International Journal of Advanced Research in Commerce, Management & Social Science (IJARCMSS)
ISSN : 2581-7930, Impact Factor : 6.809 , Volume 05, No. 02(I), April - June, 2022, pp 99-104

DEVELOPMENT OF INDIA AND DIGITAL FINANCIAL INCLUSION

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ABSTRACT

For a country's socio-economic development to be successful, it must have a well-functioning financial system. It serves as a foundation for the mobilisation of savings and their allocation to productive resources. Recognizing the importance of financial inclusion as a driver of inclusive growth, the Indian government and the Reserve Bank of India have implemented a number of policies to bring the country's substantial unbanked population into the financial mainstream. Recent advancements in communication technology can 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 development, and digital financial services can help.

Keywords: *Financial Inclusion, Digitization, Mobile Banking, Inclusive Development.*

Introduction

Any country's financial industry is critical to its economic growth and development. Financial capacity is a critical component of financial market stability and functionality. An inclusive financial sector ensures that all citizens have access to, and use of, fundamental financial resources. Financial literacy is at the forefront of making good use of these financial resources. Financial literacy can be defined as a person's awareness, knowledge, attitude, skill, and conduct that allows them to make informed and successful decisions about their personal finances. Financial knowledge is viewed as a type of human capital investment that ensures smooth consumption over time. Jappelli and Padula (2011) included financial considerations in their model of intertemporal consumer choice. Digital Financial Literacy (DFL) is emerging as an important part of today's digital environment as a form of financial literacy. It is defined as the process of gaining the requisite knowledge, skills, and habits for the effective use of digital services in financial transactions. This habit is formed when an individual's literacy level and aptitude to use digital gadgets or technology interact.

Opening a bank account, obtaining an insurance policy, business literacy, retirement planning, borrowing habits, and investment planning are all examples of financial behaviours that are influenced by financial understanding. Governments may aid economic and social inclusion through boosting civic involvement, improving public safety, and extending access to public-sector services by increasing digital literacy. At the same time, it assists firms in developing a successful cloud-enabled organisation that promotes the development of any innovation-driven industry.

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Literature Review

Financial literacy is an important component of financial capacities, which is a mix of understanding, information, attitude, skill, and behavioural adjustments that are required to make solid economic decisions that are relevant to their social and financial situations (World Bank, 2013). Financial literacy is seen as a sort of human capital required for allocating income between savings and consumption during a consumer's lifetime in order to maximise his utility, according to the life cycle hypothesis (Modigliani and Brumberg, 1954). Individuals and families with improved financial literacy have more control over their money and can make better financial decisions (Subha and Priya, 2014). Financial literacy, according to Tomaskova, Mohelska, and Nemcova (2011), is the best strategy to prevent citizens from being overly indebted. Poor people have a natural predisposition for informal channels and have less involvement with official financial organisations (Matin, Hulme and Rutherford 2002). PWC (2011) did a study in India and discovered that digitally active customers have a substantial product holding. Mobile communications is a rapidly emerging technology in the developing world, and it has a large socioeconomic influence on underprivileged populations (Abraham, 2006). Mobile banking can be used to increase financial inclusion because it is accessible to both low-income and higher-income people. Indian smartphone users are increasingly using internet-based mobile banking apps for account and loan statements, financial transfers, insurance and portfolio management, utility bill payments, and other purposes (D'Souza, 2018). Digital transactions are both cost-effective and can overcome the challenges of physical access to banks and other financial institutions. It also lowers the chance of human error. Because of the benefit of 'Anywhere Banking,' digitalization allows for a robust reporting system.

Objectives

The purpose of this study is to look into the current state of digital financial inclusion in India. It also examines the significance of digital financial literacy in promoting India's inclusive growth.

Methodology

The descriptive analytical method is used in this work. As relevant inputs, several publications produced by the RBI and other financial and non-financial agencies were utilised. In addition, research articles from a variety of reputable journals, websites, and periodicals were used.

India's Digital Financial Inclusion

In India, there is a policy and regulatory framework for digital financial inclusion.

Despite extraordinary economic growth in recent years when compared to other developing countries around the world, a large chunk of India's population remains unbanked. According to a report published by the World Bank in 2017, India is the world's second-largest country, with more than half of its population living in poverty. One of the main goals of the current NDA government (which took office in May 2014) is to leverage digitally-driven financial inclusion to promote the country's economic and social development. The launch of PMJDY is the first phase in this objective, which aims to provide a bank account to every Indian. By utilising technology, it provides fundamental financial services such as remittance, pension, and insurance benefits to the underserved sections of society. It is tied to the government's other two projects, Digital India and Aadhaar. While the former attempts to increase the use of mobile phones and the internet, the latter gives each citizen with a unique digital ID. The Aadhaar card makes identifying the true recipients and transferring funds to their accounts a breeze. The J-A-M trinity was developed by PMJDY, Aadhaar, and Mobile in order to improve digital financial literacy. The government expects that by implementing J-A-M trinity, it will be able to eliminate leakages, corruption, and inefficiencies that gobble up a major portion of government subsidies.

In addition, the Indian government and the Reserve Bank of India (RBI) have implemented a number of programmes aimed at improving people's digital financial literacy. For example, the Ministry of Electronics and Information Technology launched the Digital Saksharta Abhiyan (DISHA) to offer one crore rural individuals with digital financial literacy training and access to such instruments. The Vittiya Saksharta Abhiyan (VISAKA) was launched to teach over one lakh students from higher education institutions (Prasad and Meghwal, 2017). They will be taught how to register a bank account, link their mobile phone and Aadhaar card number to their bank account, use mobile wallets, and conduct transactions via the Unified Payments Surface (UPI).

India's government took the initiative: As the Indian economy opened up in 1991-92, the use of computerization intensified. Several Indian commercial banks have begun to offer digital consumer services in order to remain competitive in the globalised world. The deployment of new technologies benefits banks as well. With the introduction of e-banking services, banks' operational costs have decreased significantly. India is on the verge of completing the second phase of its financial sector reforms. As the Indian economy becomes more integrated with the global economy, the risks associated with the global economy will have a greater impact on the Indian economy.

Even from the organised sector, the government is narrowing its net of social security programmes. In the absence of such plans, the general public's financial situation would become more unstable. As a result, improving financial literacy is critical for Indian residents' financial well-being. Citizens are capable of using technology, but many lack the skills to do it successfully, especially when it comes to financial transactions. The Indian government implemented demonetization strategy in 2016 in order to transform the Indian economy into a cashless digital economy and eliminate black money. The adoption of web and app-based e-wallet platforms grew as a result of demonetization. Despite the fact that digital access to bank accounts has risen since demonetization, people continue to rely on cash as their primary.

The first part covers the months leading up to August 2016, the demonetization period, while the second phase covers the months following demonetization. The volume of digital financial transactions expanded gradually by 2% per month in the first phase (beginning in early 2014). (USAID, 2019). With the launch of various digital wallets and bank debit cards, transactions using pre-paid instruments (PPIs) and debit cards began to rise fast at the start of the second phase. Unified Payment Interface (UPI) and NPCI's (National Payments Council of India) digital payments platform will soon take over this space. The Pradhan Mantri Jan-Dhan Yojona (PMJDY) was created by the Indian government in 2014 to help financially excluded people. It is a bank-led financial inclusion programme that aims to provide all adult Indian citizens with a bank account. There are 38.22 crore bank accounts, mostly with large public sector banks, with a total deposit of Rs. 117015.5 crore, as of March 4, 2020. (PMJDY website).

Although there is debate over the exact amount for new account opening and account dormancy, it has been able to remove the financial barrier for the vast majority of the population who were previously financially excluded. PMJDY is now linked to Direct Benefit Transfers (DBT) and Government-to-person (G2P) payments, allowing genuine recipients to benefit directly from government initiatives. As a result, the government's current challenge is to shift from the 'access' stage of financial inclusion to the 'active usage' stage. Customers were given RuPay debit cards for cashless transactions in order to increase digital transactions in PMJDY accounts. Beneficiaries have received 29.20 crore RuPay debit cards.

Current State, Future Goals, and Challenges in India's Digital Financial Transactions

The issuance of debit and credit cards by India's scheduled commercial banks has increased dramatically in recent years. Debit cards issued by commercial banks in India have expanded at a 14 percent CAGR (compound annual growth rate) from 55.4 crore in 2014 to 92.4 crore in 2019. Credit cards have expanded at a CAGR of 22% during the same time period, from 2.1 crore in 2014 to 4.7 crore in 2019.

Table 1: Issuance of Debit and Credit Cards by Scheduled Commercial Banks (in Millions)

	Debit Cards			Credit Cards		
Year	**Number**	**Growth**	**CAGR**	**Number**	**Growth**	**CAGR**
2014-15	554	67%	14%	21	123%	22%
2018-19	924			47		

Source: RBI

With a phenomenal increase in digital transactions over the last several years, India's mission to become a cashless economy is gaining traction. Without a doubt, the implementation of UPI and other digital advancements has made banking and payments much more convenient for clients. According to RBI reports, the total amount of digital transactions has increased.

In 2018-19, the growth rate was 25.7 percent, compared to 17.7 percent in 2017-18. The total value of digital transactions has risen from 8.56 million to 24.13 million rupees. According to the research, UPI transaction volume peaked at 799.5 million in March 2019, which is 405 times more than the volume in March 2018 (Fig. 1).

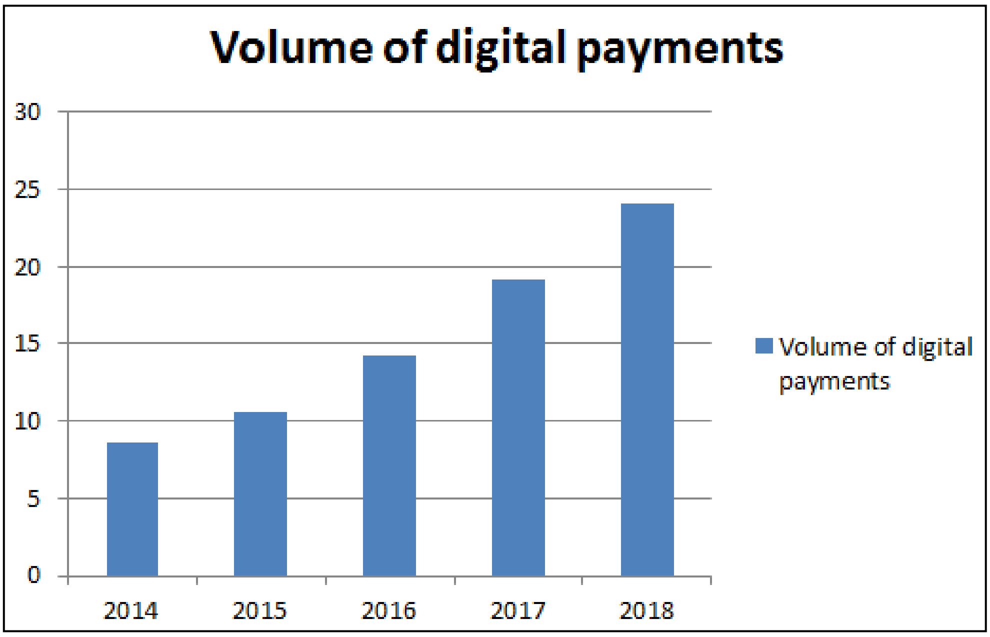
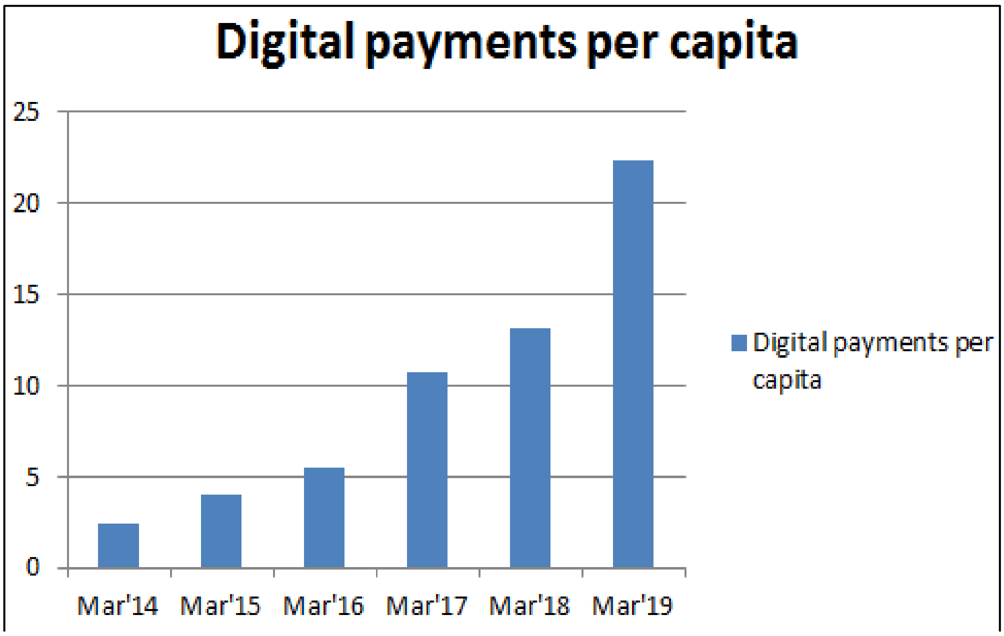


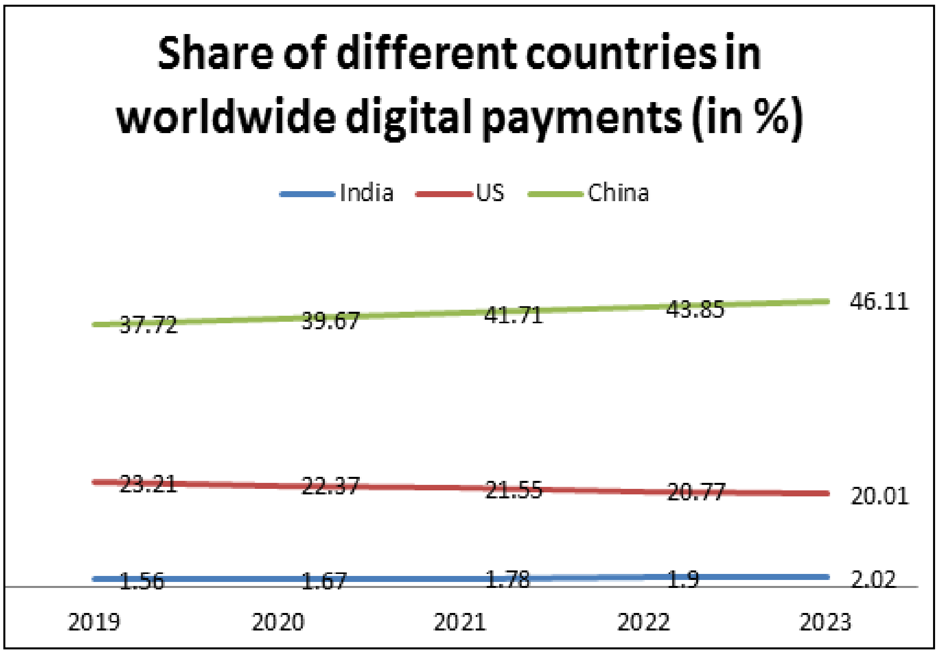
Fig. 1: Year wise Volume (in Million Rs.) of Digital Payments in India

Source: RBI

The digital transaction per capita, which is calculated using the formula: Yearly per capita transaction =12 (total volume of digital transactions in one month)/population, is an essential determinant for measuring digital transactions in the country.

In India, per capita digital transactions have increased significantly over the last six years, rising from 2.4 in March 2014 to 22.42 in March 2019. According to the RBI's high-level committee on digital payments, the total could reach 220 by March 2021, a tenfold rise in just three years (RBI, 2019). (See Figure 2)





One of the most significant obstacles to online banking in India is the older generation's and rural people's preference for traditional banking methods. The risk of online fraud is a significant deterrent to using e-banking. A key stumbling block is the general public's lack of understanding on how to use e-banking services. To deal with new and changing technologies, bank workers need be taught on shifting IT trends. External threats such as hacking, sniffer, and spoofing are also a concern. Furthermore, the implementation of Artificial Intelligence (AI) poses a significant challenge to the Indian financial sector.

Digital Financial Inclusion and Inclusive Development are Intertwined

From both the demand and supply sides, financial inclusion has an impact on economic development. The demand side factors are illiteracy, poverty, and job insecurity, which reduces the ability to save and allocate funds for credit and insurance, while the supply side factors are I the cost of maintaining a bank account, ii) the slow growth of bank branches and ATMs, and iii) the lengthy and tedious process of banking operations (D'Souza, 2018). Financial inclusion enables low-income people to achieve financial independence, economic stability, and poverty alleviation. They should not be forced into debt due to unforeseen circumstances or long-term financial ambition

The rapid spread of mobile networks in developing nations has created new opportunities to meet the poor's financial service demands, particularly among the unbanked. Mobile communications have the potential to become a low-cost conduit for sending financial data, such as micropayments, recurring savings, and microcredit (Claessens, Glaessner and Klingebiel 2002). Customers' information bases have grown as a result of digital financial services, while information prices have decreased (World Bank, 2016). Consumers, businesses, and the government all benefit from digital financial inclusion.

Recommendations and Conclusion

In the approaching years, digital transactions in financial operations will be the most preferred method of transaction. However, not everyone has reaped the benefits of digital financial inclusion. Much progress should be done within the country to close the gap between accessing and using technical breakthroughs for digital transactions. The spread of digital services and bank accounts alone will not be enough to alleviate the systemic constraints that disadvantaged groups experience. Digital financial literacy programmes should be organised in comprehensive ways that address the interconnected demands of the underprivileged classes to become more effective in promoting human development and poverty alleviation. It should be used in conjunction with other complementing tools to make digital financial literacy a core component of all levels of schooling. The availability of online services to underserved members of the community could help achieve this goal. Private and nonprofit groups can also play an important role by providing training for common citizens of all ages to improve their digital literacy skills.

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