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DIGITAL FINANCIAL INCLUSION POST PANDEMIC IN INDIA –A GATEWAY FOR SUSTAINABLE DEVELOPMENT

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ABSTRACT:

The expansion of universal access to financial services is a possible benefit of digital payments. The COVID-19 worldwide health crisis and government reactions, such as economic lockdowns, raised demand for contactless financial products and services, hastening the transition to digital banking. To reach customers and residents who are at risk, the government has turned to digital payments.Digital technology can be a game changer in tackling the multi-decadal challenge of achieving financial inclusion.

This review paper talks about the role of government in achieving the financial inclusion via digital platform during global pandemic and post pandemic. Further it also suggests the digital financial services in digital payments at global as well as India level and it also suggested a framework to go further for achieving sustainable development.

Key Words: Digital Financial Literacy, Financial Literacy, Digital payments, Digital Financial inclusion

INTRODUCTION:

Access to transactions, payments, savings, credit, and insurance that can be provided in a responsible, efficient, and sustainable manner is referred to as financial inclusion, and it means that people have quick, easy access to financial products and services that are practical and affordable and meet their needs.

Governments have been required to provide financial aid to residents as a result of the COVID-19 pandemic, which has produced both opportunities and obstacles for promoting financial inclusion. As a result, government moved digitally to provide the financial assistance to reach the untapped citizens.

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Digital finance compare to tradition finance has reduce the costs. It has increased the convenience and allowed citizens to transact remotely using their smart mobile devices which becomes the extremely important factor during the COVID-19 pandemic.

Connectivity, a smart phone, internet connection, and digital aptitude for managing mobile apps and online applications are requirements for accessing digital finance products and services by citizens. Worldwide COVID-19 has encouraged the greater use of digital finance products and services among the citizens. Further government had also taken enough steps to bridge the gap for better access of technology as well as other factors for digital financial ecosystem. Thus digital payment becomes the important driver for digitally financial inclusion.

As per World Bank Report of November 2021, 58 governments in underdeveloped nations have embraced digital payments in order to provide COVID-19 alleviation.

For any country, financial services such as payments, savings accounts, and credit are a foundation of development of any country. The fiscal response should go hand-in-hand with investment in digital infrastructure and promoting digital and financial literacy to ensure greater digital inclusion.

Further, this transformation requires decisive action on creating an enabling policy environment, promoting the digitalization of payments and emphasizing access for women and the poor

The covid 19 pandemic has also highlighted that use of digital technology has provided support and flexibility to the poor people of the countries which lack key enablers such as strong digital identity schemes, widespread account access, and interoperable payment systems.

Digital Financial Inclusion

According to the World Bank (2020), “The goal of digital financial inclusion is to provide a variety of formal financial services that are responsibly delivered at a cost that is reasonable for clients and sustainable for providers to groups that are currently underserved and financially excluded”

In simple terms Digital Financial Inclusion means use of digital financial services for achieving the goal of financial inclusion. It purposes to leverage digital means to reach out to the financially unserved as well as underserved populations with a basket of formal financial services and products suited to their needs in an affordable, safe and transparent manner. It also promotes efficient and effective networking among participants.

Digital financial inclusion entails giving the excluded population access to reasonable formal financial services by utilizing already available digital technologies(Ozili, 2021). Inclusion of the underprivileged into the formal financial system of the economy is achieved through the long-term provision of affordable digital financial services.

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Digital financial service is based primarily on three components, viz., digital transactional platforms, devices and retail agents. The large-scale availability of all these components is required for exponential growth in digital finance access.

Literature Review

A number of studies have been conducted on financial inclusion. The present study reviews some of these studies to understand the impact of COVID 19 pandemic on financial inclusion and digital financial inclusion.

In his study, Ozili (2022) stated that achieving digital financial inclusion is more of a journey. There is still a significant deal of work to be done in order to achieve financial inclusion, and it will involve the deployment of both current and cutting-edge revolutionary digital technology.

Kelikume (2021), in his study on relationship between mobile phones, the internet ,financial inclusion ,the Informa; economy and poverty alleviation finds that financial inclusion has a significant positive relationship with the increased use of mobile phone and the internet in the informal economy. Increased mobile phone usage and access to the internet have a positive relationship with poverty reduction. Thus increased financial inclusion reduces poverty.

Koomson et al. (2022) in his study of mediating roles of digital savings and access to digital credit in East -Africa concluded that there is a positive impact of mobile money on the development and expansion of entrepreneurship.

Ozili (2021) uses a wide global sample of 79 countries to investigate whether high levels of financial inclusion are linked to higher financial risk.Ozili (2021) in their study regulated for the use of online financial services including debit and credit cards and electronic payment methods. The study found that while the use of debit and credit cards as well as digital financial products expanded in developed countries, it did not do so for transitional economies and developing markets. beAdditionally, using digital financial goods in conjunction with a rise in the number of people with official accounts helped emerging nations' financial sectors operate more effectively. The findings imply that not just the excluded population but also the financial system benefits from digital financial inclusion.

Bachas, Gertler, Higgins and Seaira (2018) look at the impact of a particular digital financial product, like a debit card, on financial inclusion. They investigate a natural experiment in which recipients of the Mexican cash transfer programme "Oportunidades" were geographically dispersed over time with debit cards linked to pre-existing savings accounts. After getting the debit cards, beneficiaries can still access their benefits in the savings account, but they can now access transfers and savings at any bank's ATM.

They can use the card to make purchases at point-of-sale terminals or check their balances at any bank's ATM. Debit cards lower transaction costs by reducing the distance to bank accounts, they

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learned through the natural experiment. They find that when transaction costs are reduced, account holders' behaviour changes.

Trends for DFI around the World

Account ownership, the fundamental measure of financial inclusion, is the gateway that prepares men and women to use financial services in a way that facilitates development. As per World Bank- The Global Findex Report 2021account ownership around the world increased by 50 percent in the 10 years spanning 2011 to 2021, from 51 percent of adults to 76 percent of adults. From 2017 to 2021, the average rate of account ownership in developing economies increased by 8 percentage points, from 63 percent of adults to 71 percent of adults. The share of adults making a digital merchant payment also increased after the outbreak of COVID-19. For example, in India more than 80 million adults made their first digital merchant payment during the pandemic. In China, 82 percent of adults made a digital merchant payment in 2021, including over 100 million adults (11 percent) who initially did so after the pandemic began.

Account Ownership Data of Developing Countries

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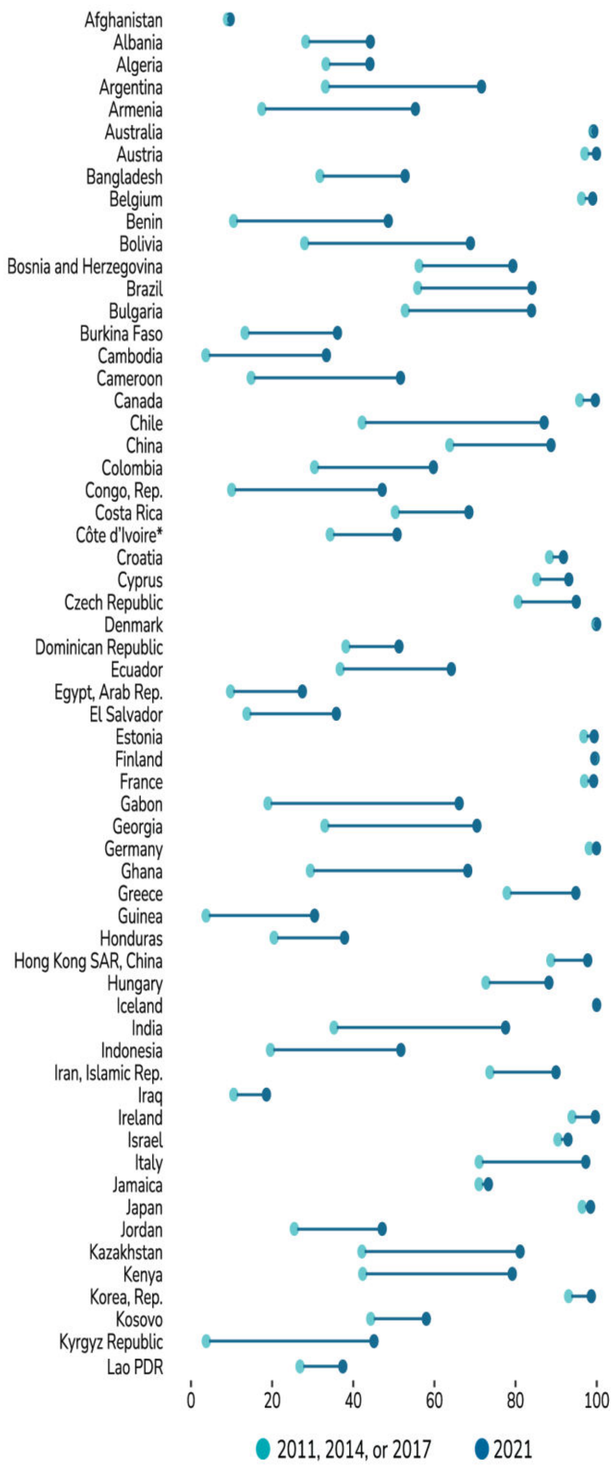

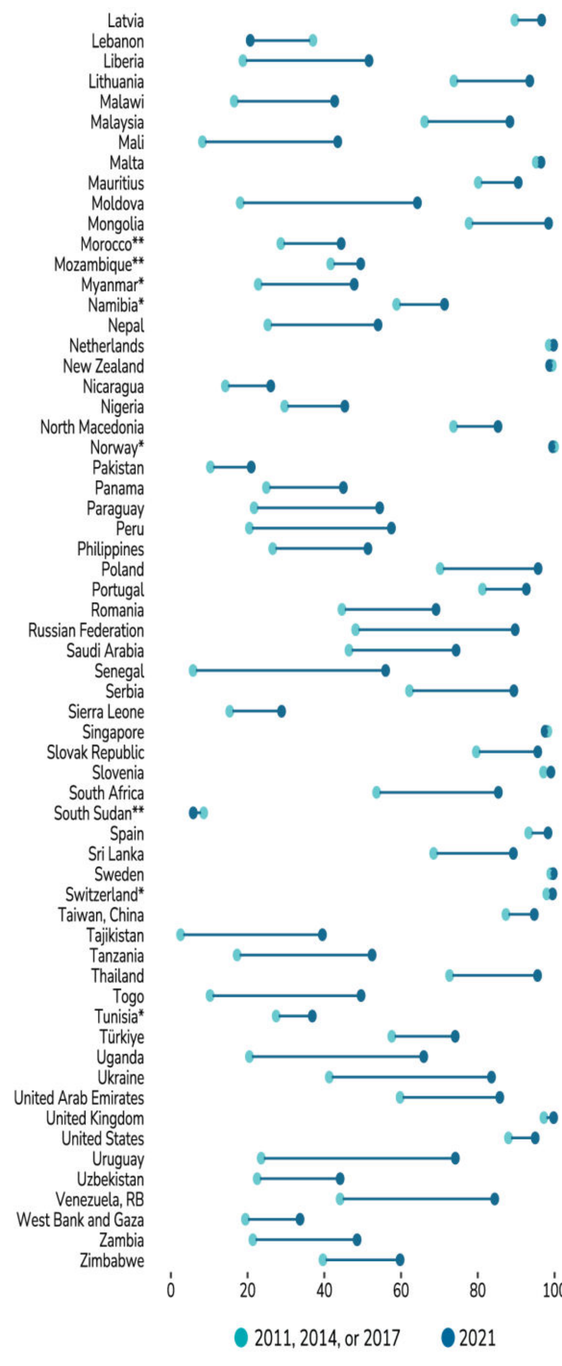

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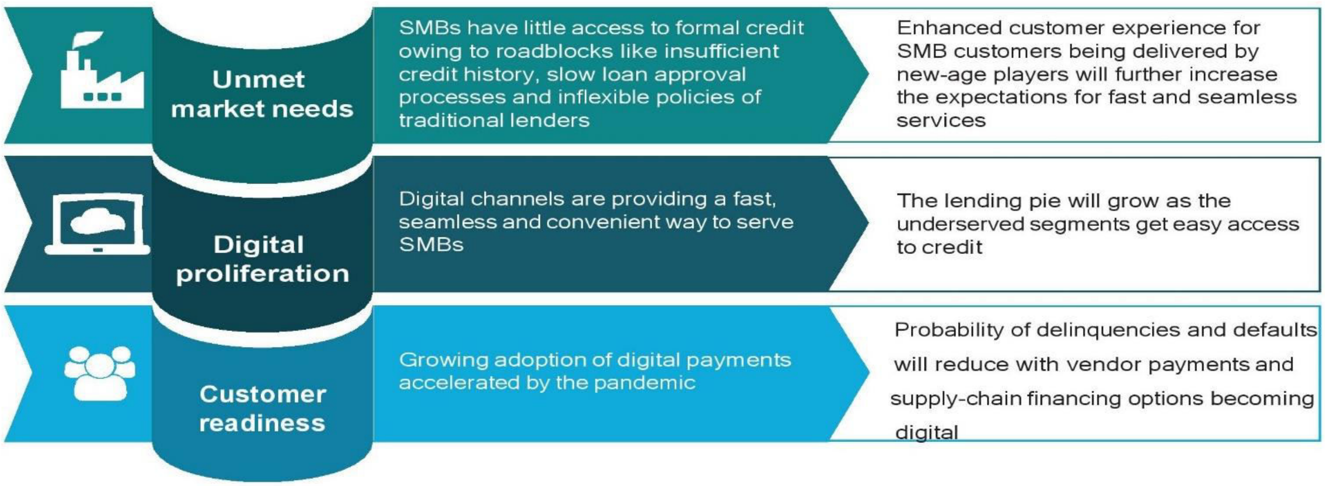
ency for banks and payments firms to modernize payment systems, transform the payments mix, and increase affinity to digital payments**.** Contactless payments' popularity with consumers grew during the pandemic, which is prompting the need for a robust digital identity infrastructure in the Payments. Drivers and implications of new age players plugging the gap in SMB (Small to mid-sized Businesses) lending and payment.



Source : Capgemini Financial Services Analysis, 2021.

This clearly shows that new age players have played a vital role to achieve the goal financial inclusion.

In India, Governments are taking the initiative for the digital payment solution. For instance, in August 2021, Indian Prime Minister Shri Narendra Modi launched the digital payment solution e-RUPI, a person and purpose-specific digital payment solution. e-RUPI is a cashless and contactless instrument for digital payment. Moreover, emerging economies and developing countries worldwide are observing prominent growth rates in the adoption of mobile payments, not only due to ease of performing transactions or penetration of smartphones but also because of the financial inclusion features offered by the technology.AS per recently RBI Data , UPI becomes more popular payment method during COVID-19 and Post Pandemic.The data clearly shows that for turnover for 2021-22 compare to 2020-21 clearly indicates that there is almost double turnover report for UPI Actual use of smartphones for digital payments may be effectively boosted by enhancing digital literacy and awareness. Most new users were from the middle-aged and the old age segment, indicating that the pandemic may have "force-bridged" the generation gap in digital payments.

Respondents over the age of 60 preferred cards, UPI and mobile wallets were highly popular amongst the younger and middle-aged population. Heads of households who didn't personally own a smartphone were also likely to switch if they had a family member with a smartphone.

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There is evidence of such digitally empowered household members substituting for bank mitras in enabling digital payment adoption.

Benefits of Digital Financial Inclusion

- Faster and wide-spread dissemination of formal financial services
- Equality of access to all
- Relatively lower costs of digital platforms as against physical 'brick and mortar' models
- Availability of need-based, customized and better-priced products/services for diverse customers
- Convenience to the customers
- Lesser costs associated with handling of cash
- Opportunity for economic empowerment of women, youth and vulnerable sections of the society including small businesses.

Digital Payment and Digital Financial Inclusion in India during Covid-19 and post Covid-19

The lockdown period in India during covid -19 has also seen a increase in online payments for certain categories of products. Indian consumer behavior witness a change in shift as customers have develop new habits from paying cash at a local Kirana shop to use a low-data app on their Jio phone to order from the same store. Further now it can manage its operations on a mobile phone.

Parallelly, the Government of India has stormed up its digital finance efforts as part of the COVID economic response. It is aggressively promoting the use of the real-time Unified Payments Interface (UPI) for transactions. The Jan Dhan bank accounts opened as a part of financial inclusion initiative got the real benefit by Direct benefit transfer of direct cash transfer by the government to the most vulnerable sections of society.

The post COVID-19 period will see a change in the Indian consumers. Now there is a increasing and growing preference for digital and contactless payments, renewed emphasis on savings and investment to create a household capital cushion for uncertain times, and increased interest in health and life insurance to manage future unforeseen financial shocks. In a post-COVID world India's early-stage tech start-ups will focus on managing their cash flows more conservatively than recent years, experimenting with remote work practices, and building products that solve livelihood challenges for Indians across the socio-economic spectrum. Covid-19 has introduced

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plentiful challenges for India's thousands of digital fintech businesses, many will emerge stronger and more primed for a global stage.

Now Fintech become closely integrated with the most remote areas of India and has emerged as an efficient and reliable component of economic development. It leads the banks to start digital offerings to address more customers in partnership with smaller technology companies

As per World Bank Group Report on The impact of COVID-19 on digital financial inclusion of November 2021, it is worth note that the report indicates that dependence on digital finance around the countries of the world has increased. The key and critical enablers are as under.

- Increase regulatory flexibility
- Leverage Government-to-Person (G2P) payments
- Prioritize infrastructure and connectivity
- Encourage interoperability to make digital payments more convenient
- Put an emphasis on the customer experience, paying special attention to women and other disadvantaged and vulnerable communities (elderly, low-income, rural)
- By enhancing financial skills and enforcing financial consumer protection, promote responsible financial behaviour.

Role of Government in achieving the financial inclusion via digital platform during global pandemic and post pandemic

As a part of digital initiatives, Pradhan Mantri Jan-Dhan Yojana (PMJDY) was launched in 2014 with a aim to provide all adult Indians with a bank account. Furthermore, people were given RuPay debit cards that could be used for ATM withdrawals and POS (point of sale) transactions in order to boost the use of newly created PMJDY bank accounts.

The national ID programme Aadhaar, which has provided the vast majority of Indians with a distinctive 12-digit identity number linked to their biometric data that may be used as identification evidence, is the second leader of the government's J-A-M trinity plan.. The expansion of Aadhaar and PMJDY have been closely linked, as the Aadhaar number has come to be the standard form of identification for Indians, particularly those living in rural areas who want to open their first bank account.

In 2016, The rapid expansion of digital payments is largely attributed to the Unified Payments Interface (UPI). Users can quickly make payments straight from their bank accounts thanks to the low-cost, widespread payments interoperability offered by the UPI platform. RBI report says that during covid-19 and post covid-19 there has been the rapid rise seen in the adoption of digital payments, especially UPI in the country. Same is supported by The Reserve Bank of India's (RBI) digital payments index (DPI).

The RBI-DPI has been constructed with March 2018 as the base period, i.e. DPI score for March 2018 is set at 100. It indicates the extent of digitisation of payments across the country.

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As per RBI Annual Report published on 27 May 2022 data, in comparison to March 2019, the volume and value of all digital payments climbed by 216% and 10%, respectively, in the month of March 2022. Over the same time frame, UPI alone has increased by more than 1200%. Further, it is mentioned that around one-third of surveyed households transacted digitally for the first time during the lockdown. Households that had prior experience with digital payments but had abandoned them for reasons such as difficulty in use, lack of internet access, fraud, overspending, etc., were most likely to re-adopt them during the pandemic. General awareness about payment modes as well as the level of formal educational attainment contributed to first-time adoption, notably even at low levels. Actual use of smartphones for digital payments may be effectively boosted by enhancing digital literacy and awareness.

Most new users were from the middle-aged and the old age segment, indicating that the pandemic may have "force-bridged" the generation gap in digital payments. While respondents over the age of 60 preferred cards, UPI and mobile wallets were highly popular amongst the younger and middle-aged population. Thus, RBI data clearly shows that the pandemic induced 'switch to digital' has helped in achieving digital financial inclusion.

A way forward for digital financial inclusion

Below mentioned suggestions will aid in the expansion of digital financial inclusion in a more inclusive manner..

- The human touch point remains critical

  Interaction with a human being will always be necessary for building trust and understanding of how to use digital financial services.

- Digital finance is closely linked with aspiration

  Aspirational traits like the desire to expand a firm or take part in the larger national digital economy are strongly associated with the willingness to test new digital products and stick with them.

- Product design is important and underrated

  Due to the fact that financial services do not satisfy the unique needs of Indian communities, a number of models seem to have had difficulty. Too often, products have been created to satisfy the wants of urban, Hindi- and English-speaking, more affluent groups, thereby alienating substantial segments of the market.

- A lot of people still really like cash

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The assumption underlying the shift toward digitization is that it offers a benefit over cash-based payments. This may ignore the complicated reasons why some people use cash and the challenge of changing behaviour.

- More exploration is required around the linkages between digital payments and financial inclusion

  We witnessed great progress has been made the access to financial services, the relatively low levels of usage hints that more efforts are required to increase the usage through government regulations.

Furthermore, to boost digital financial inclusion in India the role of below mentioned institutes/organizations is crucial and important.

The RBI is responsible for regulating banks, payments, and overall financial stability. Historically, the Ministry of Finance has been in charge of PMJDY and has overseen the government's initiatives for financial inclusion. A committee on digital payments was presided over by the government's strategy think tank, NITI Aayog, which is essential to decision-making.

The communications regulator, TRAI, provides guidance on data, KYC, and electronic payment systems.

The government's programme known as "Digital India" is coordinated by the Ministry of Electronics and Information Technology (Meity).

CONCLUSION

It is crucial to recognize that digital financial inclusion involves more than just getting financial services and money into the hands of the population's most vulnerable and low-income segments. It also involves making sure the services are accessible, convenient, secure, and reasonably priced. Greater investment in digital literacy and connectivity is key to bridge the gap of financial services. New innovative financing mechanisms, such as asset tokenization, blockchain-based project bonds, and crowdfunding could also help mobilize finance effectively. Digital payments are paving the way for broader use of financial services. Increasing trend in digital payments in India suggest opportunities to further increase financial inclusion. The role of fintechs in financial inclusion is important as by making changes in the traditional business model of banks and financial institutions. Thus, they can deliver financial products and services to the financially excluded population in a more effective, accountable and efficient manner in the least possible time.

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