THE ROLE OF DIGITAL PAYMENTS IN PROMOTING FINANCIAL INCLUSION

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I.ABSTRACT

Financial inclusion is a key policy objective shared by most central banks around the globe. It is generally defined as universal access to, and use of, a wide range of reasonably priced financial services. A large body of research finds that access to financial services has the potential to empower communities and help them to weather adverse shocks.. In this way, it ultimately helps to drive economic growth. In recent years, we've witnessed a digital revolution in finance. Armed with technology and big data, new entrants have brought greater competition to payments, credit, insurance and wealth management. This has reshaped the financial landscape and the way we interact with money and financial services. Central banks have not been passive bystanders. They have built on their role of providing the foundation for the economy by issuing money and overseeing payment systems. As we have seen, central banks can harness the digital revolution to extend the benefits of financial inclusion to all. One concrete way central banks have done this is by developing robust digital payment infrastructures, including real-time payment systems.

II.KEY WORDS: Overview, Role, Indices and Risks

III.INTRODUCTION

Digital financial services, powered by fintech, have the potential to lower costs by maximizing economies of scale, to increase the speed, security and transparency of transactions and to allow for more tailored financial services that serve the poor. This report describes the tools of digital finance, the successful business models and policies for encouraging their growth. It explores risks and challenges of new types of services and the legal and regulatory frameworks needed for confronting them. Finally, it includes country experiences with promoting the expansion of digital financial services and the obstacles along the way. Financial inclusion is known as a process of encouraging the accessibility and utility of formal financial services among public users and companies.

Besides, financial inclusion also ensures that formal financial services are accessible and used by people and companies. Additionally, the objective of financial inclusion targets vulnerable communities, including low-income groups, to be financially included while having accessible financial services. Financial services include credit, insurance, and other forms of equity. On the other hand, financial inclusion is also defined as formally possessing an account from a recognised financial institution. Individuals and companies may use the financial account to perform regular savings and borrowing and insurance and payment services. Therefore, financial inclusion must be part of a country's economic growth while assisting disadvantaged communities by improving their income and job opportunities. In 2014, financial industry policymakers identified digital financial inclusion's "game-changing" potential. Digital financial inclusion is a low-cost digital means of providing formal financial services to previously underserved populations. At least 80 countries have initiated state-of-the-art digital financial services using mobile devices. The initiative aims to reassure the confidence of underserved individuals to embrace digital financial services entirely rather than cash-based transactions. Customisation on digital financial inclusion to a specific and compelling programme could help serve former underserved populations if they understand and believe the full benefits of digital financial inclusion. The programme could also be designed to be supplied at a sustainable cost for service providers, making it more affordable for customers.

IV.OBJECTIVES OF THE PAPER

1. To know the overview of digital financial inclusion
2. To study the role of digital financial inclusion
3. To know the new indices of financial inclusion
4. To study the DFS come with risks that can inhibit financial inclusion

V.RESEARCH METHODOLOGY :

Methods matter most as the very validity and reliability do solely depend on the soundness and sophistication of methods tools and techniques employed in the realization of stated objectives. Secondary data and lead study reports were used to characterize the study sites in terms of agricultural production potential. the role of digital payments in promoting financial inclusion . Wherever, necessary reference was also made in different issues of bulletins, on the role of digital payments in promoting financial inclusion , internet websites and apart from this, different edition of daily newspapers, such as the Hindu, Vijay Karnataka, Indian Express, Kannada Prabha, etc, were also used for the purpose of collection the information

VI.OVERVIEW OF DIGITAL FINANCIAL INCLUSION

Digital financial inclusion is the fourth stage of the financial revolution after developing microcredit, microfinance, and financial inclusion. Compared to financial inclusion, digital financial inclusion places more importance on technology to broaden the accessibility to formal financial services. Initially, the term "microcredit" refers to a small loan offered by financial institutions to businesses and individuals. In the 1990s, the word "microcredit" had been replaced by "microfinance," which covers more immense scopes of financial services such as savings, mutual funds, insurance, and loans. Another significant revolution is shifting from "microfinance" to "financial inclusion". Financial inclusion is a concept that seeks to guarantee that formal financial services are accessible to all people. However, microcredit, microfinance, and financial inclusion initiatives are manual and field-based operations.Thus, it limits the effectiveness of helping the poor. Lately, ICT has led financial inclusion to advance to the fourth stage: digital financial inclusion. This radical innovation has the potential to transform the lives of those at the bottom of the economic ladder. Digital financial inclusion aims to eradicate obstruction to encourage individuals' participation in the financial services offered by financial institutions and benefiting from it. Due to fast technological advances, cell phones and social media have a very high penetration rate in today's internationally linked economy. Many nations across the globe have a tremendous potential to enhance their countries' economic development and financial stability by embracing financial inclusion via mobile payment systems .

VII.THE ROLE OF DIGITAL FINANCIAL INCLUSION

Financial inclusion plays a role in ensuring all nations' accessibility and usage of financial products to avail economic benefits. As new digital payment and mobile phone technologies have developed in recent years, the formal financial system has been re-engineered . An inclusive digital finance goal is to provide financial services in mobile money, internet banking, electronic transfers, insurance, and loan and a combination of these and newer fintech apps that reach out to previously excluded populations. Everyone should be part of the economy where financial services are customised to specific needs and demands at a reasonable cost. The delivery of financial services via digital platforms promotes financial inclusion. In addition, digital financial inclusion is also one of the stepping stones to attain the Sustainable Development Goals (SDGs) by 2030.

VIII.NEW INDICES OF FINANCIAL INCLUSION:

The DFS Ecosystem Report defines the digital financial services ecosystem and describes the players and their roles within the Ecosystem. These players include users (consumers, businesses, government agencies and non-profit groups) who have needs for digital and interoperable financial products and services; providers (banks, other licensed financial institutions, and non-banks) who supply those products and services through digital means; the financial, technical, and other infrastructures that make them possible; and the governmental policies, laws and regulations which enable them to be delivered in an accessible, affordable, and safe manner. The goal of financial services made available via digital means is to contribute to the reduction in poverty and deliver on the recognized benefits of financial inclusion in developing countries. Financial inclusion means the sustainable provision of affordable financial services that bring the poor into the formal economy. An inclusive system includes a range of financial services that provide opportunities for accessing and moving funds, growing capital, and reducing risk. Such services may be provided by banks and other traditional financial services organizations, or by non-bank providers.

1. Traditional financial inclusion is found to be relatively high in countries in Asia and the Pacific, Latin America and the Caribbean, and Emerging Europe. Traditional financial inclusion index remained broadly unchanged between 2014 and 2017, and eight countries experienced a decline.
2. Digital financial inclusion is found to be relatively high in countries in Africa and Asia and the Pacific regions. Most countries saw an increase in digital financial inclusion index between 2014 and 2017, driven both by access and usage dimensions. The improvement was particularly large in African countries (e.g., Ghana, Benin, and Senegal), while relatively muted in some of the countries in Latin America and the Caribbean, and Middle East and Central Asia.
3. Comprehensive financial inclusion improves significantly for countries with high digital but low traditional inclusion, providing an aggregate measure of differences in financial inclusion across countries (Figure 3). For example, Senegal and Myanmar have similar levels of traditional financial inclusion, but there is a large gap in terms of the comprehensive measure. On the other hand, financial inclusion remain high in China, Turkey and Brazil by both measures, reflecting relatively high levels of financial inclusion both through financial institutions and DFSs. Comprehensive financial inclusion index improved for most countries between 2014 and 2017, most notably in Africa on average.

IX. DFS COME WITH RISKS THAT CAN INHIBIT FINANCIAL INCLUSION.

1. Exclusion. Unequal access to infrastructure and technology increases the digital divide. Examples include lack of access to basic telecommunication and financial infrastructures, as well ass affordable mobile devices and data-plans. Women and the poor are often disproportionately disadvantaged.
2. Over-indebtedness. Evidence has emerged that digital credit has led to late repayments and defaults in Kenya and Tanzania, particularly in poorer and most segments of the population, calling for a closer look at digital lending practices.
3. Discrimination. DFS-linked decision-making tools such as credit scoring may not fully remove biases present in the underlying data, or in the mindset of the people that design these tools, for example prejudices or discrimination against minority borrowers. This may result in unfair segmentation and inappropriate pricing.
4. Unfair practices. DFS may be delivered with limited electronic disclosure of terms and conditions, agent liability, effective recourse mechanisms, and safety of funds, and may be adopted by newcomers to financial services with little understanding and no face-to-face interaction with providers that might help ensure appropriateness of a product or service. This exposes consumers to abuse, fraud, and operational failures which reduce trust in DFS and undermines their adoption.
5. Data-protection related risks. Traditionally excluded customers may be more vulnerable to the compromise of data privacy, identity theft, and fraud, because they lack alternatives. The potential for these risks to cause

harm is greater where consumers have low levels of financial capability, as is more often the case for the poor.

X.CONCLUSION

Digital financial services, and hence digital financial inclusion is essential to ensure everyone can access digital financial services and thus promote sustainable economic growth. The development and activities promoting digital financial inclusion must align and help attain 2030 Sustainable Development Goals (SDGs). digital financial inclusion, including an overview of digital financial inclusion. At the same time, this section will also discuss the significance of digital financial inclusion and its impact on a country's economic objectives and sustainable development goals (SDGs). This section also emphasises the effect of digital financial inclusion on vulnerable groups such as the rural population and the poor.

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