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Empowering India: A Holistic Examination of Digital Financial Inclusion Strategies

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Abstract:

This article discusses what has been accomplished thus far in the field of digital financial inclusion in India, as well as how we can leverage modern technologies to create a more inclusive society by employing a variety of digital drivers. This article discusses the obstacles and challenges that prevent the realization of a digitally inclusive society. This article discusses the growth of E-commerce-enabled financial inclusion. It deconstructs the trends and key players that support them, identifies the adoption barriers, and makes recommendations for addressing the major issues, emphasizing the importance of interaction and transparency among all key stakeholders in order to establish a digitally inclusive ecosystem and make India's next wave of digital financial inclusion more successful and accessible.

Key Words: Digital Financial Inclusion, Digital finance, Empowering India, Rupay, Jan Dhan Yojana

Introduction

The primary focus of this study is the influence of digital finance on the dependability and stability of the financial system. Financial organisations, governments, and authorities are constantly advocating financial inclusion through digital media. Nevertheless, despite these extensive promoting initiatives, digital financial inclusion is not progressing as anticipated or as it

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should due to consumer ideology, which is one of the most significant obstacles to the accomplishment of an ecommerce-enabled economy or financial inclusion. This article aimed to evaluate the various programmes and initiatives and their degree of success, as well as to identify consumer ideologies as obstacles to digital financial inclusion. The emergence of ecommerce has increased the number of digital financial services available to individuals and businesses. Non-profit organisations are increasingly offering services such as electronic payments, credit financing, and insurance at the point of sale, a trend known as E-commerce Enabling Financial Inclusion or Digital Financial Inclusion. In its economic strategies, the Government of India has always prioritized financial inclusion. Jan Dhan, Aadhaar-Mobile, and Digital India have altered the playing field by ensuring that India's unbanked population has equal and affordable access to financial services, thereby reducing income disparity. While e-commerce has been quite effective at generating demand for digital financial products and services among microbusinesses and individuals at the base of the economic pyramid, there is still room for improvement. Recent developments in both the public and private sectors have fueled the expansion of digital financial inclusion in India. The percentage of adult Indians with a bank account increased from 52.8% in 2014 to 79.8% in 2017 (Global Findex, 2017).

This expansion phase was in part fueled by the government's exceptional political drive to embrace E-commerce-enabled financial inclusion as a vital platform for fostering social and economic progress and growth. The objective of the Pradhan Mantri Jan-Dhan Yojana (PMJDY) was to open a bank account for every Indian. Simultaneously, the government's efforts for financial inclusion collided with two other significant policies: Digital India (led by rapid development of mobile and internet penetration) and Aadhar (provide all citizens with a unique digital identity). The J-A-M trinity was named after PMJDY, Aadhaar, and Mobile, which represented the drive for E-commerce-facilitated financial inclusion. Here are eight (HL-P) high-level principles that can accelerate direct foreign investment in India.

By 2017, 80 percent of the adult population in India had a bank account, and nearly 95 percent of the population had Aadhaar. Approximately 77% of Indian women have bank accounts. There are 423.7 million PM JDY participants, with 279.5 million semiurban/rural members (Malladi, Soni, and Srinivasan, 2021). The National Mission for FI is the culmination of a number

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of significant measures for inclusive development introduced by policymaking bodies such as the RBI and the Niti Aayog. FinTechs also contribute to digital financial inclusion by creating a firm foundation for e-commerce marketplaces by connecting buyers and sellers. Many channels are playing a crucial role in rural and remote locations.The annual FI-Index for the year ending 31 March 2021 is 53.9, compared to 43.4 for the year ending 31 March 2017 (RBI, 7/04/2021). In January 2021, there were 624 million internet users in India, for a penetration rate of 45% (source: Economic & Political Weekly Report). The table provides essential payment system data for India over the past three years.

Review of Literature:

KostaPeric (2015), digital technology possesses the greatest potential to construct an economy in such a way that it benefits everyone by making it possible to create payment systems that are easier and more comfortable.

N. Singh,(2017). In recent years, financial inclusion (FI) has gained more popularity than financial access, even though the two terms refer to essentially the same objective.

Ozili,(2018) In developing and advanced countries, digital finance via Fintech companies has a good impact on financial inclusion. There are certain issues that digital money raises in terms of financial inclusivity and stability.

Ravikumar, (2019) Banks and other financial institutions in India could not provide quality, inexpensive, and accessible financial services to all types of individuals in all locations using their conventional business strategies

C.M. Malladi, R.K. Soni, S.Srinivasan,(2021). Real-time data is gradually replacing the use of smart cards, even in the most inaccessible parts of the world, where internet availability is dramatically improving. Identification of beneficiaries based on their Aadhaar numbers, enrollment of beneficiaries, and the processing of payments may all be done in real time out in the field According to the findings of this piece of study, debit cards cut down on transaction fees by reducing the amount of time and distance that stands between the cardholder and his or her bank

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account. Customers switched to a different means of payment as a response to the reduced transaction costs.

Digital financial inclusion refers to the use of digital technology to provide access to financial services to underserved and unbanked populations. It aims to bridge the gap between individuals or communities who lack access to traditional banking services and the formal financial system. Digital financial inclusion leverages various technologies, such as mobile phones, internet connectivity, and digital payment platforms, to offer financial products and services to individuals who were previously excluded from the financial system. These services can include mobile banking, digital wallets, online payment platforms, microfinance, and other digital financial solutions. By utilizing digital channels, financial inclusion initiatives can overcome barriers like geographical constraints, high costs, and lack of infrastructure. Digital platforms enable individuals to perform financial transactions, such as making payments, sending and receiving money, saving, borrowing, and accessing insurance services conveniently and securely.

Digital financial inclusion has the potential to empower individuals and communities by promoting financial literacy, facilitating savings, enhancing access to credit, enabling secure and efficient transactions, and fostering economic growth. It can also contribute to poverty reduction, empowerment of women, and overall economic development.Governments, financial institutions, and fintech companies play significant roles in driving digital financial inclusion initiatives. They collaborate to develop innovative solutions, create supportive regulatory frameworks, expand digital infrastructure, and promote financial education to ensure that marginalized populations have equal access to financial services and can participate fully in the digital economy.

Objectives:

1. To gain an understanding of the existing state of affairs and to conduct an investigation into the primary elements that have been responsible for the rapid spread of digital financial inclusion.

2. To identify the obstacles that must be overcome in order to implement digital financial inclusion.

Methodology

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Secondary data refers to information that has been collected for a separate purpose or study. In terms of analysis and interpretation, these secondary data supplement the primary data source. From secondary data, a researcher can obtain insight and knowledge in a different way. The majority of data for this study is collected from secondary sources such as book chapters, research journals, government publications, periodicals, articles, and reports.

Due to the breadth of the research topic and the dispersed nature of the data sources, the study employed this methodology. In order to achieve the goals of this article, the analysis and evaluation of extant data would be a positive and beneficial outcome in forming a conclusive picture.

India's DFS Journey and Key Players in The Way of DFI

"Since 2014, the growth of DFS (Digital Financial Service) in India has occurred in three distinct phases. The first phase, which lasted from 2014 to roughly August 2016, was characterised by a steady increase in volume growth of approximately 2% per month on the leading digital platforms. The second period was primarily driven by demonetization, whereas the third period was driven by the Unified Payments Interface as opposed to pre-paid instruments (UPI)" (Per the Journey Map Report and RBI data from 2014 to 2018). The essential players on the path to digital financial inclusion are as follows:

Jan Dhan Yojana: The Pradhan Mantri Jan-Dhan Yojana (PMJDY) is an initiative that promotes financial inclusion in the digital realm. When it was introduced in India in August 2014, it followed a legacy of bank-led financial inclusion programmes. After widening between 2011 and 2014, the accessibility income gap has began to narrow since 2014. "In 2011, only 27% of the poorest Indians had a bank account, compared to 41% of the richest (a difference of 14%). In 2014, the gap widened to 16% (43 percent versus 59 percent). By 2017, the disparity had diminished to less than 5%. In 2017, 79 percent of rural Indians had a bank account, which is comparable to 76 percent of urban Indians" (Global Findex database, 2017).

The expansion of the government's Direct Benefit Transfer (DBT) programme, which currently administers 433 initiatives from 56 ministry divisions, is closely related to the PMJDY.

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Direct Benefit Transfer (DBT) is a government-driven initiative consisting of a variety of programmes in which benefits are directly transmitted to beneficiaries, typically via state organisations (Road Map Report for March 2019)..

Customers were issued RuPay debit cards so they could use their newly opened PMJDY bank accounts for ATM cash withdrawals and POS (point-of-sale) transactions. "79 percent of the 330 million individuals with PMJDY plan bank accounts have been issued a RuPay card" (Report of the Ministry of Finance, Government of India). According to the Global Findex report, debit card penetration in India increased from 22% in 2014 to 33% in 2017.

Aadhaar: The expansion of Aadhaar has been inextricably linked to PMJDY, as the Aadhaar number has become the legally accepted identity for rural Indians seeking to open their first bank account. "During 2016-17 and 2017-18, the number of e-KYC validations with Aadhaar increased from 48 million to 138 million" (Source: Journey Map Report, March 2019). As of August 2018, Aadhaar was linked to over 83% of active PMJDY accounts (excluding Assam, Meghalaya, and Jammu and Kashmir). (Continued from PMJDY, GOI).

Demonetization and the Goods and Services Tax: Demonetization may have accelerated the growth of digital transactions. The rise observed at the start of 2016 appears to have been caused by the development of UPI, which coincided with an enhanced business framework and the introduction of GST, rather than demonetization.

New levels of finance institution licencing: in addition to the establishment of a new differentiated banking structure, the establishment of a new differentiated banking structure marked India's era of financial inclusion from 2014 to 2018. Because of the new legislative agenda in support of differentiated banking, the competitive structure of India's financial and banking markets has evolved. Creating strategic models from across conventional banking, including some from fintech companies and global firms, were urged to encourage competition and innovation.

Payments Banks: Payment banks were created with the intention of incorporating non-traditional performers, such as telecommunications companies, fintechs, and the postal system, into the formal banking system in order to use existing channels to expand DFI through modest deposits and payment. "Every month, Paytm Payments Bank executes 124 million mobile-enabled banking

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transactions, which is 47% more than the next largest bank, SBI, in terms of mobile banking transactions. Aditya Birla Idea Payments Bank handled 0.35 percent of all transactions" (Source: Journey Map Report, March 2019).

Small Finance and Microfinance Banks: The purpose of allowing and licencing a new layer of SFB (Small Finance Banks) was to use digital technology to reduce the cost of banking services and increase their accessibility to low-income consumers. A total of ten institutions across the nation were granted licences. "As of June 2018, there were 17,6 million loan accounts, an increase from 17,3 million in June 2017 and 15.8 million in June 2016" (Source: MFIN data, March2021).

Fintech includes payment firms that process P2P and retail payments, as well as technology firms such as Pine Labs and Mswipe. Due to the underlying digital infrastructure provided by India Stack and Aadhaar, a number of these burgeoning fintech companies now have a business rationale. The introduction of e-commerce in India has closely correlated with the growth of India's payments fintechs. From October 2016 to January 2017, the number of pre-paid instrument (PPI) transactions more than doubled, from 127 million to 296 million. (RBI statistics).

Smartphone and Internet Penetration: The rate at which smartphones and low-cost internet have reached traditionally underrepresented communities in the digital economy has enabled India's accelerated growth in DFI. The former has benefited from the decline in hardware prices.

Existing Obstacles and Observation There appears to be no doubt that India has made significant progress in bringing economically disadvantaged segments into digital financial inclusion.

- Due to the legacies of government-owned banks, it is more difficult for emerging, private institutions to construct a level of confidence and loyalty that will encourage consumers to move their cash into a digital account.
- Digital finance supplier companies expanding to comparatively low-income regions will face challenges relating to low levels of literacy and the ability to interpret the principles and implications of using digital financial products.

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- Since consumers prefer cash and merchants also transact in cash, it makes more sense to maintain a cash-based system. A lack of demand is one of the primary causes for the non-adoption of digital payments.
- Some retailers and merchants believe that the transition from a cash-based to a digital economy will compel small businesses and individuals who are not currently paying taxes to begin doing so.
- Many individuals in remote and rural areas still lack access to the network and digital infrastructure required to promote digital service adoption and confidence.
- Despite a modest early proliferation of digital finance in remote and rural locations, rural economies continue to be predominately cash-based. People with lower incomes are more sensitive to data pricing. so, prices of data are also a fundamental challenge connecting rural people to digital financial inclusion.
- The majority of digital financial products are offered in English and occasionally in Hindi. As a result of illiteracy and unfamiliarity, however, the majority of rural residents prefer digital financial products in their native language.

- The absence of pertinent financial products is one of the most prevalent obstacles to digital financial inclusion.

Conclusion and Recommendations

Financial inclusion is essential for economic development because it encourages individuals to save, thereby creating a resource base for the financial system. By integrating low-income individuals into the formal banking system, financial inclusion safeguards their financial wealth as well as other resources. It also prevents the exploitation of the impoverished by moneylenders in remote areas. This growth and demand has driven financial inclusion in digitization in all regions, including rural and remote areas, with the assistance of government efforts. Financial inclusion has become a priority for the Reserve Bank of India, the government, and other authorities over the years, with numerous actions taken and substantial progress made.

Government and development sector initiatives and efforts such as Jan-Dhan Yojana, Aadhaar, direct benefit transfer, rupay, demonetization & GST, licencing to new banking institutions, payments banks, small finance and micro finance banks, internet & smart phone penetration, and fintech have contributed to the success of DFI. On the other hand, there are a number of obstacles and challenges in the way of the proliferation of DFI, such as lack of trust, illiteracy, unfamiliarity, cash-dominated economies, particularly in rural areas, inadequate digital infrastructure, local languages, lack of suitable digital services, and lack of skill. There are substantial roadblocks in the way of providing accessibility to the underserved and enhancing their standard of living. Infrastructure, adequate services, and elevating the disadvantaged to the top of the economic pyramid are obstacles that must be surmounted. The primary objective of digital financial services is to link the underprivileged with their counterparts and a variety of service providers. In Financial Inclusion, the DFI-required infrastructures.

Governments and authorities should encourage rural areas to accelerate and coordinate the growth of e-models that are aligned with the needs of micro-enterprises at the base of the economic pyramid by enhancing connectivity and infrastructure, maintaining appropriate regulations, and encouraging rural areas to accelerate and coordinate digital financial services. Assist in the transition from cash-based to digital processes. Increase demand to facilitate the incorporation of micro-merchants onto formal e-commerce platforms. A programme of digital skills and training should be provided. The benefits of economic progress can be amplified through digital financial inclusion. It will not only reduce the cost of financial services, but also address data security and financial transaction accuracy concerns.

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