

Digital Banking and Financial Inclusion – The Indian Scenario

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Abstract:

Digital transformation is changing every walk of modern human life. Unscrupulously, financial service industry, especially banking industry, is at the forefront of this trend. In just a few years' time, the brick-and-mortar operations of almost all financial intermediaries have become online and virtual. App-based financial technologies are ruling the financial arena at present. In spite of emergence of tremendous technological development in financial sphere, there is a problem of financial exclusion. Even after 72 years of Independence, a large section of Indian population is still not able to have a basic savings bank account and remain unbanked. This discomfort has led people to financial instability and insolvency among the lower group who do not have access to financial products and services. However, in the recent years the Government and Reserve Bank of India have started flourishing the concept of financial inclusion to the grass root level. In this background the present paper tries to conceptualize Digital Banking and Financial Inclusion with respect to India.

Key Words: Digital Transformation, Digital Banking, Financial Inclusion, Technology.

1. INTRODUCTION:

All across the world, there is disruptive but exhilarating revolution taking place in all spheres of life. Technology has moved into new era of innovation. Especially, digital technology is changing the way of human life.

India, being one among the fastest growing economies of the world, has been experiencing gradual transformation with rapid updating and adaptation of digital technologies. Smart and interconnected technology has become an integral part of contemporary business, governments and communities. The profound impact of technology on people to interact, to share ideas, to manage their health and finance has strengthened by digitalisation. It is stretching its roots to every nook and corner of human life. Smart-phone revolution is a major contributor to this digital transformation. Many financial and public utility services like railway booking, passport and visa, e-sign, direct benefit transfer, e-payment, e-receipts, withdrawal and deposit of cash, digital classrooms, e-hospitals, etc., are now available through digital platforms.

One of the most important arenas where, digitalisation has made its profound impact is Banking Sector. Digital Banking has opened up the doors for financial inclusion and sustainable development of communities in general and business houses in particular. Due to liberalization, the economy has become more competitive not only in production sphere but in service sector as well. Any change in financial service sector through the adoption of technology will have a sweeping impact on an economy's growth. In India, the launch of Digital India Programme in 2015 and Unified Payment Interface (UPI) in 2016 provided more impetus to Digitalised Banking.

2. LITERATURE REVIEW:

Volumes of literature on digital banking and financial inclusion were written by many authors, administrators, study teams and researchers. The following is an attempt to review some of important earlier works.

Avasthi, (2000-01) in his study analyzed that, developments in technology are set to change the progress of banking business. Retail banking has got transformed by the introduction of technology. It has provided more options for service delivery. Digitalisation of banking services has also impacted the marketing strategies of banks.

Mohan, (2006) opined that, at present, traditional way of doing banking at the brick and mortar branch has relatively little importance to electronic banking users as over 85% of the payment transactions are done through electronic way. Many banks would have online ATMs, phone banking, virtual banking, e-banking, Internet banking, etc. by 2020. Indian banking is experiencing a paradigm shift and a significant progress has been achieved by banks in offering a variety of new and innovative e-banking services to customers, which were not in vogue before.

Badar Alam Iqbala, Shaista Sami, (2015) highlighted financial inclusion enables to reduce the gap between rich and poor. In the current scenario financial institution is acting as the pillar of progress, economic growth and development of the economy. The research work studied the impact of financial inclusion on growth of the economy over a period of seven years. The study observed that, there is positive and significant impact of number of bank branches and credit deposit ratio on GDP of the country, whereas there is an insignificant impact of increase in number of ATMs on Indian GDP.

Poonam and Archana Chaudhry (2016) found that from 2001 to 2014, most of the State governments in India have taken measures to improve the conditions of financial inclusion in their respective States. Despite of these measures, there are failures in attracting the rural poor to obtain basic banking services. They also inferred that, in spite of vast expansion of bank branches, a large number of people are remaining excluded from formal financial system.

B.C.M. Patnaik, et.al., (2016) argued that, in spite of various initiatives are taken for the inclusion of excluded, then why people are not able to take the benefit of the same. They inferred that, crucial efforts are needed for achieving the financial literacy and bringing the excluded to the mainstream. The major issues to be tackled and to achieve the dream of inclusive growth may be illiteracy, low saving habits, low income and poverty.

Guild, (2017) examined the impact of technological innovation on the financial sector, an industry commonly known as Fin-tech. The focus of the paper is on how Fin-tech has expanded access to finance for millions of people in developing economies, with a specific interest in the role of regulatory frameworks in facilitating that process. The paper qualitatively analysed three case studies viz., cashless

payment systems in India and Kenya, and peer-to-peer lending in China; that have utilised technology in the pursuit of inclusive finance.

Ravi C. S. (2017) has worked on a research paper to study the positive impact that digitisation of payment system in Indian economy will have on the development of rural Indian sector. The study concluded that technology systems, architecture and infrastructure are mature enough to enable the billion urban people in India to transact digitally, but not in rural areas. Improved solutions in terms of UPIs, mobile wallets and digital transactions with more secured features, ease of transactions to more potential developments and supporting in improved conditions of digital payments processing in rural sectors.

Pradhan, (2019) opined that, Indian economy has cruised a long way from late 1980s when computerisation in banking sector has just begun to the the present era of digital banking where smartphones are ruling. The author observed that digital banking has brought in amazing customer experience with significant improvement in the delivery of banking services. Indian banking sector will have to overcome many challenges to make digital banking pervasive. Internet connectivity and associated digital infrastructure is to be ensured for making the digital dream a reality.

3. OBJECTIVES OF THE STUDY:

The present paper aims to provide an exploration about:

- ❖ Concept of Digital Banking;
- ❖ Evolution of Digital Banking in India;
- ❖ Concept of Financial Inclusion;
- ❖ Current scenario of Digital Banking and Financial Inclusion.

4. METHODOLOGY USED:

The study is mainly descriptive in nature. Data have been collected and utilised from secondary sources. Therefore, the paper is explanatory and based on literature based analysis.

5. THE CONCEPT OF DIGITAL BANKING:

In India, the launch of Digital India Programme in 2015 and Unified Payment Interface (UPI) in 2016 provided more impetus to Digitalised Banking. People also have actively started using technology to do banking transactions. It is being claimed

that, the new paradigm – digital banking is offering considerable benefits to banks as well as customers in terms of increasing productivity, profitability, convenience, reliability and transparency in financial transactions. It is expected to improve 4 Cs – cost, convenience, control and customer experience. There is radical change from ‘conventional banking to convenience banking’ in India. In today’s digital age and hyper-connected environment banks are poised for digital banking at a rapid pace.

Digital Banking involves high levels of process automation and web based services through APIs (Application Program Interface), AI (Artificial Intelligence). It is delivery of banking services and products through electronic channels. It is provision of services to customers by banks through various secured and safe digital channels by taking care of data security, related risk mitigation and regulatory aspects. Digital banking signifies and encompasses the entire gamut of technology initiatives that have taken place in the sphere of banking sector. It is achieved by the adoption of latest digital technologies like analytics, social media, innovative payment solutions and mobile technology with the aim of exceeding customer expectations, convenience and experience. Digital Banking does not involve any physical exchange of money as all transactions are done electronically from one account to another through internet. It enables customers and banking officials to access accounts any time and from any part of the world.

There are claims that, Digital Banking has opened up the doors for financial inclusion aggressively and for sustainable development of communities in general and business houses in particular. The liberalization and privatization of the economy has created a competitive environment that has taken the service sector, particularly the banking sector by storm. Any change in this sector through the adoption of technology will have a sweeping impact on the growth of economy.

6. EVOLUTION OF DIGITAL BANKING IN INDIA – THE CHRONOLOGY:

During the period 1986-88, the Magnetic Ink Character Recognition (MICR) based cheque processing was introduced. Computerisation of branch banks was introduced during late eighties. Ledger posting Machines (LPMs), Advanced Ledger Posting Machines (ALPMs), network based systems and then core banking solutions were introduced gradually. The agreement signed by the Employees’ Unions of Banks with Bank Managements in the year 1993 was a major breakthrough in the introduction of

computerized application and development of communication networks in Banks. The foundation for introduction of Information Technology in the Indian Banking and Financial Sector was laid through the setting up of the Institute for Development and Research in Banking Technology (IDRBT) in March 1996. This initiative is undertaken on the basis of a strong recommendation for Computerisation of banking operations at various levels by Dr. Rangarajan Committee's two reports in the years 1984 and 1989. For ensuring the requisite legal protection for the electronic banking transactions under the Information Technology Act, 2000, IDRBT commenced its Certification Authority (CA) functions. Formulation of Information System Audit (IS Audit) guidelines for evaluating system's internal control design and effectiveness in banks. The next chronological step in the direction of digitalisation is the establishment of National Financial Switch (NFS) for inter-connectivity of shared ATMs and to facilitate payment settlement across banks. This is now managed by National Payments Corporation of India (NPCI). The Implementation of Electronic Payment and Settlement Systems (EPSS), Negotiated Dealing System (NDS), Centralized Funds Management System (CFMS) etc. are some of the major initiatives which provided impetus to evolution and development of Digital Banking in India.

The following is the list of major digital banking services offered by Commercial Banks in India.

- (i) Automated Teller Machine (ATM) or Automated Banking Machine (ABM);
- (ii) Debit Cards and Credit Cards;
- (iii) Electronic Fund Transfer or Electronic Clearing Service (ECS);
- (iv) Point of Sale Service (POSs);
- (v) National Automated Clearing House (NACH);
- (vi) Immediate Payment Service (IMPS);
- (vii) National Electronic Fund Transfer (NEFT);
- (viii) Real Time Gross Settlement (RTGS);
- (ix) Mobile Wallets and Prepaid Payment Instruments(PPI) Cards;
- (x) Mobile Banking and Internet Banking;
- (xi) Aadhaar Enabled Payment System;
- (xii) Unified Payment Interface (UPI);
- (xiii) Bharat Interface for Money (BHIM);
- (xiv) Bharat Quick Response Code Solutions (Bharat QR) etc.

7. THE CONCEPT OF FINANCIAL INCLUSION:

Financial Inclusion is a strategy to make formal financial services available, accessible, and affordable to all the citizens in a safe and transparent manner to support inclusive and resilient multi-stakeholder led growth. Its aim is to achieve universal access to financial services through a bouquet of basic financial services leveraging on the BC Model, access to livelihood and skills development, financial literacy and education, customer protection and grievance redressal with effective co-ordination(RBI annual Report, 2018-19).

The Committee on Financial Inclusion, Government of India, has defined financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by the vulnerable groups such as weaker sections and low-income groups at an affordable cost (Rangarajan, 2008).

Financial inclusion is a process that enables improved and better sustainable economic and social development of the country. Its focus is on raising the standard of living of the underprivileged in the society with the objective of making them self-sufficient and well informed to make better financial decisions. It acknowledges the participation of the low-income groups to financial services in economic growth (Singh, 2018).Financial inclusion means the delivery of financial services, including banking services and credit, at an affordable cost to the vast sections of disadvantaged and low-income groups (Chhabra, 2015).

8. CURRENT SCENARIO OF DIGITAL BANKING AND FINANCIAL INCLUSION:

In India, financial inclusion first featured in 2005, when it was formally introduced by K C Chakraborty, the chairman of Indian Bank. Mangalam Village, of Puducheri, became the first village in India where all households were provided banking facilities. With a view to provide an easy access to credit and help the disadvantaged and poor, General Credit Cards (GCCs) were issued. In January 2006, for providing financial and banking services, the Reserve Bank of India permitted commercial banks to make use of the services of non-governmental organizations and self-help groups (NGOs/SHGs), micro-finance institutions, and other civil society

organizations as intermediaries. These intermediaries could be used as business facilitators or business correspondents by the banks.

Government of India has taken measures to improve financial inclusion position in the form of Pradhan Manthri Jan-DhanYojana (PMJDY), appointment of Business Facilitators (BFs) and Business Correspondents (BCs), Branchless Banking, Mobile Banking, No-frills Savings Bank Account, Kiosk/ATM based banking, Aadhaar Enabled payment services etc. As a strategy, financial inclusion services through digital banking to all sections of society is a win-win strategy for everybody involved – the banks, NBFCs, and the left-out urban and rural population. The BCs shall be carrying handheld terminals like GSM enabled tablets, coupled with portable biometric scanners, smart card swipe machines as well as thermal Bluetooth printers for providing financial services. Authentication and customer information is provided by the Aadhaar (UIDAI) through NPCI or NSDL, for crediting amount under MGNREGA, NREGA, schemes, subsidy amounts of various government schemes, are carried out through digitalised banking services. Provision of adequate and transparent credit facilities from formal banking system will stimulate the entrepreneurial spirit of the masses to maximize output and prosperity in the country.

9. CONCLUSION:

Financial inclusion is the ability of individuals to access financial products and services in order to meet their financial needs. Banking, as a major financial institution, plays a pivotal role in achieving financial inclusion objective. In recent past, the digitalization of financial services has given a great push to people to become financially inclusive. The introduction of Internet banking, mobile banking, Aadhaar based banking, plastic cards, Kisan Credit Cards, Postal Payment Bank, UPIs, NEFT, RTGS, etc. boosted the financial inclusiveness in the country. It also helps in reduction of cash economy, inculcates habit to save, capital formation, and reduces corruption. In spite of effective and sustainable efforts are being undertaken by all stake holders like Government, Regulators, Financial Institutions and others, the efforts are not yielding expected results. Still a greater deal in this regard is essential to bring about 100% successes in the arena of financial inclusion.

10. RECOMMENDATIONS:

- Focus on establishing more bank branches in unbanked rural areas;
- The Government of India, RBI, Commercial Banks, RRBs, and other financial intermediaries should plan a coordinated campaign in congregation with the trainers and professionals to educate customers about the basic financial products, services
- Promote the practice of digital banking, micro finance institutions & business correspondents so that they can reach the excluded people
- Educate underprivileged and make them understand the importance of formal banking system and availing the benefits of financial products.
- Implement policies through which financial institutions achieve synergies with the technology providers so that they can reach the population at large and reach as many deprived people for large scale economies.
- Introduce some allowable relaxation in KYC requirements for opening bank accounts.
- All social security payments or payments under all the government schemes should be strictly routed through the digital system like Direct Benefit Transfer (DBT), ECS, ATMs., etc. of service area bank. This will motivate rural people to compulsorily have a basic bank account in their service area branch to avail the government benefit.

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