

## "Empowering Financial Inclusion Through Digitalization"

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### Abstract

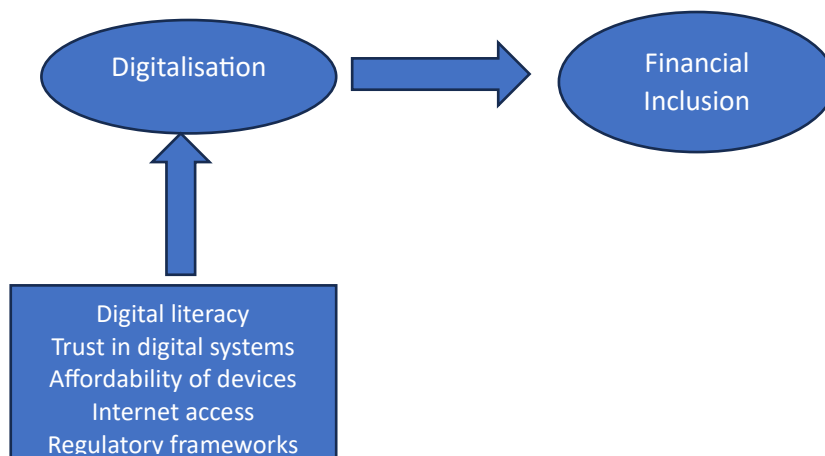
The financial sector is the backbone of economic expansion and has a significant impact on how a nation's economy evolves. The recognition and proactive support for financial inclusion by both the Reserve Bank of India (RBI) and the Indian government mark a pivotal milestone in the country's economic evolution. They are working together to promote financial inclusion as part of a concerted effort to close the socioeconomic gap in the country. The purpose of the current study is to analyse how digitalization affects financial inclusion in an economy. The Reserve Bank of India and the Indian government's official releases serve as the exclusive source of primary data for this study. This study discovered a strong link between digitalization and financial inclusion in the Indian economy. Significant components that are directly linked to efficient economic digitalization were also found.

**Keywords:** Financial Inclusion; Digitalisation; Reserve Bank of India; Government of India; World Bank.

### Introduction

India, being one of the world's most populous and rapidly advancing nations, recognizes the significance of financial inclusion, as emphasized by the World Bank Group. Financial inclusion entails ensuring that both individuals and businesses have access to beneficial and cost effective financial products and services. These encompass payment solutions, transactions, savings, credit, and insurance, all delivered in a sustainable and ethical manner. This accessibility plays a crucial role in poverty alleviation and promoting equitable prosperity, aligning with India's developmental goals and aspirations.

In India, digital financial transactions have witnessed a rapid surge due to technological advancements. The Unified Payments Interface (UPI) stands out as a popular choice, enabling real-time fund transfers and bill payments through mobile apps. Mobile wallets like Paytm and Google Pay have gained immense popularity, allowing users to store money and conduct a variety of transactions seamlessly. Internet banking offered by traditional banks, along with debit and credit card usage, further contributes to the digital financial landscape. Government-backed initiatives like BHIM and Aadhaar-enabled transactions have played pivotal roles in driving the adoption of digital transactions. Overall, these digital channels have improved ease while also revolutionizing how Indians handle their funds and make payments both online and offline.



H1: To highlight the association between digitalization and financial inclusion.

H2: To highlight the role of government in the development of digitalization.

### **Review of Literature**

Aftab (2015) underlined the effects of digitization on the Indian economy and the adjustments that must be made in order to remain relevant in the modern era. Jussila (2015) emphasizes the use of mobile money transfer services to close the financial services gap, particularly among the unbanked population operating microenterprises in developing nations. The study highlighted the critical role that mobile network operators and financial service providers have played in bridging this gap and the revolutionary effects that mobile-based financial solutions have had on advancing financial inclusion.

Kaul (2017) indicated How can digitalization and raising financial literacy among the populace change the landscape of a developing country like India? As more and more transactions will take place online as a result of this, each and every person will need to be financially literate in order to make wise decisions and put various policies into place to make this possible.

According to the United Nations Development Programme (UNDP, 2006), financial inclusion is the ability of a client to use a variety of official financial services, from straightforward savings and credit services to more intricate ones like pension and insurance plans.

A study by Rajanna (2015) and Elavarasi et al. (2014) analyzing customer awareness of and satisfaction with e-banking services showed a preference for ATM and online banking over other channels, mostly motivated by the desire to avoid long lines. The study underlined the need for cost-effective ATM transactions, the installation of security measures, and the accessibility of telephones to further improve customer satisfaction. It also advocated increasing the deployment of ATMs in remote regions for improved accessibility. The study also found that young people had a noticeable preference for these services compared to older people. Although there were higher worries about security and ambiguities around the opening of internet banking accounts, customers showed greater satisfaction with the services offered by private banks. In response, the researchers promoted focused marketing campaigns and education initiatives to increase public knowledge of e-banking services.

Shettar (2019) and Pathak et al. (2019) conducted studies investigating digital banking and mobile banking, emphasizing the reduction of human errors and enhanced convenience for customers. Online bill payment, simple account information access, and simple money transfers are all made possible by digital banking, all from the convenience of one's own home. It provides 24/7 accessibility, going beyond regular banking hours and helping consumers save crucial time.

Revathi, P. (2019), and Nayak, R. (2018) researched the prospects and challenges of digital banking in India and discovered that, despite having many advantages, internet banking is not without its drawbacks. Major hindrances to its use include network problems, the illiteracy rate, the cost of financial services, customer resistance to new technology, security concerns, transactional difficulties, traditional banking practices, Financial literacy deficit, inadequate infrastructure, uninterestedness in banking, and a minimal use of smartphones. The research underlines the necessity of raising client awareness of the advantages of digital banking in order to address these issues and advance digital banking. In order to integrate the excluded population into the formal financial system and change their saving behaviours, it advocates for targeted financial literacy initiatives. A further strategic approach to introducing and integrating digital banking services in rural areas is seen as engaging with school and college students to educate them about the benefits of digital banking and including parents in these discussions. This will ultimately foster financial inclusion and improve accessibility.

### **Methodology**

This study is based on secondary data from desk research, which are research techniques that employ previously collected data, data from surveys that have already been conducted, information that has

been published in publications, and similar materials that are, among other places, accessible online and in public libraries.

### Digitalization-based Financial Inclusion

Financial institutions may now reach groups that weren't previously served, including those who live in remote or rural locations, thanks to digitalization. Mobile banking, digital wallets, and other digital financial services have made it simpler for the underbanked and unbanked to obtain financial goods and services.

#### Measurement of financial inclusion

The RBI suggested using three crucial metrics to evaluate financial inclusion. These include measures of (i) access, like the number of bank branches or ATMs in a given area; (ii) usage, like the percentage of adults with a savings account, insurance, or pension plan; and (iii) service quality, like the number of complaints received and addressed.

#### "Digital Financial Inclusion: Bridging Gaps through Affordable and Sustainable Solutions - A Case Study of India"

Governments may now quickly and securely provide the transfer of cash and other types of economic aid to citizens, in addition to emergency liquidity support to enterprises, thanks to fintech. It gives users the option to transmit money, including cross-border remittances, and pay bills online, in person at a market or store, or virtually. But potential is much more than what has already been achieved. The coronavirus outbreak has increased awareness of the numerous advantages of digital financial services as well as their crucial role in achieving the sustainability goals.

The introduction of digital finance in India has advanced significantly by providing formal financial services to economically marginalized and poor people through the use of affordable digital technological advances. The emergence of mobile devices and the web has been instrumental in transforming the affordability and accessibility of financial products and services for a wide spectrum of individuals.

#### A Catalyst for Financial Inclusion and Welfare: PMJDY, or the Pradhan Mantri Jan-Dhan Yojana

One significant instance is the "Pradhan Mantri Jan-Dhan Yojana" (PMJDY), the Ministry of Finance of India's main program for financial empowerment. The intention behind PMJDY's launch in August 2014 was to make banking services such savings and deposit accounts, remittances, credit, insurance, and pensions available to everyone. This effort was successful in bringing millions of unbanked people into the established banking system by utilizing digital channels.

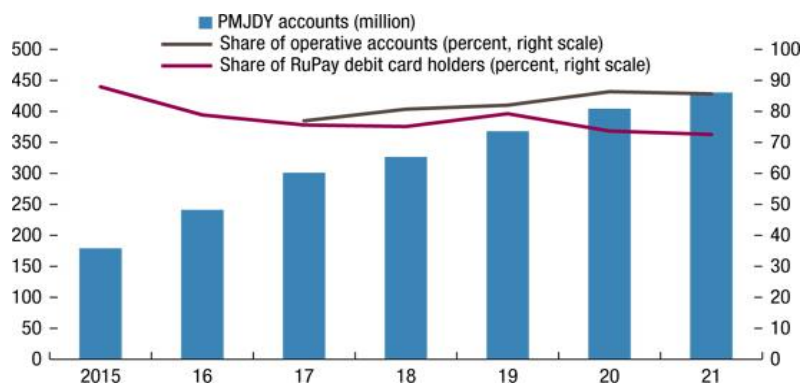


Figure: 1.1

Source: Official Pradhan Mantri Jan Dhan Yojana (PMJDY) Website.

The Pradhan Mantri Jan-Dhan Yojana (PMJDY) project, which aims to promote financial inclusion, showed outstanding results in its first year and has since expanded. Initially, 15% of the Indian population, approximately 180 million individuals, opened bank accounts under this program. By 2020, this number surged to 404 million, constituting 30% of the population. Notably, 86% of these accounts remained active, with 73% of account holders actively utilizing RuPay debit cards (Figure 1.1). Moreover, approximately 13% of PMJDY account holders directly benefitted from various government schemes. PMJDY has not only increased banking access but has also efficiently facilitated direct benefit transfers, underlining its significant impact on financial inclusion and societal welfare.

### Unified Payments Interface (UPI): A Transformative Force in Digital Financial Services

Moreover, the implementation of the Unified Payments Interface (UPI) in India exemplifies the efficient leveraging of technology to facilitate rapid and seamless fund transfers. Transactions are now more efficient and accessible thanks to UPI, especially for those who live in remote or rural locations.

Moreover, the emergence of fintech companies offering mobile wallet services, peer-to-peer lending, and microfinance through digital platforms has further democratized financial services. Companies like Paytm and PhonePe have gained immense popularity by providing easy-to-use, cost-effective, and secure digital payment solutions, catering to a wide spectrum of the population.

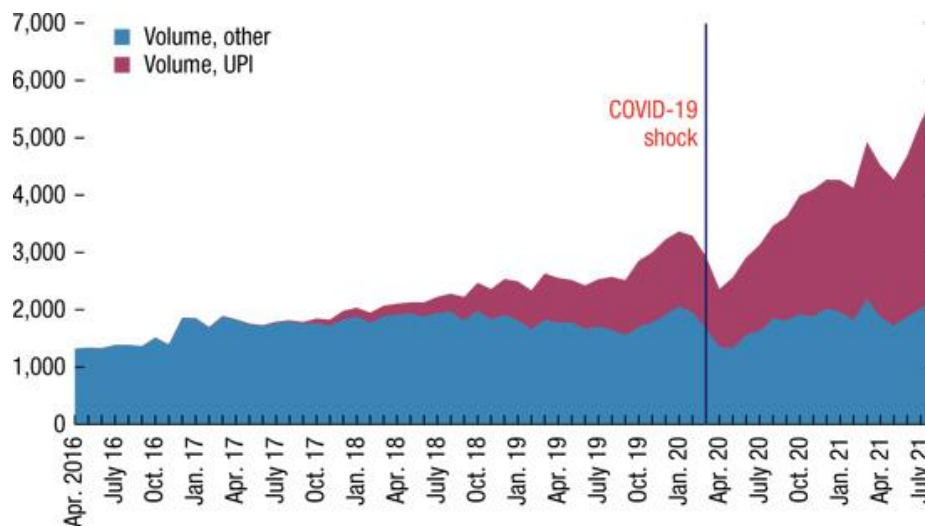


Figure: 1.2

Source: National Payments Corporation of India.

Note: UPI = Unified Payments Interface.

The continued use of digital financial services was greatly strengthened in 2016 with the introduction of interoperable payments via the Unified Payments Interface (UPI) (refer to Figure 1.2).

By enabling instant and real-time interbank transfers across a variety of payment channels, UPI transformed the way that banks and non-banking companies collaborated. Although demonetization first sparked a rise in digital payments, the development of UPI is mostly responsible for the steady growth that has been seen since 2016. Following the establishment of the goods and services tax in 2017, this expansion was accompanied by a rise in company formalization and a rise in digital acceptability. The UPI has been instrumental in advancing digital financial transactions and reshaping the financial environment.

### Digital payment trend in India

Indicators	% change in 2019-20	% change in 2020-21
BHIM Aadhaar pay (₹ crore)	60%	217%
Credit transfer through UPI (₹ lakh crore)	143%	368%
Credit transfers through NEFT	1%	10%
IMPS (₹ lakh crore)	47%	85%
Large value credit transfers- RTGS (₹ lakh crore)	-3%	-22%
Payment Through debit/credit cards (₹ lakh crore)	20%	8%
Total digital payments (₹ lakh crore)	-1%	-14%
Grand Total	11%	32%

Table: 1.3

Source: Reserve Bank of India's (RBI) Annual Report for 2020–21 Fiscal Year

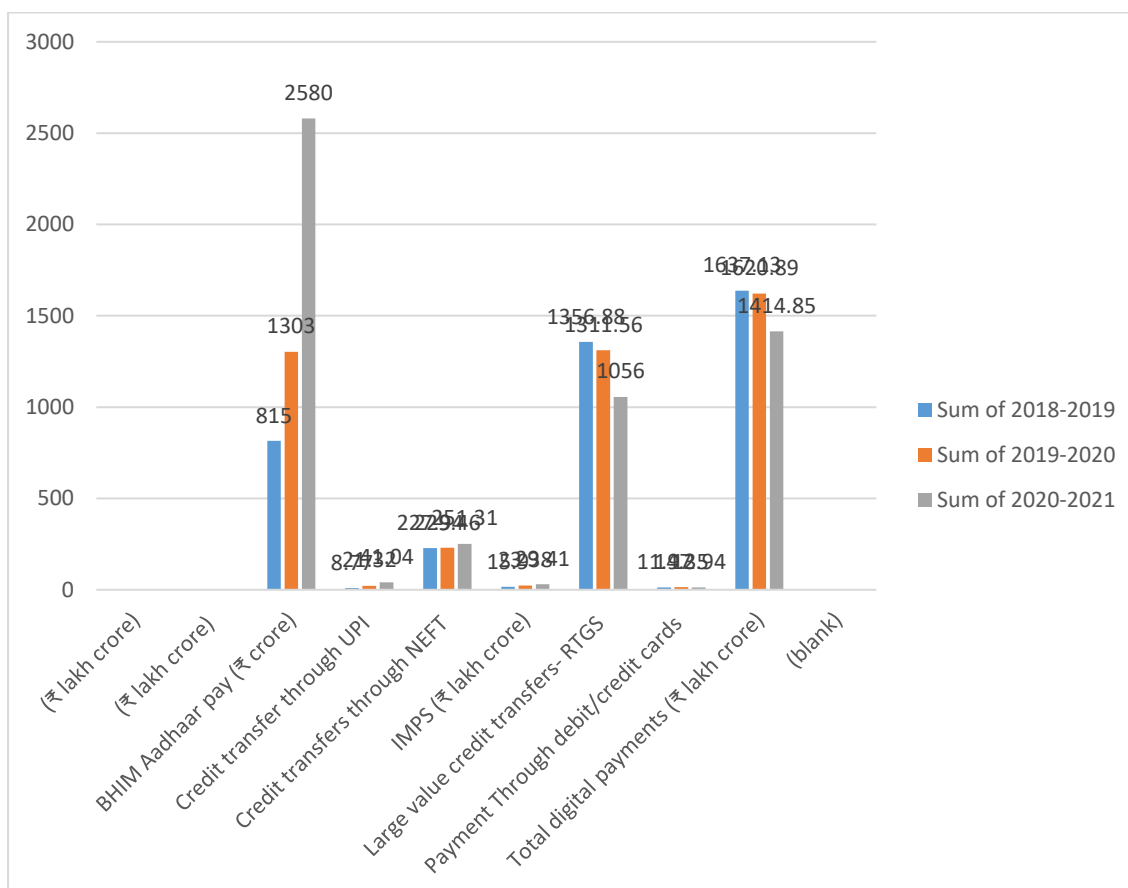


Figure: 1.4

Source: Annual Report of the Reserve Bank of India (RBI) for the Financial Year 2020-21

The above table (1.3) and graph (1.4) demonstrates a notable 26.2% increase in the volume of overall digital payments during the fiscal year 2020-21, in comparison to a 44.2% growth observed in 2019-20. Interestingly, despite this surge in volume, the total value of digital payments has witnessed a decline over the last two years, primarily attributed to a negative growth in Real Time Gross Settlement (RTGS). However, there was a significant rise in the value of debit and credit card payments. Noteworthy,

Immediate Payment Service (IMPS) transactions experienced a remarkable 85% surge, BHIM Aadhaar pay transfers soared by an impressive 217%, and credit transfers through Unified Payments Interface (UPI) saw a substantial surge of 368% from 2019 to 2021. These statistics underscore the substantial adoption of digital platforms, particularly in the small-value transaction category.

The results also emphasize the crucial role that digital financial inclusion plays in bringing lower-income people into contact with the established banking and insurance industries. This integration is crucial for fostering a savings culture, which is crucial for national economic growth and overall progress, especially in suburban and distantly located areas.

### **Index of Financial Inclusion**

The FI-Index was introduced by the RBI in 2021 with the intention of measuring the level of financial inclusion in the nation as a whole. This index was created without the use of a "base year" and reflects the cumulative efforts of all stakeholders throughout time to promote financial inclusion, according to a statement from the RBI. Financial Inclusion Index increases at that time and displays growth across all segments.

The Financial Inclusion Index (FI Index) for March 2023 is 60.1, in accordance with the announcement made by the Federal Reserve Bank of India (RBI) on September 15, 2023. This is a significant increase from the 56.4 recorded in March 2022.

### **Conclusion**

Financial inclusion is essential for economic progress as it encourages saving, which establishes a foundation for financial system resources. The revolutionary impact of mobile money in supporting financial inclusion and socioeconomic growth is reiterated as this study paper comes to a close. It highlights the necessity of ongoing cooperation and innovation to make sure that mobile money's advantages reach the furthest reaches of society and, ultimately, help create a more financially inclusive and successful world.

The study mentioned above highlights a significant connection between financial inclusion and digitalization. The support of digitalization makes it easy for any individual or organization to meet their financial needs. A number of successful initiatives have been introduced by the administration to help economic growth and financial stability, both directly and indirectly. The Pradhan Mantri Jan Dhan Yojana, Digital Identity (Aadhaar), National Centre for Financial Education (NCFE), Centre for Financial Literacy (CFL) Project, the growth of financial institutions in semi-urban and rural regions, and the fostering of electronic payments are government initiatives to increase financial inclusion in India.

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