered by digital finance firms. According to the Telecoms Regulatory Authority of India, rural India has just 15 internet users per 100 populations, compared to 71 in metropolitan regions (TRAI).

- Rural economies remain predominantly cash-based, considering some early adoption of digital banking in remote areas, such as via digitising some value chain transactions. Any type of financial activity is uncommon in certain poorest rural regions, and digital payments offer little benefit to subsistence lifestyles.
- Where people do generate a surplus, the amount of money they can save and spend digitally is restricted. Money should be kept liquid in case of emergencies or unanticipated expenses, instead of being locked into an electronic account that need an internet connection to access. People who are underprivileged are more sensitive to charges of data and while internet services in the country are inexpensive, it is not free. Multiple meaningful uses are required to raise the relative value of digital currency, which are currently lacking in most rural settings.
- There are 22 main languages in India, as well as 270 distinct mother tongues. However, the majority of digital banking solutions are offered in English and, on occasion, Hindi. Paytm is already accessible in 11 languages, with more on the way, but even these will not be sufficient for a substantial number of rural people. This does not account for the percent of Indians who are still illiterate.
- Due to India's history of state-owned banks, it's more difficult for younger, private institutions to establish a degree of confidence that will allow clients to put their money in an account. Customers will not deposit money unless it is a state-owned bank, ideally the State Bank of India, according to various sources.
- It's one thing to have faith in the institution, but providers must also provide faith in the services. The customer experience must be outstanding in order for people to utilise the service again and tell

others about it. Trust, on the other hand, is difficult to earn and simple to lose - a negative experience may taint a person's impression of a service and make them less likely to use it again.

- As digital finance providers expand into lower-income regions, they will confront new issues related to literacy and the capacity to understand the principles and practical implications of utilising digital banking products. However, in terms of consumer protection, this information is crucial. Digital financial products are frequently seen as too complicated, with extraneous features that divert the user's attention away from the product's essential function (such as making a payment).
- People are afraid of being dragged into the tax net. Some merchants believe that transitioning from the cash to the digital financial sector will push consumers and small companies that are now outside the tax system to pay taxes.

Role of digital financial inclusion to the country's economic growth:

By enabling access to a variety of financial services and products for people as well as small, medium, and large businesses, fintech has the ability to enhance the gross domestic product (GDP) of digitally enabled economies resulting in increased aggregate expenditure and higher GDP. Customers can take advantage from improved economic stability and financial services as a result of digital finance.

Digital finance creates revenue for the government by facilitating larger aggregate expenditure, which leads to higher tax collection as the amount of financial transactions increases. Users may benefit from online banking as well, since they will have greater control over their accounts by making rapid financial decisions and being able to transfer payments in minutes. India is a good example of how numerous policy changes relating to digital finance, such as the transformation of the conventional banking system with the central bank playing a key role, may overcome many of the issues of inclusive financial growth that were previously impossible.

Since 2009, when the Aadhar programme was introduced for all Indians, it has been the world's first initiative to give biometric identity. India has developed a number of cutting-edge digital platforms that are available to the public. Each platform addresses a specific requirement, such as identification, payments, or data exchange, and is built within the regulatory framework.

Digital banking has already touched over 420 million Indians, paving the way for digital financial inclusion. This is contributing significantly to the shift in socioeconomic behaviour toward digital money. It allows India's rural and semi-rural populations to safely use digital gateways. According to a 2019 ASSOCHAM - PwC estimate, as a result, country's digital payment value is expected to be more than triple to $135.2 billion by 2023.

The acceptance and use of digital technology, including its cost, dependability, speed, and usability influence the degree of digitization in any area. These elements have been found to reduce unemployment, improve quality of life, and increase access to public services for the general people. Although not all at once, digitization has a big impact on economic growth and makes it possible for governments to run more efficiently and openly.

The employment of digital technology is used as a technique of enhancing economic activity in the current stagnant global economy. In order to increase economic activity in the existing, stagnating global economy, digital technology is employed. Although integrated services and devices have made it feasible for digital technology to be widely adopted, their impact on economic growth and job creation differ from country to country. Although advanced economies have had better growth and productivity as a result of digitization, developing nations have witnessed bigger employment increases.

While India has made considerable advances in digital literacy, digital financial inclusion remains a major challenge. The country's total participation in online banking could open the door for economic growth consistent with global trends. As a young nation, digital financial inclusion is vital to ensure that the advantages of digitalization are distributed equitably. It serves as the most efficient means of achieving inclusive development. People will finally be able to dream and live their lives on their own terms as a result of financial inclusion. It will provide a fresh lease on life to millions of Indians across the country.

Conclusion

Digital transformation has already touched almost all parts of the world and now is only pushing the pace. Digital financial inclusion helps to improve economic wellbeing of individuals and businesses. In the coming years, digital transactions in financial operations will be the most preferred. However, the benefits of digital financial inclusion have not been fairly distributed. Within the country, considerable work has to be done to close the gap between accessing and using technical breakthroughs for digital transactions. The extension of digital services and bank accounts merely will not be enough to alleviate the systemic restrictions that disadvantaged people experience. A government push, customers' capacity to accept digital, and the regulator's open-minded approach to technology are all coming together. Financial literacy, social and educational inclusion, greater cybersecurity and tougher legislation, and enhanced digital infrastructure are all necessary for the country's next wave of financial inclusion to grab attention.

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