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ACCESS, AWARE AND USAGE OF DIGITAL BANKING TO ACHIEVE FINANCIAL INCLUSION IN INDIA

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Abstract

The present article will help to analyse the digital banking in India and its impact on financial inclusion. The drawn hypothesis says that, there is no significant relationship between digital banking and financial inclusion. But the available data related to online banking services in India and access rate of banking services are the evidences for the growth of financial inclusion through digital banking system from past eight years. The data for the study is collected from secondary sources available in Reserve Bank of India website and world bank data. The collected data clearly rejected the drawn null hypothesis and proves that there is a significant and positive relationship between digital banking and financial inclusion and suggested that the digital infrastructures of the banking industry will be the future aspire for the banks to achieve sustainable financial inclusion growth in India.

Key Words: *Financial Inclusion, Digital Banking, e-KYC, UPI, RTGS, NEFT.*

Introduction

Financial Inclusion is a concept within which everyone, especially the vulnerable section of the society an effective access to a good range of financial services. Effective access means not only the supply of economic products and services but also these products and services are appropriately designed and of excellent quality. These should awake the numerous needs of people for savings, payment, investments or getting insured. Its goal is not merely providing universal access to the financial services but ensuring that these services truly enhance the financial health of the users. Thus, the financial inclusion helps lay the ground work for sustainable and equitable national development. As such, it is an objective perused not only by the India but also around the world. International bodies as well as Indian financial authority established dedicated committees and build the financial inclusion stakeholders' chain to promote the financial inclusion. Because of unprecedented effects of COVID-19 pandemic the pursuit of financial inclusion and growth of the financial system become more urgent. That's why the country approached more towards digitalization and fintech services in recent years.

A transformation from old structure to new be helping the customers to move from the cash to cash less. Enhancing the customer's convenience and helping attaining the global leadership in digitalization. As on the digitalization grows the potentials of digitalization has allowed numerous digitalization companies, startups and operators to flourish the next generation. To boost the financial technology in the banking sector the RBI took an enormous step to make it customer convenience. RBI adopted the National Common Mobility Card (NCMC), License to white Labeled ATM operators, Issuance of Master Card and VISA and consumer Grievance Redressal. The Government of India welcomed Fintech industries by introducing Digi Dan Melas across the country and incentives the customers through Lucky Grahak Yojana, Digi Dan Vyapari Yojana and many of other schemes. To make fintech effect in the field of financial inclusion the reserve Bank of India (RBI) has focused on four main pillars. They are;

1. Digital Identification and Know Your Customer (KYC).
2. Infrastructure for digital Payments and Savings.
3. Creation of Literacy of Fintech industries.
4. Regulatory Approach.

The first pillar explores about the digital identification and easy KYC in the banks recognized by the RBI. When the initial information of the customer was collected by the banks and entered in the data base, then the provision of financial technology is easy to access and use by the consumer. A proper infrastructure is a support system for the foundation created by the RBI. Payment and savings system can create enormous support for the development of digital economy. Financial literacy is a tool for a greater usage and access to the different financial services as well as a better financial decision is also made by financial literacy (Odongo Kodango, 2017)[1]. An effective adoption of fintech is possible only when there is a proper regulatory mechanism a security analysis for the payment options (Wenbo Yang et.al.,2019)[2]. The regulatory body need to support the rest of the pillars made by the RBI. Regulation is much needed for the data management, data security, third party payments etc. A broader access to the financial institution by an individual, without any fear will create an ample of opportunity for the potential development of fintech industries in banking sectors.

Digitalization and Financial Inclusion

Digital technologies can facilitate significant cost efficiencies and innovation that enable the viable delivery of monetary services to the low-income group in mass market. Digital technological innovation in banking sector improves the consumer experiences, affordability and availability of financial services beyond the geographical boundaries.

Literature Review

In the contemporary era of self-reliance and Economic growth, empower the individual households in the grass root level with financial inclusion by utilizing the effective mode of banking service is very important. The strongest root of growth in banking sector is placed in the acceptance of fintech in the different areas. The areas of potential expansion of fintech have occurred in transaction execution like payment, clearing and settlement, fund management like deposit, lending and investment management and last part is insurance. (Giorgio Barba Navaretti et.al, 2017)[3]. According to World Bank data[4], India is the second largest country in the world after China in terms of Financial Inclusion where nearly 190 million people do not have the bank account and who having the banking account, they are not effectively using it. Therefore, the financial inclusion is unfinished task in India till today and the explore of new measures and adaptation of technology is a kind of alternative solution for the financial inclusion problem (Global Findex, 2017)[5]. According to Richa (2022)[6] Digital Financial Inclusion is the provision of financial services to all individuals, households, organizations and governments through digital means,

[1] Odongo Kodongo (2017). Financial Regulations, Financial Literacy and Financial Inclusion: Insights from Kenya, Emerging Markets Finance and Trade. DOI: 10.1080/1540496X.2017.1418318.

[2] Yang, Wenbo Li, Juanru Zhang, Yuanyuan Gu Dawu (2019). "*Security analysis of third-party in-app payment in mobile applications*". Journal of Information Security and Applications, 102358. doi: 10.1016/j.jisa.

[3] Giorgio Navaretti et.al. (2017). "*FinTech and Banking. Friends or Foes?*" Journal of European Economy.

[4] World Bank 2020

[5] Global Findex 2017

[6] Richa (2022), "*Digitalization of Financial Inclusion*", Paradigm Shift in Marketing and Finance,
ISBN: 978-93-91681-30-2

thereby contributing to the achievement of poverty reduction, increased financial mediation and sustainable development goals. Digital Financial Inclusion seeks to provide a range of digital financial services that provide opportunities to access money, transfer funds, raise capital, save money and reduce risk.

Fintech uses different technologies and various digital platforms to deliver the fintech products to the customers. It is believed that the fintech has the potential to provide the financial services to the excluded populations due to its convenience, speed, low cost and penetration of mobile phones and internet usage. Better financial knowledge, behaviors, acceptance and usage of advanced technology, usage of mobile phones may promote the financial inclusion and more reachable to the grassroot level and improve the quality of life as well as the welfare of the society (Maria & Shinta Havidz, 2020)[7]. The different studies undertaken in the countries like UK, USA, African countries and European regions to measure the financial inclusion actually happened with the help of fintech. The countries like Africa which is categorized as low financial literacy region, can also penetrating its financial literacy rate with the help of mobile phones, improved applications and increasing the access and usage of technology there by increasing the financial inclusion (Evans, 2015)[8].

Objectives

1. To understand the need of digitalisation in banking sector to achieve financial inclusion.
2. To study and analyse the role of digital banking in India.

Hypothises

1. H_0: There is no significant relationship between digital banking and financial inclusion in India.
2. H_0: There is a significant relationship between digital banking and financial inclusion in India.

Research Methodology

The current study is based on secondary data and the data is collected through various articles published in a reputed journals and reports given by Findex 2017, Reserve Bank of India and National Payment Corporation of India. Basic statistical tools were used for the presentation of the data as well for analysis.

Data Analysis And Interpritation

Bank access through Fintech (e-KYC):

One of the crucial components of financial data space is ability of the players to onboard the customer through digital means with quick, efficient and safety. The fintech provide the facility called Electronic Know Your Customer (e-KYC). This can be done via OTP on the mobile phone and biometric devices which reduce the paper works and manual collection of various documents of proofs. Because of its convenience and easy usage year by year all the public sector banks, private sector banks and other financial institutions adopting the e-KYC effectively. The rate of customer's enrollment is increasing year by year which is presented below:

[7] Maria & Shinta Havidz (2020), Financial Literacy and Mobile Payment Usage as Financial Inclusion Determinants, 2020 International Conference on Information Management and Technology, DOI: 10.1109/ICIMTech50083.2020.9211157

[8] Evans (2015), The Effects of Economic and Financial Development on Financial Inclusion in Africa, Review of Economics and Development Studies, ISSN (Online) 2519-9706 (Print) 2519-9692Volume 1: Issue 1.

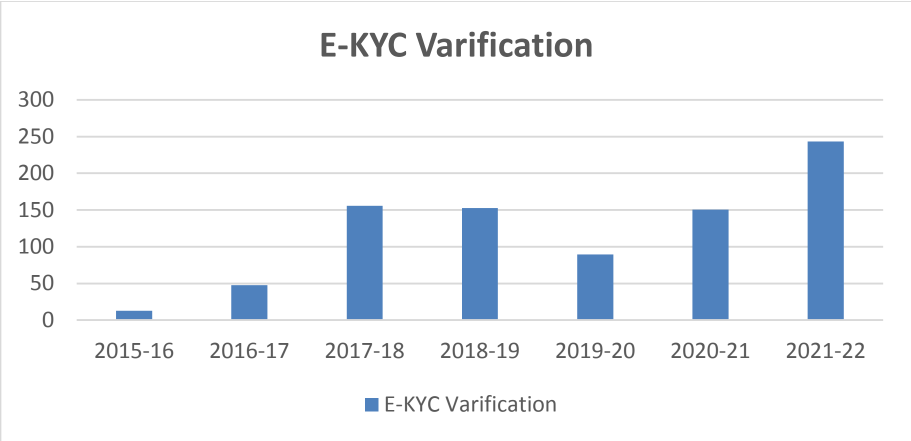
Table 1.1, E-KYC Verification

(Volume in million)

Year	E-KYC Verification
2015-16	12.63
2016-17	47.55
2017-18	155.95
2018-19	152.74
2019-20	89.56
2020-21	150.67
2021-22	243.54

(Source: NPCI Annual Reports)

Chart 1.1



(Source: NPCI annual reports)

Table 1.1 and the above-mentioned chart are exhibiting the performance of e-KYC from the year 2015-16 to the previous year 2021-22. It is observed that there is a rapid growth in e-KYC verification due to ease of doing verification by biometric and Aadhar. This process is preferred everywhere because of reduction in paper works. It is also observed that, there is reduction in verification of KYC in 2019-20 due to COVID-19 pandemic and many of them are concerned about their lives instead of visiting bank and opening of bank accounts.

Rupay Card Usage

Rupay is the first domestic card payment network in India, accepted at Point of Sale, ATMs and E commerce websites across the country. It is a highly secured network and protect against anti-phishing. The Rupay card obtained its identification, after the introduction of Pradhan Mantri Jan Dan Yojana in the year 2014. As a continuous innovation goes on with Rupay cards to day the Rupay contactless with the vision of one card for all payments. Bharat E commerce Payment Gateway (BEPG) is the new e-commerce experience for the Rupay cardholders.

Table 3.1: Transaction by using Rupay Card

(Volume in million)

Year	Rupay Card Usage at PoS*	Rupay Card Usage at E-com
2014-15	5.25	0.85
2015-16	25.41	10.24
2016-17	195.22	87.56
2017-18	459.55	208.11
2018-19	695.02	432.06
2019-20	822.59	658.13
2020-21	701.99	679.68
2021-22	843.9	672.46

(Source: NPCI & RBI Annual Reports)
*Pos: Point of Sale

The above-mentioned table exhibits the usage of Rupay card at Point-of-Sale terminals and E-com transactions. The current online era people preferring cards for the daily transaction to purchase their needs and requirements. In the initial year the cards system at PoS as well as E-com transaction was low due to fear and lack of popularity. It was only 5.25 and .85 million per year. We can see the rapid growth in the transaction made by these two systems. At the end of previous year 2021-22 the transaction through rupay card at PoS was 843.9 million and at the e-commerce transactions are 672.5 million. Due to digitalization and awareness of these facilities among youth and with the help of JAM trinity initiative of Government the card system and transactions through the cards getting increasing year on year.

Table-1; Performance of Digital Infrastructure in Banking Sector

(Amounts in million)

Year	RTGS	NEFT	UPI	BHIM	Credit Cards	Debit Cards
2012-13	68.5	394.1	-	-	396.6	469.1
2013-14	81.1	661.0	-	-	509.1	619.1
2014-15	92.8	927.6	-	-	615.1	808.1
2015-16	98.3	1,252.9	-	-	785.7	1,173.5
2016-17	107.8	1,622.1	17.9	-	1,087.1	2,399.3
2017-18	124.4	1,946.4	915.2	2.0	1,405.2	3,343.4
2018-19	136.6	2,318.9	5,353.4	6.8	1,762.6	4,414.3
2019-20	150.7	2,744.5	12,518.6	9.1	2,177.3	5,123.9
2020-21	159.2	3,092.8	22,330.7	16.1	1,764.1	4,014.0
2021-22	207.8	4,040.7	45,956.1	22.8	2,239.9	3,938.7

(Source: RBI annual reports combined by the author)

The above-mentioned table consists the different digital infrastructure of banking sector which is useful for the remote reach of financial inclusion. There is a drastic difference in performance of RTGS and NEFT transaction from past 10 years. At the end of FY 2020-21, 159.2 and 3,092.8 million volumes of transactions done through RTGS and NEFT respectively due to its huge accessibility and availability of services in every branches. The payment infrastructures like Unified Payment System called as financial technology, are mostly preferred by the young adults. From 2016 to 2022 the volume uplifted by 17.9 million to 45,956.1 million due to user-friendly operation mechanism that the lay men also can operate the bank accounts through smart electronic devices. The performance of Debit and Credit cards are appreciable and it is identified that nearly 25% increase in credit card and debit card performance, but due to COVID-19, the number was slightly decreased to 18% in the year 2020-21 and in the year 2021-22 the performance of credit cards issuance and usage is gearing up.

Suggestions

The following suggestions are made with the help of the present study.

1. The digital financial service providers should educate the people towards the available banking products for the effective usage.
2. Digital Financial inclusion drive should be initiated through implementing different financial inclusion programs.
3. Existing bank account holders should encourage by the banks to have access different services of online banking.
4. Educate the people not only about the available products and services but also awareness about the risks and risk handling bodies of formal financial institutions.

Conclusion

Increase in the use of financial innovation like digitalization, will improve the access and usage of financial services. But without proper awareness about the banking services, it is difficult to achieve financial inclusion. Financial inclusion means accessing the banking services to everyone at affordable cost. Through digital banking the service provider can reach every corner of the country because it doesn't have any geographical boundaries. Due to this reason different financial inclusion initiatives like, JAM trinity (Jan Dhan, Aadhar and Mobile), e-KYC, Online banking etc are enjoying the popularity and because of this the financial inclusion is possible. With the help of this study the framed null hypothesis i.e., there is no significant relationship between digital banking and financial inclusion in India is rejected because the financial inclusion is rapidly increasing through the digital banking services. The transaction rates and accessing rates of NEFT, RTGS, UPT and card transactions are increasing year on year. Only access to the financial services doesn't give the good meaning to the financial inclusion. For deciding the success of financial inclusion effective usage of financial services with strong awareness is required for the sustainable financial inclusion in banking sector.

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