



DIGITAL INDIA: ADOPTION IN FINANCIAL OUTREACH FOR INCLUSIVE GROWTH

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ABSTRACT

The goal of financial inclusion may be achieved in several ways. Increased access to financial services and higher standards of life are the results of electronic banking activity in India's rural areas, made possible by technological advancements in the field of financial inclusion. Despite the expanding mobile industry, many consumers still lack access to traditional banking services and financial goods. To assess whether or if the digitization of the Indian financial system and the subsequent increase in financial inclusion have been good for the Indian economy, a thorough examination of the events of the last decade is required. Despite widespread availability of banking and digital banking options, these services have failed to become mainstream in India. This article thus presents an examination of the personal level drivers of a selection of key indicators along these principal dimensions. Throughout this work, we draw on external resources for our data needs. In this study, we examine how the proliferation of digital financial goods has influenced the industry and how that, in turn, has contributed to more widespread economic prosperity.

Keywords: - Financial inclusion, Economy, System, Digital products, Growth.

I. INTRODUCTION

When the goals of financial inclusion are realized within the framework of the current system, the system as a whole benefit greatly. The research demonstrates the interconnected nature of financial inclusion and banking. The greater the use of mobile banking, the more people will have access to basic banking services. Similarly, a rise in the number of people who have access to financial services drives up the number of people who use mobile banking. There are several initiatives underway to help the government realize the vision of financial inclusion and give its residents with its many advantages. India is one of the many countries that have seen the benefits of financial inclusion. In its early years, the PMJDY system offered numerous advantages to its residents and was widely hailed as a success. However, the goal of financial inclusion necessitates actions and programmes that specifically target the poor, women, and the elderly.

II. INDIA'S DIGITAL FINANCIAL INCLUSION JOURNEY

Extensive governmental and private sector innovation has fueled India's rise in digital financial inclusion. Government policy that emphasises banking access as a means of alleviating poverty and fostering economic progress for everyone has been a major factor. Most Indians now have bank accounts thanks to the government's Pradhan Mantri Jan-Dhan Yojana (PMJDY) programme, and these accounts are now the primary means through which residents receive government payments, including those dispersed via the Direct Benefit Transfer (DBT) system.

PMJDY is India's National Mission on Financial Inclusion, and it uses an integrated approach to bring all Indian families into the formal financial system. "The plan sees everyone, especially those in disadvantaged and low-income groups, having access to banking facilities, including a minimum of one basic bank account per household, financial literacy, and access to banking, insurance, and pension facilities." The impoverished are able to rise above their situation when they have convenient access to income and other financial services for both production and consumption. This improves people's quality of life and paves the way for progress in all areas. The goals of inclusive finance have resulted in a growth strategy that is more equitable for women. While there are programmes designed specifically for women as part of inclusive development, research shows that households headed by women are 8% less likely to acquire official financing and 6% more likely to seek informal finance than those headed by men. Women in India consume 20% less money than males do while running their houses. Women have been granted social and economic agency via PMJDY programmes, but not political.

The cornerstone of this policy agenda was the Pradhan Mantri Jan-Dhan Yojana (abbreviated as PMJDY), an initiative to open a bank account for every resident of India. Concurrently, two other significant Modi administration initiatives, Digital India (propelled by the explosion of mobile phone and internet coverage) and Aadhaar, coincided with the financial inclusion effort (the provision of a unique digital ID for every citizen). The J-A-M trinity, composed of the Pradhan Mantri Jan Dhan Yojana (PMJDY), Aadhaar, and Mobile, encapsulates the push for digitally-led financial inclusion. An engaged private sector, including large commercial banks, international technology companies, and fintech startups, as well as a development sector keen to support innovation to promote poverty reduction and inclusive growth in India, have bolstered and accelerated the government's initiatives in this space.

Even while more people have access to banking services and mobile devices than ever before, fewer people are really making use of these innovations. To make sense of these macro-level patterns, it's helpful to examine more granular statistics on the specifics of people's use (and lack thereof) of digital financial services. "Digital payments are one of the most important applications of digital finance." Since 2014, digital payments have been a hot topic in India because to the popularity of Paytm and other similar services, and they are expected to play a significant role in attracting the next generation of digital finance clients. USAID funded the 2015 'Beyond Cash' study⁴⁷, which argued that 'supporting digital payments is crucial to attaining meaningful financial inclusion,' to better understand the role of digital payments in

digital financial inclusion. Since then, USAID has been working with FHI 360, IFMR-LEAD, and Intellicap on a number of projects to better understand the digital payments market and how it relates to a larger financial inclusion agenda in order to better understand what drives utilisation of digital financial services.

The government is placing a substantial wager on technology to facilitate the establishment of so many accounts so quickly. As the use of smartphones and widespread availability of the internet continues to increase, experts predict that banking will increasingly move online. The goal of the Aadhaar plan is to bypass conventional methods of gaining access to financial services by associating bank accounts with biometric identity and mobile phone numbers. The government has encouraged a differentiated banking model through the licencing of new tiers of financial institutions. "Under this model, companies like Mobile Network Operators (MNOs) and fintechs can provide banking services under a Payment Bank licence, while microfinance institutions (MFIs) are encouraged to leverage technology to align with the market and as an incentive for their growth into Small Finance Banks." With the government's unexpected demonetization programme in November 2016, digital payment growth got a unique one-time boost. "There has been a shift in the government's role in the financial inclusion agenda over the past four years, despite the fact that state-owned enterprises (like State Bank of India, which opened a third of PMJDY accounts) continue to play a key role in the direct provision of banking services across India." Government officials have made it a top priority to develop foundational technologies, such as digital identity and payment systems, for a technology-driven economy. The most illustrative case in point of this is Unified Payment Interface (UPI), which has emerged from obscurity to become the dominant method of digital payments, surpassing debit cards and prepaid wallets. The Reserve Bank of India (RBI) and the banking industry in India collaborated to establish and oversee UPI under the National Payments Council of India (NPCI).

% of Household in each Income group	Income Groups			Total
	Bottom 40%	Middle 40%	Top 20%	
Have smart phones	57%	72%	90%	68%
Do Digital Payments	24%	34%	49%	32%
Have mobile app for Banking	14%	37%	59%	31%
Use phone for Banking related matters	5%	17%	30%	14%

Figure 1: Status of Online Banking in India as on December 2021

The following chart shows that compared to online payments, internet banking is still in its infancy, but it has tremendous potential in the years to come. "There is a 36% divide between those who possess smart phones and those who utilise digital payment services, hence mobile banking is currently not widely used." Opportunity awaits those who are financially literate and cognizant of the benefits of digitization.

There is evidence that India's digital financial effort is having a limited effect owing to account inactivity and low levels of utilisation, despite tremendous rise in account creation. In the last year, 48% of account holders at financial institutions did not add to or remove from their balances. People who are less likely to have access to technology, such as the impoverished and people living in rural areas, are more likely to have dormant accounts. Sticky desire for cash as a mode of payment and jewellery and livestock as savings instruments are only two examples of the many obstacles that still need to be overcome in India's banking sector.

III. THE ROLE OF DIGITAL PAYMENTS IN EXPANDING FINANCIAL OUTREACH IN INDIA

USAID made a sizable pledge in favour of the Indian government's financial inclusion strategy in November of 2014. The adoption of digital payments by merchants was highlighted as a priority, since this is a crucial yet undeveloped aspect of India's financial inclusion. USAID (in collaboration with FHI 360, IFMR-LEAD, and Intellectap) commissioned a number of pilot initiatives in both urban and rural areas to test the efficacy of digital development and digital finance. "Projects in Odisha, Maharashtra, and Jharkhand are looking at rural and value chain-based methods, while the CATALYST programme in Jaipur is studying several models for urban payments."

Several crucial results will aid the inclusive expansion of the digital banking sector, and they are based on data obtained at these project sites, interviews with beneficiaries and a variety of stakeholders surrounding these initiatives, and a study of project materials and learning notes. These include:

1. The human touch point remains critical – even as technology enables rapid scaling of business models, the need for trust and understanding of how to use these services will continue to require interaction with a human being at the last mile
2. Digital finance is closely linked with aspiration – in both urban and rural environments, the desire to try new digital products and continue to use them is closely linked with aspirational characteristics like wanting to grow a business or participate in the broader national digital economy.
3. Product design is important and underrated – several models appear to have struggled because financial services do not meet the differentiated needs of Indian populations. Too often products have been designed for the needs of wealthier, urban, Hindi, and English-speaking populations, effectively excluding large swathes of the market opportunity.
4. A lot of people still really like cash – much of the movement towards digitization assumes that it provides an improvement on cash-based payments. This can overlook the complexities around why some people use cash and the difficulty of changing behavior.
5. More exploration is required around the linkages between digital payments and financial inclusion – while great progress has been made the access to financial services, the relatively low levels of usage

hints at a disconnect between what is assumed to be the impact of digital financial services and the reality on the ground.

IV. ANALYSING IMPACT OF DIGITAL PRODUCTS ON FINANCIAL INCLUSION

Banking and finance in India were once capital and labour demanding, catering exclusively to a select group of affluent individuals who engaged in high-value, low-volume transactions. "However, technological progress has led to fast change and expansion in the banking industry." Now, thanks to digital banking solutions, even in economically marginalized regions, people may access their money whenever and wherever they choose.

Bank branches, automated teller machines, digital kiosks, customer service points (CSP), business correspondents (BC), point-of-sale (PoS) terminals, and mobile ATM vans are all part of the banking infrastructure that now serves 5,69,547 of the over 6,60,000 communities in the country. Eighty percent of Indian adults now have a bank account, a result of the impressive penetration of digital banking services and the continuous strategy of financial inclusion. Pradhan Mantri Jan Dhan Yojana (PMJDY) boosted financial inclusion by increasing the number of people with access to bank accounts from 432 million in March 2016 to 536 million in March 2018. Data communication is bridging the gap between end-users and service providers in the last mile. The convergence of banking and mobile technology has greatly expanded their reach into rural areas, opening the door to the possibility of universal access to banking services. Innovation in this field is reaching new heights, such as enabling mobile technology to trade through ATMs or employing SIMs to run credit/debit card POS machines on mobile networks. Multiple technological tools exist now that may help grow financial inclusion.

As a result of the widespread adoption of digital products and services, banks have seen a significant reduction in their front- and back-end costs, which in turn has led to a decrease in transaction and maintenance costs, which in turn has led to a decrease in lending cost, making financial inclusion in rural areas more feasible. The advent of ATMs has had a profound effect on the banking supply chain, drastically lowering up-front costs and facilitating far more efficient distribution. "Rural Internet Kiosks are being used by banks for the same purpose in outlying places." Value-wise, the contribution of electronic transactions is seen in Table 1 below, and it is clearly greater and rising with time. The numbers show that NFS has become more popular in the Indian banking sector.

Table 1: NFS inter bank ATM cash withdrawal 2016-21

		F.Y-2016-17	F.Y-2017-18	F.Y-2018-19	F.Y-2019-20	F.Y-2020-21
		Value (in Bn)	Value (in Bn)	Value (in Bn)	Value (in Bn)	Value (in Bn)
NFS Inter Bank ATM Cash Withdrawal *		8,311.67	9,993.22	10,818.39	13,357.49	15125.6173

Electronic money transfers from the government into bank accounts are made possible by the countrywide electronic financial inclusion system (NEFIS), which is highly recommended by the Rangarajan committee on financial inclusion. Under the government's direct benefit transfer plan, recipients of government subsidies, scholarships, and schemes like the rural-focused MGNREGS may have their payments deposited directly into bank accounts tied to their national unique identifier (DBT). Taking this action will lessen the regulatory load, save costs, and mitigate the potential for policy abuse. With NEFIS, we can also bring those who are economically and socially marginalised into the mainstream banking system. Table 2 demonstrates the development of the prompt payment system (IMPS) in the Indian banking sector and lends credence to this claim.

Table 2. Progress of IMPS 2016-21

		F.Y-2016-17	F.Y-2017-18	F.Y-2018-19	F.Y-2019-20	F.Y-2020-21
		Value (in Bn)	Value (in Bn)	Value (in Bn)	Value (in Bn)	Value (in Bn)
IMPS		581.89	1,622.29	4116.24	8924.98	15902.57

India's government has released a new software called Bharat interface for money to facilitate Aadhaar-based financial transactions (BHIM). One such software that hopes to encourage cashless transactions in India is called Bharat interface for money (BHIM). Using a single interface for all payment methods, BHIM facilitates fast, straightforward, and convenient financial dealings. Many individuals made the transition to digital transactions for payments following demonetization since cash was scarce for a long time after the transfer. UPI, which enables instantaneous financial transfers directly between bank accounts, has seen a significant uptick in use as a result of the convenience it provides consumers. Unlike other mobile wallets like Paytm and MobiKwik, BHIM enables you transfer money to those who don't use the programme itself. Feature phones and those without internet access may now make USSD payments thanks to the government's rollout of UPI integration.

Table 3: BHIM data 2016-21

	F.Y-2016-17	F.Y-2017-18	F.Y-2018-19	F.Y-2019-20	F.Y-2020-21
	Value (in Bn)	Value (in Bn)	Value (in Bn)	Value (in Bn)	Value (in Bn)
BHIM	0.00	00	18.04	300.18	796.34

V. CONCLUSION

Due to the government's efforts to spread new technology to the country's underserved rural areas, digital banking in India is expanding rapidly. In order to have a robust and efficient comprehensive strategy to inclusive finance, it is necessary to create a systematic and organized digital network architecture. "In addition, customers will benefit greatly from the increased efficiency and openness of the services provided by non-banking organizations, such as small finance houses and co-operative banks, as they join the digital banking and financial infrastructure." Through the use of digital finance, businesses can better support innovations that improve the quality of life and economic prospects in developing countries. New kinds of financial services may emerge thanks to the increased openness and customer data made possible by digital payment methods. In order to better analyse the credit risk of their clients, lenders may benefit from new credit-scoring algorithms that evaluate user data. It's also possible for P2P lending systems to take root. Borrowers submit requests, which are then scored based on the borrower's profile and associated risk, and lenders choose which requests to pay. Lenders have been able to earn double-digit profits thanks to lower default rates among borrowers than at MFIs. Other cutting-edge software and digital technologies may assess a company's digital sales to boost efficiency, open up new avenues of funding, and more. Two, modest sums may be exchanged using digital payments. This opens the door for new types of commerce that rely on 'micro-payments.'

With the rise of digital goods, banks are shifting their focus from financial inclusion as a social obligation to financial inclusion as a profit opportunity. Although the report shows that the use of digital banking solutions such as IMPS, NFS, etc. has increased over the last five years, much progress remains. In spite of the fact that most financial services can now be obtained via digital channels, banks in rural regions still struggle to sell their goods online because of a widespread dearth of Internet-savvy residents there. But the advantages of digital banking go much beyond just broadening participation, reducing transaction costs, and facilitating easier and faster exchanges. A digital payment network is an essential component of any modern economy, allowing for seamless financial transactions between consumers and enterprises. The regulator and banks, together with local government agencies, will need to educate the public on a massive scale if financial inclusion activities are to be properly harnessed and advanced.

The whole Indian consumer base should be able to take use of digital banking or mobile banking in the present digital landscape, and necessary efforts should be made to assure this.

VI. RECOMMENDATIONS OF THE STUDY

The following diagram suggests a strategy for the public sector, the private sector, and the development sector to build an equitable financial technology infrastructure in the near and far futures.

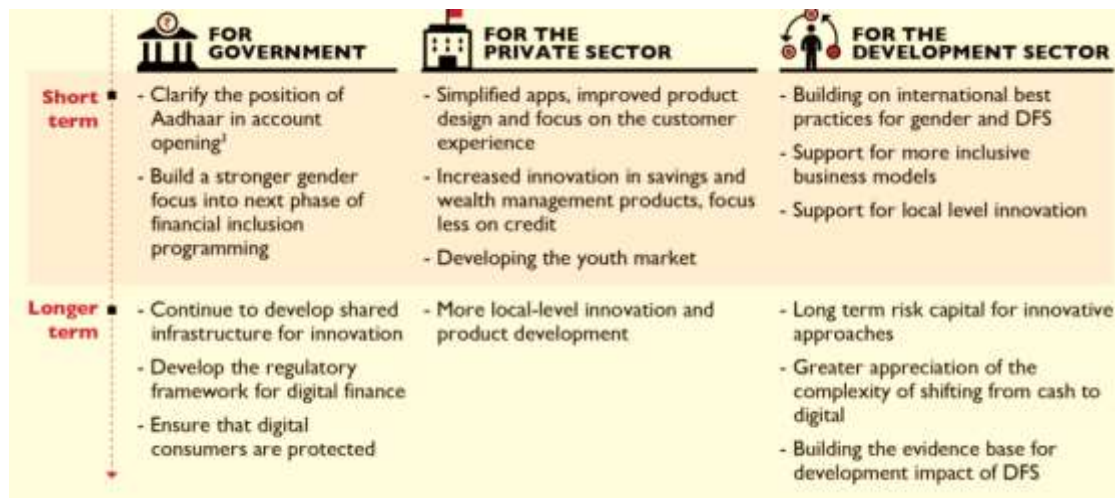


Figure 2: Recommendations

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