Available online @ www.iaraindia.com
RESEARCH EXPLORER-A Blind Review & Refereed Quarterly International Journal
ISSN: 2250-1940 (P) 2349-1647 (O)
Impact Factor: 3.655 (CIF), 2.78 (IRJIF), 2.62 (NAAS)
Volume XI, Issue 37
January - June 2023
Formally UGC Approved Journal (63185), © Author

DIGITAL FINANCIALINCLUSION – THE PATHWAY TO RURAL TRANSFORMATION

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Abstract

This study aims to show that the change of rural India's economy begins with digitalized financial inclusion. It is crucial to include rural residents in digitalized financial inclusion because 70% of the population lives in rural areas and works mostly in agriculture and related industries. India's GDP cannot increase unless measures are taken to increase the share of rural income that is earned. Because of the financial illiteracy of the rural population, the government has undertaken numerous attempts to make financial services and products available to them so as to empower them. The government has introduced numerous programmes as part of the Digital India and Bharat Net programmes to include them in the realm of inclusive financial digitization and SMART governance. The rural population has changed positively as a result of programmes like the Pradhan Mantri Jan-Dhan Yojana (PMJDY), UPI, Aadhar, and others. Numerous studies show that the use of technology in rural India is increasing exponentially. When compared to previous decades, there is an increase in the proportion of rural residents using digitalized financial services. This demonstrates how rural India is transforming.

Keywords: *GDP, Financial Inclusion, Digital India, Bharat Net Programme, PMJDY,UPI Empowerment, SMART Governance, Rural India, Digitalised Financial Services*

INTRODUCTION

The main topic of this chapter is how the financial sector's digitalization has transformed rural India. Given that 68.8% of Indians live in rural areas and that more than 70% of the labour orce is employed in agricultural and its allied activities, this study is crucial for the Indian economy. Agriculture and related industries continue to dominate the job market. India's rural areas must be improved before it can become a developed economy. ***Paramasivan. C (2011)*** financial inclusion is the provision of affordable financial services to various poor/low-income groups who are often excluded from the financial system. Despite the growth of the banking sector in the last three years, a significant portion of households, especially in rural areas, remain out of the reach of financial institutions. An important step in bringing the financially excluded into the financial sector is the promotion of microfinance in India. To significantly alter the socioeconomic landscape of rural areas it is important to incorporate collaborative technologies in the financial sector.

Objectives of the study are:

- *To recognize the significance of digital financial services for rural communities*
- *To identify issues rural residents encounter while utilizing these services*
- *To give suggestions to overcome the challenges*

Financial sector digitalization

The current workplace environment is governed by a concept known as "digitalization." With the goal of transforming India into an information economy and a society where people are empowered by technology, the Indian government recently unveiled the Digital India Programme. The concept of digitalization has been heavily influenced by all economic sectors, and the financial sector is no exception. The hope of raising the country's GDP has grown as a result of the application of contemporary technology in the financial sector, particularly rural areas.

Meaning of financial inclusion

It is the process of making financial accessible and affordable to everyone. Financial inclusion must be implemented if everyone is to benefit from financial services. By removing the barriers that keep people from participating in the financial sector and using its services to raise their level of living, financial inclusion aims to make financial products and services affordable and accessible to everyone.Digitalizing it is essential to increase the effectiveness of financial inclusion.

Significance of financial inclusion in rural areas

A section of the economy known as the financial sector is made up of businesses and institutions that offer financial services to wholesale and retail clients. Millions of consumers and businesses in rural and distant places may have easier access to financial products as a result of technological advancements and the digitization of financial services. The use of digital banking may be especially advantageous to micro and small businesses, encouraging creativity and innovation and, as a result, driving economic growth. Digitalization, which is mainly focused with giving customers better services and possibilities to earn more in the near future, plays a significant role in increasing financial inclusion.

Key components of digital financial inclusion

Broadly speaking, "digital financial inclusion" refers to excluded and underserved communities having digital access to and use of formal financial services. Such services ought to be responsible, responsive to the demands of the clients, and reasonably priced for the suppliers. Any such digital financial service must have three essential elements: a digital transactional platform, retail agents, and the use of a device by customers and agents to conduct transactions via the platform, most frequently a mobile phone.

• A customer can use a device to send or receive payments and transfers and to store value electronically with a bank or nonbank that is allowed to store electronic value thanks to a digital transactional platform.

• Customers can exchange cash for electronically stored value and then exchange stored value back for cash thanks to retail agents who are equipped with digital devices connected to communications infrastructure. Agents may also carry out other tasks, subject to existing law and the agreement with the major financial institution.

• The customer device may be a digital one (such as a mobile phone) that transmits data and information or a physical one (such as a payment card) that is connected to a digital one (such as a POS terminal).

Goals of digitalized financial inclusion with regard to rural people

- To assist people in obtaining affordable financial services and products, such as deposits, loans, insurance, payment services, and fund transfer services.
- To create suitable financial institutions that can meet the requirements of the underprivileged. Financial inclusion strives to develop and maintain financial sustainability so that the less fortunate people have a certainty of finances that they struggle to have.
- To create a wide range of institutions that provide reasonable financial help so that there is enough competition and a wide range of options for customers.
- To raise the benefits of financial services' awareness across society's economically disadvantaged groups.
- To develop financial products that are appropriate for the less fortunate members of society.
- To improve financial literacy and financial awareness in the country.
- To bring in digital financial solutions for the nation's economically underprivileged citizens,
- To reach the country's poorest citizens living in the most remote areas through mobile banking or financial services
- To provide tailored and customised financial solutions to the poor in accordance with their needs.
- There are a lot of governmental and non-governmental organisations working to promote financial inclusion. These organisations are committed to facilitating the receipt of documents that have received official approval.

Need for digitalized finclusion in rural areas

Financial inclusion improves the nation's financial system overall. It improves the accessibility of financial resources. Most significantly, it makes saving more difficult for poor people living in both urban and rural locations. In this way, it consistently aids in the advancement of the economy.

Due to their precarious situation, many impoverished people are prone to being duped and occasionally even exploited by wealthy landlords and unlicensed moneylenders. Financial inclusion can assist to change this dire and dangerous scenario.

In order to secure their meagre financial resources for the future, financial inclusion involves incorporating the poor in the established banking system. There are many households with farmers or artisans who lack the means to properly save the money they make after putting so much effort into their work.

Importance of digitalized financial services as regards the rural population

- Recent improvements in the availability and cost of digital financial services globally have the potential to help millions of poor people transition from formal digital financial transactions on secure digital platforms. In addition to credit, insurance, savings, and financial education, money-transfer services, microloans, and insurance, other financial services can be provided and used as a catalyst.
- It lowers the dangers of theft, loss, and other financial crimes posed by cash-based transactions, as well as the lower costs related to doing business with informal suppliers and using cash.
- Digitization will make it easier to keep databases and records on digital platforms, which will cut down on the need for time-consuming paper-based paperwork.
- Gives customers the option to send or receive payments any time, day or night, seven days a week.
- Self-help groups (SHGs) could be one potential channel for promoting

and accelerating digital financial inclusion in India by using digital means to enhance financial inclusion for women.

- By using devices that transmit and receive transaction data and connect to a bank or non-bank authorised to store electronic value, it enables clients to make or receive payments and transfers and to store value electronically.
- Availability of formal financial services, such as payments, transfers, savings, credit, insurance, and securities. As customers become accustomed to and trust a digital transactional platform, the migration to account-based services typically grows over time. Payments made by the government to individuals, such conditional cash transfers, that permit the use of digital stored-value accounts could pave the way for the financially excluded into the financial system.
- Digital finance has the potential to increase the gross domestic product (GDP) of digitalized economies by facilitating easy access to a larger range of financial products and services (and credit facilities) for individuals and small, medium, and large businesses, thereby increasing total expenditure and so GDP levels. Digital finance has the strength to provide banking services to poor people in developing countries with affordable, convenient, and secure. Digital finance can also assist improve the financial system and economic stability, benefiting customers and the economy as a whole.
- Customers residing in rural areas can easily access digital finance and be benefitted behaving more control over their own finances, the ability to send and receive money instantly, and the chance to keep and accept money in real time.

Key players in the path of digital financial inclusion in rural areas

The Pradhan Mantri Jan Dhan Yojana

A programme called Jan-Dhan Yojana (PMJDY) encourages access to digital finance. When it was introduced in August 2014, it followed an established tradition of bank-driven financial inclusion programmes in India. According to data, the accessibility income gap widened between 2011 and 2014 before starting to close after 2014. In 2011, only 27% of Indians with the lowest incomes had a bank account, compared to 41% of those with the highest incomes (a 14 percent difference). The gap increased to 16% in 2014 (43 percent vs. 59 percent). By 2017, the difference had only decreased to about 5%. By 2017, the gap had closed, with 79 percent of Indians living in rural areas holding a bank account, compared to 76 percent of Indians living in urban areas.

Government-to-Person (G2P) payments and Direct Benefit Transfers (DBT):

According to the Journey Map Report from March 2019, "the government's Direct Benefit Transfer (DBT) programme, which currently oversees 433 schemes from 56 ministry divisions, has been strongly related to PMJDY." 11 Direct Benefit Transfer (DBT) is a government-led initiative that entails a number of programmes where benefits are directly transferred to recipients, usually through state organisations.

RuPay:

To enable customers to use their newly opened PMJDY bank accounts for ATM cash withdrawals and POS (point of sale) payments, RuPay debit cards were handed to them. According to a report from the Ministry of Finance, GOI, "79 percent of the 330 million people with PMJDY plan bank accounts have been given a RuPay card." According to the Global Findex survey, the use of debit cards in rural India has increased from 22% in 2014 to 33percent in 2017.

Aadhaar:

Due to the Aadhaar number's status as a legally recognised identity for rural Indians looking to open their first bank account, Aadhaar's growth has been intrinsically tied to PMJDY. In the years 2016–17 and 2017–18, "the number of e-KYC validations with Aadhaar increased from 48 million to 138 million."Except for Assam, Meghalaya, and Jammu & Kashmir, "As of August 2018, Aadhaar had been seeded in over 83 percent of active PMJDY accounts." (Progress of PMJDY, GOI).

Demonetization and GST:

This might have been a driving force in rural India behind the sharp rise in digital transactions. Instead of demonetization, the growth at the start of 2016 seems to be the result of the development of UPI, which coincided with an improved business environment and the implementation of the GST.

Granting licenses to financial institutions at higher levels:

The period of financial inclusion in India from 2014 to 2018 also saw the emergence of a new differentiated banking system. The new legislative agenda in favour of differentiated banking has caused the competitive structure of India's financial and banking sectors to change. To promote competition and innovation, creating strategic models from various areas of traditional banking was encouraged, including some from fintech startups and international firms.

Payments Banks:

Payment banks were established with the intention of integrating non-traditional actors—such as telecommunications firms, fintech firms, business tycoons, and the postal system—into the formal banking system in order to employ already-existing channels to boost DFI through small deposits and payment. In terms of mobile banking transactions, Paytm Payments Bank conducts 124 million each month, 47% more than SBI, the next-largest bank. Aditya Birla Idea Payments Bank handled 0.35 percent of all transactions.

Small Finance and Microfinance Banks:

The goal of allowing and licencing a new layer of SFBs (Small Finance Banks) has been to employ digital technology to reduce the cost of banking services and increase their access to lower-income customers. Ten institutions, spread out across the nation, received licenses. According to MFIN data from March 2021, "As of June 2018, there were 17.6 million loan accounts, up from 17.3 million the year before and 15.8 million in 2016." Fintech: Examples of fintech include technological companies like Pine Labs and Mswipe, as well as payment processing companies that handle P2P and retail payments. Thanks to the underpinning digital infrastructure offered by India Stack and the Aadhaar, many of these emerging fintech companies now have a sound business case. The emergence of e-commerce in India and the development of fintech in payments are closely related. From October 2016 to January 2017, "pre-paid instrument (PPI) transactions more than doubled (from 127 million to 296 million)" (RBI data).

Open Source Personal Data :

Digi Locker Aadhaar Authentication, BHIM, IMPS, and UPI - J-A-M ,Mobile Jan Dhan-Aadhaar, Four-layer India Stacks facilitated the use of digitized financial services.

Fintech:

Financial technology companies that process P2P and retail payments also contributed to the growth of DFS in rural areas.

Internet and smart phone usage:

India's quick rise in DFI has been made possible by the rate at which smart phones and low-cost internet have reached communities who have historically been underrepresented in the digital economy. The former has profited from the drop in hardware prices.

Special Financial Products Offered For Attaining Financial Inclusion

The Reserve Bank of India has asked scheduled commercial banks (SCBs) to design and provide exclusive financial products to the economically weaker sections of society, keeping in mind that low-income people living in rural and urban areas have very limited access to financial products and services. Many of them only have a basic understanding of financial products and services such microfinance, personal loans, crop loans, savings accounts, and savings plans. They are completely ignorant about credit cards and debit cards.

However, banks were instructed to issue cost-effective credit cards to the low-income groups of the society because they did not have access to instant credit facilities. Some of the unique financial products that have been offered to them are:

• General Credit Cards (GCC): The RBI requested banks to introduce and provide GCC facilities with a limit of up to Rs. 25,000 at their branches in semi-urban and rural areas.

• Kissan Credit Cards (KCC): The Reserve Bank of India also ordered banks to offer Kissan Credit Cards exclusively to small farmers who make extremely low incomes and have very little money, making it impossible for them to invest in proper farming equipment like tractors, fertilisers, pesticides, crop seeds, and storage facilities. For access to land to plant crops, they are compelled to rely on other affluent landowners. These Kissan Credit Cards are designed to make it easier for farmers to make quick purchases whenever necessary. Farmers frequently give up on making purchases.

• ICT-Based Accounts via BCs: The Reserve Bank also came up with a strategy to assist banks in reaching out to the unbanked members of society by providing ICT-based bank accounts with the aid of business correspondents (BCs). Users of these accounts can electronically apply for loans and other forms of credit, make cash withdrawals, and make deposits. This kind of account makes banking affordable and straightforward.

• More ATMs: According to the Reserve Bank of India, many rural areas of the country lack sufficient automated teller machines (ATMs), which is impeding many of the residents' buying and selling operations. For these people, there should be more tangible cash available.

Impediments in the course of implementing digitalized financial services with regard to rural areas.

1. Financial literacy: People should not be literate just; this means that knowledge of how to read and write is insufficient. They should be financially literate, which is harder in rural places because financial literacy isn't seen as a major talking point. This happens when literate people find it difficult to complete the checks and other forms that banks supply.

2. Digital Illiteracy: People in rural areas are less accustomed to computers, cellphones, and the digital world. They don't even understand the fundamentals of using a computer or a smartphone. The issue is also getting worse due to a poor internet connection.

3. Uncertainty and an unstable system: People are often skeptical of digital transactions because they think that if they deposit money in a bank, it would be taken from them or blocked. Frauds further exacerbate the issue.

4. Lack of infrastructure: Mobile devices, internet access, energy, and financial services are underutilised. Even the biggest nationalised banks in India struggle to offer the most basic financial services in rural areas.

5. Minimum number of transactions: A person may switch to a more practical method of payment if they

conduct more transactions with the same retailer. However, because there aren't many trades in rural areas, especially near the end of the month,clients would be less likely to adopt the digital payment method in the long run.

6 .Data cost: Despite a modest early rise in digital money in rural and distant locations, rural economies continue to be primarily cash-based. Less wealthy people are more sensitive to data prices. Therefore, data costs are a fundamental barrier to rural people's access to digital financial inclusion.

7.Unavailability of digital services in regional languages: The vast majority of online financial goods, which are occasionally also available in Hindi and in English. Due to their illiteracy and unfamiliarity, the majority of rural residents are reluctant to use other languages, and they prefer digital financial goods in their own tongue.

8.Tendency to evade tax: Some store owners and business owners believe that the shift from a cash-based economy to one based on digital transactions will force small businesses and individuals who are not already paying taxes to do so.
• Maintaining a cash-based system makes more sense because buyers and sellers both prefer it. Lack of demand is one of the biggest barriers to the adoption of digital payments.

9. Lack of demand: Maintaining a cash-based system makes more sense because buyers and sellers both prefer it. Lack of demand is one of the biggest barriers to the adoption of digital payments.

10. Lack accessibility: A lot of individuals who live in rural and isolated locations still lack access to the network and digital infrastructure required to promote trust and regular usage of digital services.

Suggestions For Government, Regulators And Policymakers:

- By improving connectivity and infrastructure, maintaining appropriate regulations, and encouraging remote areas to coordinate digital financial services, governments and authorities should encourage rural areas to accelerate and coordinate the growth of e-models that are in line with the needs of micro-enterprises at the base of the economic pyramid that aid in the transition of procedures from cash to digital. By driving up demand, assist in integrating micro-merchants onto official e-commerce platforms.
- A programme for developing digital skills should be offered. Through the inclusion of digital financial services, the advantages of economic development can be increased. Financial services will be more affordable as a result, and problems with data security and transaction accuracy will also be resolved.
- In the framework of the government's policies, financial inclusion does not receive enough attention. The government should assess the elements that influence each nation's level of digital financial exclusion and put in place an organised strategy for doing so;
- The government should prioritise a digital financial inclusion strategy based on digital skills and financial literacy. Having the proper digital skill and understanding of the use of each financial service and product will significantly affect financial opportunity access, particularly the growth of the usage of financial services other than saving and withdrawing money in villages.
- The policies of the government do not give financial inclusion significant consideration. The government should conduct an assessment of the factors affecting the degree of digital financial exclusion and establish a structured plan for doing so.

- Pro-poor financial products and services should be tailored based on people's needs since the majority of ICT policies are top-down and supply-driven. .
- Government activities on ICT should focus digital inclusion projects that ensure quick and affordable Internet connectivity in rural areas.

Conclusion:

Digitalized financial inclusion are not just essential; they are also required by the expanding economies of today. Additionally, it offers more specialized financial services that broadly aid the underprivileged. Unbanked people can use digital technologies to grow used to financial services. It also contributes to reducing the distance between financial institutions and their clients, which helps to retain a positive connection. Every economic agent in the country will be able to use formal financial services thanks to financial inclusion, contributing to the growth of the economy as a whole.

However, despite the fact that DFS is advantageous for these rural residents, many people are either unaware of it or have not adopted it. Therefore, the Government of India has been introducing several exclusive schemes for the purpose of introducing digitalized financial inclusion. These schemes intend to provide social security to the less fortunate sections of the society.

The future of digital finance is really bright. Financial independence would empower women and other underprivileged groups in society, which is a core goal of digitalized financial inclusion and digital banking. Adopting digitization in financial services and bringing the majority of the population into the banking system will aid in the country's growth and development. With a variety of digital financial instruments available, the consumer now has more choice than ever.

If standards, infrastructure, regulations, and strategy are implemented properly, the communities can be well-served. It can be said with certainty that digital inclusion is effectively transforming rural India.

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