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An overview of Digital Finance on Financial Inclusion in India: A Conceptual study

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ABSTRACT:

Financial inclusion is providing financial services and products to weaker sections of society or low-income individuals or groups of society at a reasonable cost. The general truth is that if the country needs to strengthen its economic growth, then it can only be possible for all sections of the population of the country to access formal banking financial services and products. In this regard, the government of India has been introducing a number of various social security schemes and programs to the weaker sections of society to access formal banking services and products today. With the help of digital finance and microfinance, financial inclusion has made tremendous changes in the banking system to access financial services and products for the well-being of people as well as small, medium, and large businesses, pertaining to strengthening the GDP of the Indian economy for the long run. Five areas of financial inclusion, like banking, savings, credit, insurance, and advances, play a significant role in encouraging people who are living in economically backward regions to access formal banking services in large numbers. The digital India initiative can easily connect the different groups of society and help achieve the objective of financial inclusion through digital banking.

Key words: Financial Inclusion, Digital Finance, Economy, Development, Social Security Schemes

1 Introduction

India is a developing country having a population about142 Crore, which ranks second largest country in the world. Majority of population (65%) of the India are residing in rural areas and semi-urban areas where the airman source of income is agriculture. Majority of the people who are living in the rural area are financially illiterate and they suffer from poor infrastructural facilities. Majority of the financial institutions are operating in the semi urban and urban areas where good infrastructure, literate customers and trading concerns. So, the Government of India introduced a new concept known as “financial inclusion” in the year 2005. The Indian government and the Reserve Bank ofIndia make efforts to promote financial inclusion aspart of its national vision. In the last five decades, the Indian government has taken vital steps like, Bank's Nationalization, Building Strong Branch Networks, Liberal Priority Loan, Lead Bank Schemes, Non-Governmental Organizations, zero balance Basic Saving Bank Deposit accounts, Micro Finance, Self-Help Group Model, Kisan Credit Card, Micro-Finance, No Frill Accounts, Business correspondents, and business facilitator and Self-esteem as economic inclusion models. The basic purpose of all the so initiative is to provide financial services to a large section of the economically excluded Indian population. The Indian government and the RBI have introduced still, the path of financial inclusion is challenging. Access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups is now accepted as a pre-condition for reducing income inequality and over-coming poverty.

Financial inclusion and India

The Global Financial Development Report on Financial Inclusion, 2014, defines Financial Inclusion as “the proportion of individuals and firms that use financial services. It has a multitude of dimensions, reflecting the variety of possible financial services, from payments and savings accounts to credit, insurance, pensions and securities markets. It can also be determined differently for individuals and for firms.” In India, the first concrete step in financial inclusion was taken by the Chairman and Managing Director of Indian Bank, K.C. Chakrabarty and the RBI Governor Y.V. Reddy in 2005. At a conference of bankers that same evening, the first financial inclusion circular was produced, and on December 30, 2005, Mangalam village in Puducherry became the first village in India to be brought to the financial inclusion program. When the RBI selected financial inclusion as its main area in 2010, it gathered momentum during the RBI's Platinum Jubilee Celebrations. Banks, mainly from the public sector, were advised by the RBI to come out with a plan on how they would reach complete financial inclusion in India by 2012. The majority of the economically backward groups of the society are living in rural areas, even today a significant number of people remain largely excluded from the formal financial system. Financial inclusion is the delivery of financial services and products to the sections of disadvantage and low income segment of society, at an affordable cost in a fair and transparent manner by regulated institutional players.

2 Core areas of Financial Inclusion

There are major five areas of Financial Inclusion which are discussed as below:

- **Banking:** Financial inclusion towards the providing of financial services to low-income individuals or groups of society. Banking towards the providing of financial services to general public. Generally, bank is a financial institution which provides essential financial services to the general public like accepting deposits, lending money and assets protection to support the economy. The primary objective of the banking is to mobilizing the money from the savers to the investors to increase production and services for the growth of the economy of nation. Major functions like money storage, loan facility, corporate finance management, etc.
- **Providing credit:** Financial inclusion provides loans to economically backward or weaker sections of society at an affordable cost. Providing loan is the main motive of the financial inclusion to the low-income groups generally people who have income, home ownership, credit history age and other factors should be considered while giving the loan.
- **Insurance:** Insurance is a financial instrument that helps individuals to overcome from the happening of uncertain events. It enables them to protect their life, health and other loss compensation for arising from any damages.
- **Savings:** Savings is the amount excess of revenue over the expenses of an individual in his day to day life. Savings is necessary for every individual to meet their emergencies in future, to lead standard life in

society and provide strength to the national economy. By increasing his per capital income the national income will be increased

- **Advance:** An advance is a sum of money or a type of loan or payment provided by a bank of financial institution to any individual or business concern for short term requirements or goods are given before consideration is receives in return

3 Major Milestones in Financial Inclusion in India

The following table presents the major milestones in financial inclusion in India as below:

Year	Measures
1969	Nationalization of Banks
1971	Establishment of priority sector lending banks
1975	Establishment of Regional Rural Banks
1982	Existence of National Bank for Agricultural and Rural Development
1992	Self Help Groups bank Linkage program
1998	NABARD goal setting for one million Self Help Group linkage by 2008
2000	Establishment of (SIDBI) Small Industries Development Bank of India-foundation of Micro credit
2005	One million SHG target achieved, No-frill was introduced
2006	Business facilitator (BF) and business correspondent(BC)
2008	National Automated Clearing House(NACH)& (NFS) National Financial Switch were launched by National Payment Corporation of India(NPCI)
2009	Guidelines for Prepaid payment Instruments(PPI)
2010	IMPS(Immediate Payment service) was introduced by NPCI enabling 24 X 7 Electronic Funds Transfer(EFT)
2011	Aadhar enabled Payment System(AEPS) was launched
2012	Rupay cards were introduced by NPCI as a domestic Payment Network
2014	Pradhan mantra Jan DhanYojana(PMJDY)was launched
2015	Unified Payments Interface (UPI) was announced by NPCI
2015	(PMJJBY) Pradhan MantrijeevanJyotiBimaYojana, (PMSBY) Pradhan Mantri Suraksha BimaYojana, (PMMY) Pradhan MantriMudraYojana and (APY) Atal PentionYojana were introduced
2015	Payment Bank and small finance bank were rolled out by RBI
2016	Demonetization was announced
2017	Pradhan MantriVayaVandanaYojana(PMVVY) was launched
2020	Emergency Credit Line Guarantee Scheme (ECLGS) was launched
2023	Pradhan MantriVishwakarmaYojana (PMVY) Scheme was introduced

4 Need for Financial Inclusion in India

The following are the main reasons why policymakers have been concentrating on the financial inclusion of Indian rural and semi-rural areas:

- **To encourage the habit to save money:** The majority of the people who are living in economically backward areas, and moreover, most of them are financially illiterate, were neglected to be brought into the mainstream of society. So the need for financial inclusion was required to access financial services and encourage the habit of saving their money to meet their future emergencies.
- **To increase the formal banking channel:** The unbanked population of the semi-urban and rural people of society, who are depending on informal channels of credit like family, friends, relatives, and moneylenders, who are providing instant finance with a higher rate of interest on their property and without transparency, So, to bring transparency to the financial system, the formal banking channels should develop in each corner of society.
- **To reduce the regional imbalanced economy:** People who are living in economically backward regions where savings mobilization is low are improperly managing financial services and products due to a lack of financial literacy. The people who are living in urban areas are financially literate and capable; their mobilization of savings is greater; they access and manage financial products and services that are offered by formal banking channels. With this regional disparity, only rich people become richer, and poor people become poorer. So to reduce the huge gap between rich and poor, financial inclusion is needed
- **Growth and development of economy:** The development of the economy of a nation depends on the development of its formal banking sector. The development of the formal banking sector depends on the money supply and accessibility of banking products for both rural and urban communities at large. So, financial inclusion can play a vital role in the economic growth and development of a nation in the long run.
- **Financial inclusion through digital finance:** Digital finance is

a financial service that operates through mobile phones, personal computers, the internet, or cards linked to a reliable digital payment system. Financial inclusion encourages customers by providing secured, convenient banking services and products to its customers through digital finance at an affordable cost. Digital finance provides safety and security and ensures customer personal finance, quick financial decision-making, and the ability to make and receive payments. So, financial inclusion is a win-win situation that is achieved through digital finance

- **To avail subsidies and social security schemes:** The honorable Prime Minister of India, Sri Narendra Modi, has announced various schemes to the people of the country, like Pradhanmantri Jan DhanYojana, Jeevan Jyoti Bima Yojana, Atal Pension Yojana, SwabhimanYojana, and so on. To get benefits from these schemes, there was a necessity to open the bank account and access it. The low-income groups and the weaker sections of society receive the cash and subsidies from the schemes through their accounts only and access banking services regularly, which makes financial inclusion stronger today
- **To empower women and weaker sections of the society:** Financial inclusion provides services to low-income individuals or groups who are unbanked, like women, SCs, STs, and minorities. Most of them are not aware of digital finance, financial inclusion, and its facilities and step back from initiating entrepreneurial activities. The microfinance institutions play a vital role by providing credit as well as financial education to them with more employment opportunities, and to improve educational opportunities, better health outcomes, and financial management over their financial assets and products
- **To encourage people to deal with online flat- form:** People who are financially literate and educated by involving themselves in online transactions through online platforms like social media, market places, search engines, payment systems, etc. to develop the economy through cashless transactions would help to build a strong economy for a nation. So, the role of financial inclusion is

vital to encourage people to access banking services and products more and more. By increasing financial literacy among the people, India will become a developed country in the coming days

- **To improve financial markets:** The growth of national income and per capita income depends on the development of the money market as well as the capital market. The growth of the capital and money markets depends on the number of investors actively participating there. If the investors are financially strong and financially literate to access formal banking products and financial assets, then it would develop both the Indian money market and the capital market through financial inclusion.
- **To enhance economic well-being:** The development of the (GDP) Gross Domestic Product rate of the country depends on the consumption of luxury goods and the living standards of the people of the country in a particular period. If the literacy rate of a nation is high and people get more job opportunities, their living standards will increase, their social status will increase, and finally, it will lead to economic well-being. In this case, the role of financial inclusion is very vital to improving financial literacy and education in society. Accessing financial services can help people save money and effectively employ them. The funds can be used to plan for future emergencies and invest in the education of their children, health, and other financial instruments for their economic well-being.

Digital Financial Inclusion in India:

"Digital financial inclusion (DFI)" is defined generally by NITI Aayog as "the use of formal financial services by underserved and excluded populations through digital means." These services must to be ethically provided, tailored to the needs of the clientele, and reasonably priced for the suppliers as well as the consumers.

As of August 9, 2023, there were 50.09 crore PMJDY accounts total; women made up 55.6% (27.82 crore) of Jan-Dhan account holders, and 66.7% (33.45 crore) of these accounts were located in rural and semi-urban areas. PMJDY accounts have grown by 3.4 times as of August 16, 2023, from 14.72 crore in March to 50.09 crore. The Financial Inclusion Program has unquestionably had an incredible journey. There are deposits of Rs. 2,03,505 crore (US$ 24.63) under PMJDY Accounts. In August 2023, there was a 3.34-fold growth in accounts compared to August 2015, when deposits climbed by around 13 times. With the installation of 79.61 lakh PoS/mPoS machines, the introduction of mobile-based payment systems like UPI, and the almost 33.98 million RuPay debit cards under PMJDY, the total number of digital transactions climbed from 1,471 crore in FY18 to 11,394 crore in FY23.

Digital Financial Inclusion in India

The Digital financial inclusion initiatives taken in India are discussed as below:

- **Jan Dhan-Aadhar-Mobile (JAM) Trinity:** The combination of Aadhar, Pradhan Mantri Jan-DhanYojana (PMJDY), and a surge in mobile communication has reshaped the way citizens (more than 380 million) access government services (2020-NITI Aayog).
- **Expansion of Financial Services in Rural and Semi-Urban Areas:** The Reserve Bank of India (RBI) and the National Bank for Agriculture and RuralDevelopment (NABARD)has taken initiatives to promote financial inclusion in ruralareas. These include the opening of bank branches in remote areas, issuing Kisan Credit Cards (KCC), linking self-help groups (SHGs) with banks, increasing the number of Automated Teller Machines (ATMs), the business correspondent model of banking, the Payment Infrastructure Development Fund (PIDF) scheme, etc
- **Promotion of Secure Digital Payments:** With the strengthening of the Unified Payment Interface (UPI) by the National Payments Corporation of India (NPCI), digital payments have become more secure compared to the past. Micro ATMs are utilized by the Aadhar-enabled Payment System (AEPS) to facilitate the use of an Aadhar-enabled bank account (AEBA) at any time and anywhere. Offline transaction-enabling technologies like Unstructured Supplementary Service Data (USSD), which enables the use of mobile banking services without internet, even on a basic mobile handset, have made the payment system more accessible.

- **Enhancing financial literacy:** The RBI has undertaken a project titled "Project Financial Literacy" with the intention of reducing the regional disparity, encouraging women empowerment, and encouraging people who are living in economically backward regions and weaker sections of society to access formal banking services and products and increase their social status in society.
- **Factors influencing access to Digital Financial Services**

  Some of the major factors influencing access to digital financial services are:
- **Psychological and cultural factors:** Nowadays, technology is going to change according to the changing environment. People have to change due to the changing technological environment. The elderly and physically disabled people, who do not have the ability to go to the bank and access financial services physically, can access banking services through their personal computers, mobile phones, debit or credit cards, and internet facilities.
- **Gender factor:** Many studies have shown that a higher share of the female population generally has comparatively lower levels of financial inclusion. In the case of females who do not possess any property or land as collateral security to get loans, they will not get loans from formal financial institutions to enjoy subsidies and start up. Therefore, financial inclusion will lead females to get sufficient loans to start their own businesses.
- **Legal factor:** The customers of the formal financial institutions who can enjoy government subsidies and other financial benefits by accessing banking services just have one identity, such as an Aadhar card, a driving license, birth certificates, an employment identity card, or a PAN Card.
- **Relaxation in terms and conditions:** Implementation of digital financial services, particularly for the weaker sections of society, where some legal relaxations have been made to access banking services like zero balance, irregular transactions, etc., has resulted in more consumer interest in services.
- **Low-cost digital flat-form:** A digital business platform supports both service providers and business concerns by empowering customers to participate in money transactions,

helping them manage their income and expenses at an affordable cost

- **Reduce the risk of loss, theft and financial crime:** Financial technology has made tremendous changes in the field of commerce and trading to reduce risk loss and financial crimes and protect the interests of users in this field. So, it ensures the implementation of digital financial inclusion through financial inclusion.
- **Demonetization:** When the honorable Prime Minister of India Sri Narendra Modi announced demonetization, it was enabled access to digital banking more. It has been created favorable conditions for the large-scale adoption of digital payment systems in India.

6 Role of Digital Finance in Financial Inclusion

The following points represent the Role of Digital Finance in Financial Inclusion:

- **Formal digital finance:** In India, low-income individuals or groups are moving from cash-based transactions to formal digital financial transactions on secure digital platforms. So digital finance has the strength to give banking services to unbanked/ economically backward/ low-income individuals at an affordable cost
- **Better decision-making:** Digital Finance plays an important role in simplifying and enabling online transactional procedures leading to more financial inclusion. Performing everyday tasks and checking the reports through their internet-connected smartphones or computers can make better decisions based on easily available and accessible relevant information.
- **Transparency of information:** Digital finance is essential to increasing information transparency in the financial sector. Restrictions on the information's accessibility and availability can be implemented as needed. In addition to ensuring security, this avoids information overload.
- **Environmental friendliness:** Digital Finance is essential to cutting down on the requirement for printing and the use of paper. There is a decreased requirement for physical deliveries when information is disseminated digitally, which lowers emissions associated with traffic.
- **Expansion of financial services:** Digital Finance enhanced the growth and expansion of manufacturing industries and other non-financial

service industries by applying Fintech services in their business. They need not go to the bank physically and make a process, wherever they are can access banking services and get benefits

- **Boost the GDP of digitalized economies:** Digital Finance has the potential to boost the GDP of digitalized economies by facilitating easy access to a larger range of financial products and services to micro, small medium, and large-scale industries in increasing their production, distribution, and exchange of goods and services which leads to the boost GDP.
- **Credit Risk Reduction:** Credit or finance is the lifeblood of the business to carry out its operational activities in the form of capital. Unbanked people cannot get credit easily from commercial banks due to various reasons. Digital technology helps to enhance access to credit via the use of alternative sources of data. Through data analytics software banking companies can improve customer profiling, credit risk assessment, and fraud detection easily and can use non-traditional data comprising social media and smartphone records to ascertain customers' financial stability.
- **Savings-Cost-Effective Mobilization:** Savings in a formal financial institution is one of the most prominent aspects of financial inclusion. Digital financial services can help mobilize the savings to investors to start up their operational activities. The holder of the savings will get interested in their savings and the investor will utilize these savings for his productive purpose finally, he will get good returns, so the mobilization savings help both the people can enjoy the benefit at minimal risk and maximal return
- **Convenient and secure banking services:** Digital finance is essential to provide low-income people and groups with inexpensive, convenient, and secure banking services. The practice of a company identifying and confirming the identity of its customers is known as "know your customer" (KYC). Convenient customer identification and verification processes are offered by digital finance at a reasonable price. Customer identification enables a person to instantly and remotely offer financial service providers thousands of kilometers away with identity verification, such as a fingerprint.
- **Reduce the circulation of bad/fake**

money: Digital Finance plays a vital role because Financial and monetary system authorities benefit while reducing the circulation of illegal money.

- ❖ **Promote economic freedom:** Digital Finance plays a vital role in increasing wealth, especially in women by increasing their economic participation through self-help groups. They can get good social and economic status and recognition in society then lead to better living standard
- ❖ **Greater control of customers' finance:** Customers easily can better control over their finances and they can receive money or payment in seconds and get opportunity to maintain and control personal finances through the digital financial system.

7 Conclusion

In the past few years, the government has been very attentive to financial inclusion. About 380 million people have been brought under the formal banking system in the year 2020 by implementing the Jan DhanYojna launched by PM Modi. The RBI's composite Financial Inclusion Index (FI-Index), which measures the level of financial inclusion across the country, increased to 60.1 in March 2023, indicating growth across all criteria. The FI-Index consists of three main parameters: access (35%), usage (45%), and quality (20%), each of which comprises various dimensions calculated based on several indicators. This index includes criteria for service quality as well as accessibility, availability, and utilization. A number of other initiatives have been implemented and are functioning effectively. However, the government still faces a number of difficulties that need to be carefully resolved if inclusive growth and balanced development are to be achieved. Through the use of digital technology, digital financial services are promoting financial inclusion and enhancing financial wellness. The first step towards achieving full financial inclusion is ensuring credit inclusion for the most vulnerable and disadvantaged members of our society. The market and the government as institutions have their limitations in developing nations, but it is important to create government policies that take those limitations into consideration

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