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The Impact of Digital Banking and Financial Expertise on Financial Integration in India

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Abstract

Every company in every sector faces issues as a result of digitization.Fintech projects are regarded as more important innovations in the financial industry, resulting from the evolution of the digital revolution. These projects are progressing quickly due to the divisionof economic system, systems, and computer technology. Blockchain investigation is yet in its early stages. However, fintech provides various services, including e-aggregators, e-trade, e-indemnity, financing, payments (including digital wallets), and cryptocurrency like Bitcoin. It offers a chance to look more deeply at the difficulties and developments in fintech study. India must enhance financial accessibility to reach the under-banked portions of the populace and offer a steady setting for financial technology companies. Both correlation and regression analyses were utilized in this research, jointly with secondary information obtained from the Reserve Bank of India, to analyze this impact. The objective was to ascertain how digital and fintech services would affect the inclusion of money in India. The findings show that fintech companies have greatly boosted the availability of finance in this country, particularly for the middle class. These results will workhard to integrate eachstate resident into a plannedfinancial structure.

Keywords: Digital Banking; Financial Technology; Financial Integration; Banking; Economy

I. Introduction

Financial integration (FI) makes fundamental banking services available to underserved and marginalized groups in society. We use this process to ensure that the less fortunate people have suitable accessibility to a sufficient cash line. Financial inclusion assists in creating an atmosphere of saving amongst semi-urban and rural communities by bringing those with low incomes into the official scaffold of the insurance and banking industries,

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which is crucial for the ongoing expansion of the nation's economy. The national economy began to take off in 2008 when the government recognized that it had to be the primary driver of the economy's expansion. (Abubakar et al., 2020).

India's goal for financial autonomy aims to foster inclusive economic growth by providing MSMEs and uninsured individuals with simple access to fundamental financial services like bank accounts, money transfers, bill payments, government-sponsored insurance, retirement benefits products, and formal credit at reasonable rates. Research shows that money inclusion boosts national economic production, eliminates financial disadvantages, and reduces income disparities and poverty.

A novel financial subdivision, financial technology, utilizes techniques to advance the economic process.According to certain authors, "any pioneering ideas that increase financial service processes by proposing technological remedies according to various business situations" can also be categorized as fintech. After the 2008 global financial disaster, advancements in e-finance and mobile devices for banking organizations arose, which fueled fintech innovation. The convergence of e-finance creativity, technological advances in the Internet, social networking products and services, media platforms, machine learning, and greatlogicalinformation was a defining attribute of this development. It puts heaviness on numerous recognizedeconomic organizations, like banks, to improve their operations more reasonably. Furthermore, startups saw this as a likelihood to break into the banking and finance industry.

For this study, e-commerce and technology for finance (fintech) startups are essential.Fintech, fueled by financialdistribution, legislation, public strategy, and data technology, is the most important breakthrough in the economic services division. Fintech's business replica is comparable to that of banks, emphasizing payments and loan services. Additionally, it encompasses security (such as cyber protection), crowd-sourcing, digital currencies, and personal financial advisory services (Le et al., 2019; Loukoianova et al., 2018; Cicchiello et al., 2021).

Six fintech business models exist capital markets, lending, lending platforms, crowdfunding platforms, and insurance services. The obstacles for organizations increase

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with the growth of financial technology services. Communities have expressed concern about ethicalvulnerability, loan evades, and informationirregularity in relation to online loan services. The instance of currency laundering using Bitcoin has also established much concentration. This makes it central for policymakers to determine how the laws should cover this breakthrough invention. Toachieve secure and sufficient financial services, policymakers promote advancements in the financial division and pertain to consumer fortification and risk administration tenets.

II. Review of Literature

The main driver behind the adoption of microfinance in underdeveloped nations was the encouragement of much-required financial division growth. Economic growth and development and access to finance are closely related (Mia et al., 2018).

As mentioned by Jack and Suri, advances in banking technology may offer alternatives that are also more affordable and more effective by reducing transactional costs (Black & Babin, 2019). Lowering the costs of alternative payment methods also aids micro and small businesses in growing their sales (Frost et al., 2019).

An empirical investigation of mobile money by Aron (2018) revealed proof of the significance of mobile currency for promoting risk distribution. Additional notable research, such as those by Mbiti (2013), shows that more employment of financial technology results in a decline in casual savings techniques and a rise in the volume of remittance operations. The results here corroborate those from Jack and Suri (2014). Other researchers in this field have looked into how social support programs for those in need are affected by digitization (Ghosh, 2020; Masino & Nio-Zaraza, 2018).

For each stakeholder group, it is critical to identify all the opportunities and challenges (Kim et al., 2018). Most Indian financial institutions are watching the sector and trying to learn from other organizations (Rathod & Arelli, 2013). While new participants look into prospective options and alliances, Indian Mutual Fund Institutions are about to prelaunch by embracing mobile money and fast change. In India's poorest regions, there is a serious shortage of access to financial services due to several institutional flaws and other problems. Citizens are not taking full advantage of their financial prospects, which

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prevents the economy from expanding to its full potential (Singh et al., 2013). This directly leads to microfinance initiatives(Najaf et al.,2021; Legner et al., 2017).

As the shortest result, microfinance programmes have been established in industrialized countries like India to help those residing in underdeveloped areas like inner-city neighbourhoods.

Since then, the bulk of the poor's requirements for economic services has not been satisfied, which has sparked a boom in the procedure of financial integration in India's undeveloped areas.

The study emphasizes the importance of understanding blockchain technology in terms of an ecosystem because the technology's future depends upon network adoption and growth to benefit the entire community. With a greater understanding of technology's potential for profit and its repercussions, we may bring up new business opportunities. It also serves as a guide for upcoming research since it helps us understand each ecosystem component.

At various levels of the ecosystem, end users, people, private companies, and governments play a significant responsibility by articulating their requirements for fixing a specific problem, generating a market, and participating in advancing technology through blockchain partnerships.

Financial institutions or companies should develop more user-friendly financial technology goods and services if they want even older people to use fintech.

Governments in poorer countries, where people are believed to be less knowledgeable about finances, should concentrate on protecting consumers.

III. Current Threats and Observations

1. People who are part of the system for financial integrationfinally become excluded and lack the ability to operate it for various broader or health-connected issues.

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2. There is a distinct digital separation between computer-aware people and those who find it hard to explain services to them. Most people in rural regions and some semi-urban residents find it demanding to understand and efficiently utilize technologies.

3. The rural populace lacks general trust due to the absence of knowledge about finances and financial cybercrimes, which lowers digital penetration.

4. Running an environmentally friendly, last-mile delivery replica is difficult, especially in rural regions and for previous-mile delivery of services. For differentgrounds relating to Financial Institutions, inclusion in society, or medical care, multiple government and business entities work disorganizedly to get to the same place, increasing expenses.

5. These data elements are not utilized due to a glaring lack of consistency between the different data types available to the administration, likedata on healthcare programs, social insertion, COVID, vaccination, etc.

6. Artifacts and technology systems used in the last mile are unbolt to disclosure and utilization. This has resulted in different frauds occurring in real life. A significant increase from 2% in 2015 [17] to almost 22% of BC agents experienced fraud in 2017. The Last Mile and BC Agent network's operation strategy needs to be reevaluated regarding security, confidentiality, and safety.

7. As long as PII guidelines are not strictly adhered to, a lot of collected data is readily accessible to numerous stakeholders, raising serious concerns about data privacy.

Mobile numbers and KYC Data are widely accessible.

A few BC Agents secretly record biometric information in clay, where they will subsequently recreate it for fraudulent purposes.

b. Another technique is when they provide a paper receipt for transactions rather than a computerized one.

8. Customers are not receiving SMS notifications for account transactions because they lack a mobile device (more than 310 million people still do not own a basic feature phone

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or a smartphone), or financial institutions are not providing these notifications for low-value transactions.

This has resulted in a greater reliance on local agents.

9. Admittance to loans is problematic since short-term borrowers with higher interest rates are common in rural regions. Government programs are required to reach more distantregions to recover loan admittance. There are insufficient choices for online loans from reliable banking institutions or online lending.

10. Using the customized data of the individual, banks can run insights using Artificial Intelligence and Machine Learning and provide loans, insurance, and additional products dependent on credit rating. Suggestions for persons depending on their needs are not completed.

IV. National Policy for Financial Integration

2020 saw the development of the RBI's national financial inclusion policy, which strongly emphasized extending financial institutions' reach so that every family within a 5-kilometre radius could access banking services. All adult applicants must have access to basic financial resources such as a bank account, credit limit, life assurance, various kinds of coverage, a pension plan, and the right investment option (Arner et al., 2015).

1. A robust framework for resolving complaints about financial transactions to address the worries of citizens who may be less tech-savvy.

2. Growing digital penetration, as mostly urban and semi-urban populations continue to be the only ones that use smartphones for financial transactions.

3. Opening bank accounts for the remaining citizens of the nation, while around 80% of them still use PMJDY.

4. Protecting citizen information and data, stopping fraudulent transactions, and protecting demographic information.

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5. Digital payment alternatives that are simple and affordable to meet the demands of small businesses and workers in the unstructured sector (Park et al., 2015).

6. Ensuring the general public can access the most fundamental financial goods, including transactional accounts, digital payments, basic term life insurance, health coverage, and pension alternatives.

According to a World Bank report, one of the organization's top development priorities has been empowering adults not part of the formal financial system with access to transaction accounts to store money, send and receive payments, and handle their finances. The goal is to achieve universal access to money globally by 2020. Additionally, our national strategy aligns with the broad virtues the World Bank has proposed. India is well ahead and continuing to advance on important metrics:

1. Inclusion of finance enabled by technology is the only priority of Indian leadership. It is clear from actions like DBT, PM Kisan, financial support for the underprivileged during the current COVID-19 pandemic, etc.

2. Target-based approaches for particular industries & areas, such as the "National Mission for Capacity Building" by banks for the MSME sector and the Certified Credit Counsellor Scheme for MSME to connect them with the official Financial Channels and help them make educated financial credit choices (Laura & David, 2019).

3. The banking industry needs a strong regulatory framework to safeguard customers, advance ethical business practices, and stop unethical behaviour on the part of competitors. Steps in this direction include the introduction of the special "Financial Inclusion Fund" (with an initial budget of Rs. 2000 Crore), the granting of differentiated banking licences for Small Finance Banks, Communications Banks, etc., and the launch of the BC Registry with the Indian Banks Association (IBA).

4. To ensure precise beneficiary targeting, de-duplication, and a decrease in fraud and leakage, market development measures such as Branch Authoriza- tion Guidelines (2017) and others have been implemented. All financial assistance programmes connected to DBT are a significant step in the right direction.

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5. Making Payments Stronger Structure through NPCI-operated digital retail payment systems are important stages, including AEPS, NACH, UPI, CTS, and IMPS.

The landscape for allocating public monies in India has changed due to the Aadhaar-linked direct benefit transfer.

6. Last-mile delivery is essential for bridging the fissure between distant connectivity banking services. The introduction of UPI on feature phones will be a major game shift and create a framework that will support NFC-based touchless payments. ICT-dependent solutions like business journalists and IPPB are significant milestones in this direction.

The main roadblock to India's progressive financial integration is a shortage of financial literacy and consciousness.

The introduction of a programme for financial literacy in 2013 went some way towards addressing this.

Research Purpose: The primary object of this research is to see the effect of Digital Banking and Financial Technology on Financial Integration in India.

V. Data Analysis

Hypothesis

For conducting the research, the following hypothesis was established:

HO: There is no impact of Digital Banking and Financial Technology on Financial Integration in India

Ha: There is a significant impact of Digital Banking and Financial Technology on Financial Integration in India

Table No 1-Impact of Digital Banking and Financial Technology on Financial Integration in India

		Asy	Sign
	Values	Deg of Free	Two sided

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Chi-Square	9.23	4	0.167
Likelihood ratio	8.353	4	0.234
Linear Asso	5.324	1	0.089
Valid Cases	300		

Source: Analysis

Table No 2- Impact of Digital Banking and Financial Technology on Financial Integration in India

	Values	Deg of Free	Asy (2-sided)
Chi-Square	19.778	4	0.009

Source: Data Analysis

Because the chi-square value is less than.05) so Ho is rejected. So there is a significant relationship between the Impact of Digital Banking and Financial Technology on Financial Integration in India.

VI. Conclusion

The reduction of scarcity, the encouragement of unprejudiced economic development, and the preservation of fiscal equilibrium all depend on financial inclusion.

A sizeable section of the populace in developing countries lacks admission to even the most basic financial services. For millions of people, especially those residing in India's most remote and rural regions, providing basic financial services like banking is still mostly out of their grasp. Utilizing financial technology and mobile money services is essential for completing economic transactions and raising one's living level by contributing to launching new businesses or projects. The sharing economy, regulation, and information technologies aid the rapid advancement due to these activities. Despite this, the discipline of fintech research is still in its infancy. Policymakers see financial integration as a top expansion goal in most still-developing countries.

Since new corporate and technologies have modified how we recognize banking, financial technology has grown speedily in recent years. Experts predict that the outlook

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of financial technology will involve even more modernization, with a greater focus on providing faultless, 360-degree economic services and removing traditional barriers like higher onerous laws. Hence, in the future, researchers can investigate how financial institutions perceive their position in establishing.Banks should work with innovative businesspeople and use their resources to adopt new technologies to ensure they remain at the forefront of banking services.

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