

DIGITAL FINANCIAL INCLUSION –ROLE OF BANKS

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Abstract

The paper defines Digital financial inclusion (DFI) is the use of digital technologies to provide financial services to people who are underserved or financially excluded. Digital financial inclusion seeks to provide a range of digital financial services that provide opportunities to access funds, transfer funds, grow capital, save funds and reduce risk. One of the primary barriers to financial inclusion has been the physical distance between underserved communities and traditional banks. Digital banking, accessible through laptops, smartphones and computers, eliminates this geographical hurdle.

Keywords:

Financial Inclusion, Digital Financial Inclusion, Digital Banking.

INTRODUCTION

The purpose of this paper is to discuss digital financial inclusion. Over the years, the number of digital applications that offer financial services have increased and continue to grow. Many of the digital applications used to offer financial services are developed by technology companies or financial technology companies for themselves or for banks to serve their customers. Digital banking has expanded around the world, bringing the potential to reduce costs and increase transparency and efficiency. Digital banking has also opened new pathways to financial inclusion. As internet access spreads to remote parts of the world, digital banks can reach people who are traditionally underserved. These benefits have helped digital banks grow in popularity in more countries.

Digital Banking

Digital Banking is banking done through the digital platform doing away with all the paper work like demand draft, cheques, paper in slips and so on. It means availability of all banking activities online. Digital banking can

be done either through a laptop, computer, tablet or mobile phones. A digital bank represents a virtual process that includes online banking a beyond as an end to end platform.

Digital banking in India is the use of online channels to access banking services. It includes services like transferring funds, opening accounts and making withdrawals.

Types of digital banking in India

- ❖ **(Unified Payments Interface) UPI-** A real-time payment system that allows users to transfer money between bank accounts using a virtual payment address (VPA).
- ❖ **Digital payment banks-** Banks that offer digital financial services and payments, including mobile banking, savings accounts and digital wallets.
- ❖ **Mobile wallets-** Apps like PhonePe, Google Pay, and Paytm allow users to store money and make payments.
- ❖ **Digital lending platforms-** Fintech companies offer business loans, personal loans and instant credit online.
- ❖ **Neo-banks-**Banks that operate entirely online and offer all banking services digitally.
- ❖ **Stock trading apps-** Apps that allow users to trade stocks and securities online.

Benefits of Digital Banking

- ❖ Saves money on opening bank branches
- ❖ Most tasks are automated
- ❖ Allows users to transfer and receive funds around the clock

Inclusion

India is moving from underdevelopment to development. In order to make them part of the process, there are several development programs undertaken by the Government. All these programs aim to improve the life of the poor and financial weaker section. This is inclusion. There are levels of filters that apply in terms of access to these schemes. To

remove those filters is the main essence of any reform in the schemes for poor.

Digital inclusion

There is digital explosion everywhere and technology developments are revolutionising every stream of life. The advent of smart phone and data has improved access to information. With this information, people are developing on their ideas and establishing entrepreneurial ventures and succeeding in life. But the limitations here are availability of technology is subject to smart phone and data availability. In order to create a common platform and opportunities for the underserved and unreached to gain access to the technology, Government and industry is making improvements to the existing process. This process is called digital inclusion.

Financial Inclusion

Financial inclusion refers to delivery of banking services at an affordable cost to the vast sections of disadvantaged and low – income groups who tend to be excluded from the formal banking channel. Despite widespread expansion of the banking sector during the last three decades, a substantial proportion of the household, especially in rural areas, is at present outside the coverage of the formal banking system.

RBI's broad approach to financial inclusion aims at "Connecting people" with the banking system and not just credit dispensation; giving people access to the payments system and Portraying financial inclusion as a viable business model and opportunity. Efforts towards financial inclusion include sensitising the banks to the banking and financial needs of the common person and ensuring access to basic banking facilities .RBI has undertaken a number of measures in recent years for attracting the financially excluded population into the formal financial system. The Annual policy statement for 2006-07 urged all banks to give effect to these measures announced from time to time on financial inclusion at all their branches.

Introduction of "zero balance" accounts or NFA has enabled the common person to open bank account. However, providing banking facilities closer to the customer, especially in

remote and unbanked areas, while keeping transaction costs low, remains a challenge. This has to be done with affordable infrastructure and low operational costs with the use of appropriate technology. Banks were urged on May 7, 2007 to scale up their financial inclusion efforts by utilizing appropriate technology, while ensuring that the solutions developed :

1. Are highly secure
2. Are amenable to audit
3. Follow widely accepted open standard to allow inter –operability among the different systems adopted by different banks, Banks have initially pilot projects utilizing smart cards, mobile technology to increase their outreach. Biometric methods for uniquely identifying customers are also being increasingly adopted.

In today's interconnected world, where mobile devices have become ubiquitous and internet access continues to expand, digital banking has emerged as a powerful tool for bridging the financial divide. Here's a closer look at how digital banking is transforming financial inclusion and the opening doors to financial opportunities for millions.

In a diverse country like India, financial inclusion is a critical part of the development process. Since independence, the combined efforts of successive governments, regulatory institutions, and the civil society have helped in increasing the financial-inclusion net in the country.

Digital Financial Inclusion

Digital financial inclusion (DFI) is the use of digital technologies to provide financial services to people who are underserved or financially excluded. DFI can include services like payments, savings, insurance, and credit. Using digital advances and leveraging flexible procedures of financial institutions to bring the finance and banking to the door step of the unreached and the underserved is digital financial inclusion and is a vital requirement for fast tracking India's developmental efforts.

Benefits of digital financial inclusion

- ❖ It provides access to financial services for people who might not otherwise have it.

- ❖ It can be more cost-effective than traditional methods.
- ❖ It can reduce the risk of theft, loss, and other financial crimes.
- ❖ It can help people save money, make payments, and build credit.
- ❖ How Digital financial inclusion works
- ❖ It uses digital platforms like laptop, tablets, mobile devices and the internet.
- ❖ It can be delivered by banks, fintech firms, insurance companies and other regulated entities.
- ❖ It can use digital identification systems and biometric technology to verify identities.

Goal of digital financial inclusion

The goal of digital financial inclusion is to offer financial services via digital channels to all individuals, firms, households and governments, thereby, contributing to poverty reduction, increase in financial intermediation, and contributing to the attainment of the sustainable development goals. Digital financial inclusion seeks to provide a range of digital financial services that provide opportunities to grow capital, access funds, save funds, transfer funds and reduce risk

Instruments for digital financial inclusion

Some tools or instruments for digital financial inclusion include: internet banking, e-money accounts, mobile money, credit cards, debit cards, agent networks and retail point of Sale (PoS) terminals.

Digitization efforts of financial institutions in detail

Banks have taken to a massive leap in terms of introduction of

- i. Core banking (permitting banking at any branch for an account holder),
- ii. Phone banking (basic transactions can be done through IVRS enabled banking through feature phone also).
- iii. Internet banking (all transactions done from a branch can be done online now),
- iv. Mobile banking (some key transactions can be done from smart phone through a mobile application),
- v. Introduction of Automatic Teller Machine-ATM to support several transactions like payments, deposit and withdrawal of money etc.

All these have reduced the need to visit branch and it is a massive step in taking banking closer to the door step of the underserved. Introduction of banking to the self help group movement has led to growth of Micro finance institutions in India. Aided with a working internet, these tools can become useful in fulfilling the aspirations and digital financial inclusion objective of the Government.

FINANCIAL LITERACY AND EDUCATION:

Financial literacy is the cornerstone of financial empowerment. Yet, a significant portion of the global population, particularly in marginalized communities, lacks the essential knowledge and skills necessary for effective financial management. This lack of financial literacy has limited economic mobility, perpetuated cycles of poverty and hindered access to financial services.

Digital banking has emerged as a potent instrument for addressing this critical issue. It transcends the boundaries of traditional financial education and reaches underserved populations where formal financial education often fails to penetrate. Here's how digital banking is reshaping financial education and literacy:

1. Personalized Financial Guidance: Many digital banking apps incorporate financial wellness features that provide personalized insights and recommendations based on users' financial behaviors.
2. Simulated Financial Experiences: Some digital banking platforms offer financial simulators or "what-if" scenarios. Users can experiment with various financial decisions and look at the potential consequences in a risk-free environment.
3. Accessible Learning Resources: Digital banking platforms offer easily accessible financial education resources. These resources include articles, videos, webinars and interactive tools, covering topics from basic budgeting and saving to more complex financial concepts. With these resources at their fingertips, individuals can embark on a self-paced journey to enhance their financial knowledge.

4. **Language and Cultural Sensitivity:** Many digital banking apps offer content in multiple languages and tailor their financial education resources to specific cultural contexts. This ensures that financial literacy efforts are inclusive and resonate with diverse audiences.
5. **Accessible Anytime, Anywhere:** One of the most significant advantages of digital banking for financial education is its 24/7 accessibility. Individuals can engage with financial education materials at their convenience, breaking down the barriers of time and location.

Ultimately, improved financial literacy empowers individuals to make informed financial decisions, seize opportunities for economic growth and contribute to their communities' overall financial health. As digital banking continues to evolve, its potential to bridge the financial literacy gap and foster greater financial inclusion becomes increasingly evident.

REVIEW OF LITERATURE

According to Ajit Deshmukh (2016) Indian financial services landscape is undergoing a technology-driven shift. Government has leveraged its approach to achieve financial inclusion with the help of digitalized technology in banking services. The steps taken by RBI on financial inclusion was much needed and intensively supported to digital infrastructure to reach the unbanked areas. Banks need to target such outskirt and financially excluded segments through technology-enabled services which can provide the necessary transactions.

Parul Agarwal, Shreya Chatterjee, Prachi Agarwal (2017) in their study Digital financial inclusion and consumer capabilities in India wanted to understand digital literacy and an assessment of specific training requirements, specific consumer segments such as migrant workers and marginalized plantation workers and the scope for targeted products, and finally understanding credit as a mode of transaction and scope for innovations in product design. Based on in-depth quantitative surveys and focus group discussions (FGD) with consumers, and semi-structured interviews

with service providers, this research aims at informing service providers of consumers' willingness and ability to use digital products. Shen, Hueng & Hu (2020) investigate the channels through which financial inclusion can be achieved in China. They find that the level of financial literacy and the use of digital financial products, which are advanced by popularity of the Internet, greatly increased the level of financial inclusion in China

Journey Map Report March 2019 M STAR Project in this project, India Digital Finance Report, India, dissecting the major trends and drivers, identifies key actors and the roles that they have played, and presents a roadmap for how the next phase of digital financial inclusion in India can be made more effective and more inclusive. The findings were the human touch point remains critical, digital finance is closely linked with aspiration, product design is important and underrated, a lot of people still really like cash. Linkages between digital payments and financial inclusion cannot be assumed.

RESEARCH METHODOLOGY

It is the specific procedure or techniques used to identify select process and analyse information about a topic. The objectivity of the study has been ascertained with the help of secondary data collected from websites like Digital India and other sources related to demonetization and financial inclusion.

CONCLUSION

1. The digital financial inclusion agenda to provide extensive insights into what digital financial inclusion is all about. The paper defined digital financial inclusion, and highlighted the goal of digital financial inclusion, the instruments for digital financial inclusion, the benefits of digital financial inclusion.
2. The banks and government have employed many efforts and took financial inclusion towards simplification in an attempt to include as many underserved by the use of growing technology, it is still lagging behind the objective by a good distance. To match its objective, there is a pressing need to create massive awareness among users about both the technology and smart

device usage. There is also a growing need to speak the language of the people.

3. Financial literacy empowers individuals to make informed financial decisions, seize opportunities for economic growth and contribute to their communities' overall financial health. As digital banking continues to evolve, its potential to bridge the financial literacy gap and foster greater financial inclusion becomes increasingly evident.
4. Financial institutions and government need to implement measures that generate confidence among users. To encourage intense usage, users should be provided with incentives that encourage usage of digital banking. This will enable us to meet the objective of digital financial inclusion.
5. There are operational benefits to digital banking, and a multi-stakeholder approach is needed to enable digital banks to increase financial inclusion. This approach includes improving internet infrastructure, especially in rural areas, to enable access to digital banking, providing digital and financial literacy education to those who need it.

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