

# Digital Finance With Respect To Financial Inclusion



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**Abstract:** From thumb impression to signature and back to verifying everything with your thumb- the journey of an average Indian has come a full circle. Today, we can purchase groceries, get investment advice, buy investment products, buy insurance and even avail credit online. Nearly every aspect of our daily activities can be conducted digitally enabled by technological innovation which has pervaded in every aspect of our lives. Access to credit is one of the biggest impediments to our country's economic growth. There is a big gap to fill on the credit side- whether it is financial inclusion or microfinance, the opportunity is large. Technology in digital finance will play an integral role in leveraging this opportunity.

**Keywords:** technology, innovation, digital, economic growth.

## I INTRODUCTION

Credit forms the backbone of an economy and acts as a Launchpad for the multiplier effect of money. Access to credit is one of the biggest impediment to our country's economic growth. Traditionally, the banking system has been able to cater to only a fraction of the credit demand in the country. Technology will play an integral role in bridging the gap in the digital finance prevailing in the urban and rural sectors.

According to data provided by Greenwich Associates, a provider of data analytics the traditional ways of banking approve only twenty five percent to forty percent of loan applications. A consumer below the age of thirty five, who may not have a credit history because he has never borrowed in the past. Then there may be a consumer who is fifty years of age but may have a low credit score because of less credit history. Both these borrowers might not be able to access credit through traditional banking channels. This largely stems from an inability to assess the credit worthiness of new-to-credit and small borrowers. Catering to small sections within the financial domain. Our country is changing, small sectors are entering the mainstream. Our country need a more logical credit assessment structure which is capable of assessing the credit risk of the growing population.

Disparities between the social and physical infrastructure of the urban and rural areas are common to all countries. In India, they are a continuing source of concern and will become further aggravated unless innovative strategies are evolved to accelerate the development of rural infrastructure. A transition is occurring in the rural sector with respect to digital services especially in the fields of financial services and information and communication technology.

As part of Digital India initiative the Government will be focusing on digital literacy and delivering government services through digital mediums. Introduction of low cost smart phones with internet connectivity in rural India will be a drastic change in future of the economy.

Besides several major initiatives for the urban masses, Digital India Program has closely touched the lives of rural people. The government is taking several measures to ensure that its service reach out to the last mile. And one of the major initiatives planned under Digital India includes connecting the rural areas with high-speed internet network. To make India a digitally empowered nation, the government has decided to connect even the far flung areas through the internet.

Thus the story of India's rural digitalisation can't be complete without mentoring the rural sectors using a variety of platforms including Unified Payment Interface, Paytm and Google Pay.

A noteworthy point with regard to the Indian digital payment is that it is being dominated by micro transactions (transactions of values lower than Rs500), thus highlighting its adoption by people of all classes.

Lack of awareness of digital financial literacy, especially among the rural population is a major challenge in the country, more so in light of the Government's recent demonetization and plans to make India a cashless economy. There is an urgent need to create awareness among the citizens, especially in rural and semi-urban areas regarding basics of digital financial services.

### Overall Objective of the Government

- Create awareness session in their community and Panchayat.
- To inform rural people about government policies and digital financial options available to them.
- To enable people to access and use Electronic Payment System.
- To sensitize and enable merchants at Panchayat Level to use Electronic Payment System.
- Create awareness in rural India by conducting workshops and awareness drives.

Thus, digital finance is a powerful means to expand access beyond financial services to inclusive sectors including agriculture, transportation, water, health, education and energy. The benefits of digital finance extend far beyond conventional finance services. This can also be a powerful tool and an engine for job creation in rural sectors. Delivering financial services through technological innovations like mobile money, can be a catalyst for the provision and use of a diverse set of other financial services like credit, insurance and financial education.

### Importance of Digital Finance

- Provide rural sectors with access to financing.
- Access to electronic payment systems.

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- Secure financial product
- Build the credit history and transactional data of individuals and firms for small lenders.

### Schemes for Digital Finance launched by Government of India

- Broadband Highways.
- Universal Access to Mobile.
- Public Internet Access Program.
- E-Governance by reforming government through technology.
- E-Kranti Electronic delivery of services.
- Information for all.
- Electronics manufacturing Target NET Zero imports.
- IT for jobs.

## II. Review of Literature

- CRIF Highmark is one of the four Reserve Bank of India authorized credit bureau in India which provide personal and business credit scores. Commenting on an increase in digital data, Mr Parijat Garg, Vice President, CRIF Highmark state that, an increasing number of borrowers are coming through digital channels- this is giving rise to two separate data sets- traditional credit bureau data and alternative dataset in the form of digital footprint. The two together can allow lenders to know more about consumers and be more prudent in the credit analysis.
- New classes of Fintech firms have emerged including Wealthtech and Insurtech. Robo- advisors, digital brokerages, online investing tools and financial services software would all fall under the umbrella of Wealthtech. The Wealthtech industry in India is an innovative technology which solve investors unique needs. Especially Wealthtech with its ability to service the bottom of the pyramid and drive financial inclusion is attracting a lot of interest- Mr Bansal, MD from Boston Consulting Group.
- While the overall Internet penetration in India is thirty three percent, it is only sixteen percent in the rural areas, says a report released at the India Mobile Congress 2017. BharatNet will enable the country to generate online services at rural sectors.
- Digital Lending Fintech are targeting the unmet demand from Indian Micro, Small and Medium Enterprises as well as consumers for credit. For fast growing Micro, Small and Medium Enterprise Community, Fintech are helping resolve the huge demand-supply mismatch by using technology to create new underwriting models that can adequately capture this risk of New-to-Credit and Micro, Small and Medium Enterprise borrowers.

### Objectives of the Study

- To improve the quality of lives of rural sector and make them digitally literate.
- To enhance digital infrastructure to improve connectivity and information.
- To provide digital support for extending the mobile network into the remote rural areas to promote digital usage.
- To access credit digitally.

### Research Methodology

The Archival Research Methodology is adopted. It is a method of collecting data from sources that already exist. For this study, the data is purely obtained from secondary data collection.

## III DATA ANALYSIS

The Union Minister for Finance and Corporate Affairs, Smt Nirmala Sitharaman presented with regard to Digital Finance :

### Pradhan Mantri Gramin Digital Saksharta Abhiyaan

- Over two crores rural Indians made digitally literate.
- Internet connectivity in local bodies in every Panchayat under Bharat-Net to bridge rural-urban divide.
- Universal Obligation Fund under Public-Private Partnership arrangement to be utilised for speeding up Bharat-Net.

### Digital Inclusion

To empower rural people digitally the Government has launched Pradhan Mantri Gramin Digital Saksharta Abhiyaan. The scheme aims at imparting digital literacy to citizens in rural area free of cost. The Programme is a dynamic and integrated platform for digital literacy, awareness, education and capacity building programmes that will help the rural and under-served communities fully participate in the global digital economy. With the announcement of the scheme, the Digital India Programme in rural India will get a further boost. According to Finance Minister, as many as two crores rural Indians are now digitally literate as a part of the Gramin Digital Saksharta Abhiyaan and it is expected that as many as six crores rural households will be covered as part of the Abhiyaan.

### Capital Quotient

It has launched a payroll-based programme aimed at helping employees of small and medium sized enterprises in Tier II and Tier III cities in India. IDFC Bank is their tech integration partner for nodal accounts. Thus to make India a digitally empowered nation, the government has decided to connect even the far flung areas through the internet.

The Financial Service Sector which has been relatively slow in the adoption of technology has now suddenly taken to it. A huge opportunity lies at this crossroads of finance and technology and that opportunity is Fintech.

Fintech has adopted great digital adoption. The first step towards this was to solve for identity with Aadhaar. The next step was to ensure that every individual has a bank account or equivalent to store their money. The third step was to build scalable platform like Unified Payment Interface to innovate and co-create. A common tech platform like Unified Payment Interface, enabled innovation by bringing together all stakeholders of the industry to co-create and flourish with 60+ member banks and several large third party players offering payments using the platform, Unified Payment Interface is driving the growth of mobile payments in India. Banks, Financial Institutions, Fintech and Regulatory Bodies need to work together to create an enabling environment for Fintech to thrive and serve the overall purpose of financial inclusion and customer satisfaction

**Chart No 1**  
Chart Showing Mobile Account Usage in India

	Population, % 15+ million		
	Gross National Income Per Capita (\$)		
Mobile Account Users	Country Data	South Asia	Lower Middle Income
All Adults	2.4	2.6	2.5

**Chart No 2**  
Chart Showing Access to Financial Institutions

	Population, % 15+ million		
	Gross National Income Per Capita (\$)		
Access to Financial Institution	Country Data	South Asia	Lower Middle Income
Has Debit Card	22.1	18.0	21.2
Has Debit Card, 2011	8.4	7.2	10.1
ATM is the main mode of withdrawal (% with an account)	33.1	31.1	42.4
ATM is the main mode of withdrawal (% with an account, 2011)	18.4	16.9	28.1

**Chart No 3**  
Chart Showing the Digital Payments in the Past Years  
Population, % 15+ million

	Gross National Income Per Capita (\$)		
Digital Payments	Country Data	South Asia	Lower Middle Income
Used a Debit Card to make payments	10.7	8.5	9.6
Used a Credit Card to make payments	3.4	2.6	2.8
Used the internet to pay bills or make purchase	1.2	1.2	2.6

Source: Global Findex Data (wave 1&2) from datatopics, worldbank.org ( For Chart 1,2 & 3)

**Chart No 4**

Chart Showing Venture Capital/Private Equity Funding

Funding	Funding Value (\$ mn)	No of Deals
Payments	709	21
Lending	530	67
InsurTech	378	17
FinTech	36	11
Others	122	23

Source: India FinTech Report 2019 by Medici

**Chart No 5**

Chart Showing Number of FinTech Startup by Segment

Type	Number
Payment	375
Lending	338
WealthTech (Retail)	303
Personal Finance Management	169
InsurTech	108
ResTech + Cyber Security	58
Other Segment	684

Source: India FinTech Report 2019 by Medici

**Chart No 6**

Chart Showing Citywise Breakup of FinTechs

City	Number of StartUps
Bengaluru	432
Mumbai	428
New Delhi	196
Hyderabad	125
Gurugram	116

Source: OutLook Money.com

#### IV. INTERPRETATION

- It is found that for the fast growing Micro, Small and Medium Enterprises community Fintech are helping to resolve huge demand-supply mismatch by using innovative technology.
- It is found that a lot of data should be harnessed to make better lending decisions.

- It is found that digital brokerages, online investing tools and financial services software would all fall under the umbrella of Wealthtech.
- It is found that collaboration of banks, financial institutions and regulatory bodies is essential to solve larger problems in rural sectors.

- It is found that Fintech identifies the inclusive areas and then build custom solutions to alleviate the digital financial problems.
- It is found that Unified Payments Interface is driving the growth of mobile payments in India.
- It is found that our country is overbanked at the top level and underbanked at the bottom level. There is a huge gap to fill on the credit side, whether it is financial inclusion or microfinance.
- It is found that there is an increasing number of borrowers coming through digital channels for availing credit.
- It is noted that Wealthtec has the ability to service the bottom of the pyramid and drive financial inclusion, thereby accessing credit facility to small borrowers.
- It is noted that there is an increased adoption of mobile and digital channels available which can bring a thumping results if introduced in inclusive sectors with proper guidelines.

## V RECOMMENDATIONS AND SUGGESTIONS

- It is recommended that structured attempt by the Government should be made to perpetuate digital adoption. The first step is to confirm identity with Aadhaar, then have a bank account, have platform like Unified Payment Interface to move money and to innovate technology.
- It is recommended that digital markets should be expanded and it should reach out to the nook and corner of the inclusive sectors.
- It is suggested that innovative technology must be used for filling up a huge gap in the lending space which banks are unable to fill.
- It is recommended that there should be a sound advisory and executive services available for sourcing of investment options and viability of credit.
- It is suggested that there should be transparency and reduction in intermediary cost when dealing in digital finance.
- It is suggested that high speed internet network should be provided to solve many problems in the rural sectors.
- It is recommended that blockchain technologies be considered for establishing digital economy.

## VI. CONCLUSION

To make India a digitally empowered nation, the government has decided to connect even the far flung areas through the internet. The government has also shown its intent to explore the use of Blockchain technologies for establishing digital economy. The use of this transformational technology is already been considered in the banking and finance industries. And even the inclusive sector has a huge scope of transformation through Blockchain.

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**DR SHARMILA S** is serving as a professor in **Seshadripuram College, Bengaluru-20** since 18 years till date. The academic qualification of Dr Sharmila S is **M Com, MBA, LLM, Inter ICWA, M Phil, Ph D (Finance)**. She had secured 4<sup>th</sup> Rank in LLM in December 2016 Examination. She has passed 'C' Certificate Examination under the rank of Company Sergeant Major (CSM), National Cadet Corps under the Ministry Of Defence, Government of India. She has passed Two Year Diploma Examination in NSS from Bangalore University and has actively involved in community service. She has organised numerous industrial visits for students and conducted several activities, exhibition to bring out the innovative skills of the students. She has guided several thousand students of BBM, BBA, M Com, PGDBM, MBA and M Phil in their Project Work. She has organised several Faculty Development Programmes for the Staff. She also served as member of the Board Of Studies and member of BOE for Post Graduation Examination in 2012 and Paper Setter for autonomous colleges. She has attended and presented papers at several National and International Conferences and participated in several National Seminars, Workshops and Symposiums. She has authored several text books as per Bangalore University Syllabus for B Com and BBA –Income Tax, Income Tax I, Income Tax II, Cost Accounting, Cost Management, Management Accounting, Financial Accounting, Advanced Financial Accounting, Advanced Accounting, Goods and Service Tax, Banking and Insurance Company Accounts and Costing Methods and Techniques and text books for Davanagere University and Rani Channamma University, Shimoga. She is serving as an author for text books since 15 years till date. She has submitted Minor Research Project on Waste Management to Bangalore University and Minor Research Project Proposal to Mahatma Gandhi Council of Rural Education on 'Re-designing Rural Education through Transformation Pedagogy with special reference to rural sectors in Bengaluru /District. She has presented paper on Financial Analysis according to Indian Context and represented the college in the track on Finance, Accounting and Banking at **EAR16 Turkey Conference**- Fifth European Academic Research Conference from 15-17 December 2016. The paper was accepted and published in Global Journal of Contemporary Research in Accounting, Auditing and Business Ethics. She also published research paper titled An Empirical Study on Balance Sheet Analysis in International

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