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Role of Digital Finance to improvise Financial Inclusion and Sustainable Employment

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ABSTRACT: This article discusses a few concerns related to digital finance, a topic that hasn't received much critical attention in the literature. Despite the fact that digital finance and financial inclusion have many benefits for the consumers and the policy makers for the economic growth of the nation, there are still concerns in implementation of digital financial services for the people, businesses, and governments. The article's discussion of digital finance challenges is pertinent to ongoing discussions and national-level initiatives aiming to increase financial inclusion through banking, use of smartphones in the developing and emerging economies.

KEYWORDS: Financial Inclusion, Digital Finance, digital payments, banking

1. INTRODUCTION

Digital finance is providing access to the financial services via digital mode like mobile devices, desktop computers, connected to a trusted digital payment system (Harchekar, 2018; Ozili, 2020). The same definition of digital finance is given in a McKinsey study as "financial services supplied via mobile phones, the internet, or cards." FinTech companies and innovative financial service providers offer a wide range of new financial products, businesses, software, and client communication and engagement techniques under the umbrella of digital finance (Arora et. al., 2021; Mittal, 2020a). In general, digital finance includes access to online payments in purchase of goods, services, in technologies, and infrastructure. The internet has become a generally accepted distribution channel for the banking business in Europe, and both established companies and newcomers are learning how successful it is in comparison to previous channels.

The primary objective of financial services is to make digital platforms accessible for the transactions to support emerging nations' goals of financial inclusion and poverty reduction (Mittal, 2020c). Any digital financial service should have three essential elements: a digital payment platform, trusted retail agents, and the usage of a device by consumers and agents to conduct transactions via the platform, most frequently a cell phone. The user of digital financial services (DFS) must possess, control, or have authorization to use a bank account, as well as sufficient funds (or an authorised overdraft) to send or receive cash payments (cash outflows) using digital platforms, such as mobile devices, personal computers, or the internet.

Academics and policymakers are increasingly emphasising the importance of financial inclusion and digital finance for eradicating poverty and promoting economic prosperity. (Gupta & Mittal, 2015). This is largely because there are still a number of problems with digital finance that, if resolved, could make it more beneficial for people, businesses, governments, and the economy (Verma et. al., 2020). Digital financial service providers will increase access to finance for the poor, lowers the cost of financial transactions for the banks and financial institutions. This automatically will improvise the spending of governments for the poor and head towards the economic growth (Bhatnagar, 2017; Garg, 2014).

Despite its advantages, financial inclusion and digital finance have not yet reached large portions of the public, suggesting a gap between the availability of finance and its use (Bhatia & Mittal, 2019; Yadav et. al., 2018). In this study, the relation between the digital finance and financial inclusion and the sustainable

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employment are examined. This paper, which focuses on digital finance, discusses the topic in detail and considers how it will affect financial inclusion and system stability and also presents the advantages and disadvantages of digital finance, financial inclusion, and digital financial inclusion.

2. BENEFITS OF DIGITAL FINANCE

Financial technology offers several advantages. With the help of smartphones of the consumer in the developing world, government can expand financial services through digital banking which in turn would support increasing financial inclusion (Bire, Sauw, & Maria, 2019).

In developing nations like India, digital finance has the potential to offer low-income people, a secure, convenient, and inexpensive financial services. Millions of impoverished consumers might benefit from recent advancements in the accessibility and affordability of digital financial services by switching from informal transactions using cash to formal digital financial transactions on non-risky online platforms (Festus et al., 2015; Pardo-Garcia & Barac, 2020). There is an opportunity to increase the gross domestic product of digitalized economies of the nation by facilitating easy access to a wide range of financial products and services for individuals as well as small, medium, and large businesses (Mittal & Raghuvaran, 2021). Digital finance may boost financial intermediation and economic stability for both consumers and the local economy where they live and support their families.

In conclusion, digital finance ought to benefit people and companies who have formal bank accounts and sufficient cash in those accounts to conduct a variety of financial activities. However, the anticipated advantages of digital banking will only be fully realised if there is little to no cost involved in offering such services.

3. DIGITAL FINANCIAL INCLUSION: CONCEPT AND ADVANTAGES

According to the CGAP, digital financial inclusion is "the utilisation of formal financial services by the excluded and underserved people through digital access to them" (Guibaud, 2016; Nguyen, 2020; Shaikh, 2020). Novel digital financial services via mobile phones and similar devices have already been launched in at least 80 different countries in an effort to convince millions of poor consumers to only use them instead of cash-based transactions.

In order to undertake basic financial transactions remotely, it is expected at the commencement of the process of digital financial inclusion that the underserved and/or excluded population has some sort of official bank account. There should be an attempt to customize an effective digital financial inclusion programme to meet the requirements of the most needed and the reserved section of the population and should be responsibly provide at a cheaper cost that is sustainable for providers and affordable for consumers. This is presuming that the underserved and excluded population is aware of the promised advantages of digital financial inclusion and is receptive to being persuaded of them.

Digital financial inclusion is expected to assist banks in decreasing costs by shortening queues in banking areas, streamlining manual processes, and maintaining fewer bank branches (Kabakova & Plaksenkov, 2018; Pareek, 2020). With the spread of digital financial inclusion, many depositors may quickly transfer banks, putting pressure on banks to offer reliable services or risk losing customers to other institutions. For those in charge of regulating the financial and monetary systems, digital financial inclusion plays a crucial role in lowering high inflation rates in emerging and underdeveloped nations as well as in reducing the quantity of physical currency in circulation. The welfare of people and enterprises who have access to a trustworthy digital platform via which they may conduct financial transactions can be improved through digital financial inclusion.

The evolution of digital financial services in India since year 2014 can be viewed in three phases (see Figure 1).

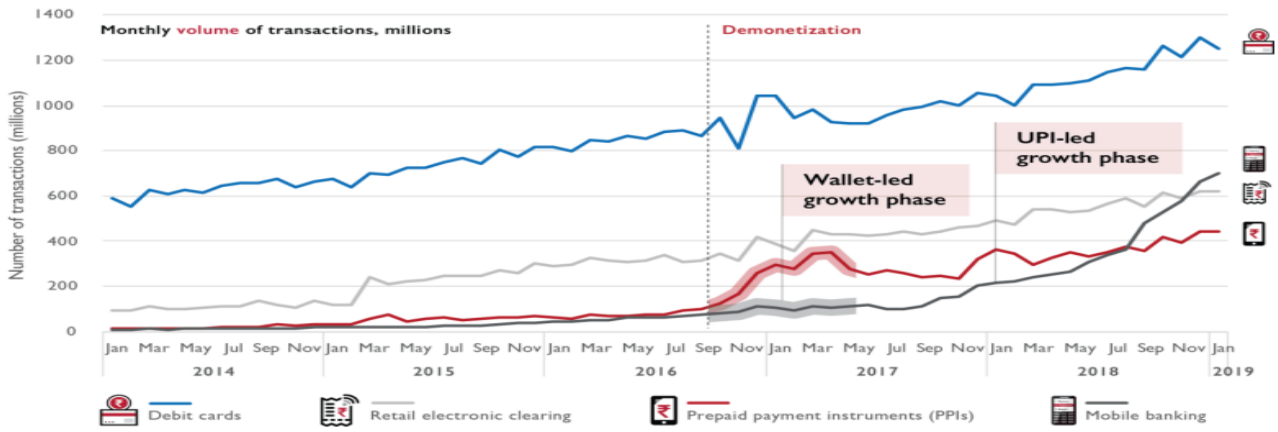

Figure 1: Growth in digital transactions[1]

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Financial inclusion enhances the number of (often poor) individuals and access to official financial services, using online banking, that will help in combating poverty and foster economy of the nation. People who were previously financially excluded will be able to invest in education, save money, and start their own enterprises with more financial inclusion, which helps to reduce poverty and spur economic growth . It is ideal to have an inclusive financial system since it will provide everyone, especially the poor, the ability to transfer money around, develop their capital, and lower their risk.

For disadvantaged households, financial inclusion brings a number of advantages. It gives low-income people the chance to save for the future, which promotes financial stability for individuals, and it encourages frequent usage of bank accounts, which helps banks maintain a more stable deposit base during difficult times. Increased financial inclusion can give low-income households chances to save money, make investments, and get loans. As the formal financial sector's share increases, the case for using interest rates as the principal instrument for macroeconomic stability becomes stronger, which is beneficial for economic development, which can stimulate more participation of diverse economic sectors in the formal financial system.

4. CHALLENGES WITH IMPLEMENTATION OF DIGITAL FINANCE

Digital finance has a variety of advantageous implications on financial inclusion. Increased digital finance can enhance low-income and poor people's access to essential services, which will increase financial inclusion in rural regions. Digital finance, however, may have detrimental implications on financial inclusion. “Digital finance service providers are for-profit firms that utilise the technology to increase their own profitability or the chances for businesses linked with digital finance providers, such as banks and other financial and non-financial organisations, to grow profitably. Corporate providers of digital finance services can selectively employ a more aggressive marketing approach to persuade high- and middle-income clients to use a new or existing digital platform or infrastructure while employing a less aggressive marketing approach to persuade low- and very low-income clients to use a new or existing digital platform or infrastructure if they believe the latter cannot afford the associated fees, resulting in lower financial inclusion”. Further, there is a huge gap in providing the appropriate training skills by the banking sector for the consumers to efficiently run the digital financial services program.

Because digital finance providers may decide to stop providing specific services to “high-risk rural areas or communities lacking the necessary infrastructure based on their own internal risk assessments, which may change from time to time, there may be geographic bias in the delivery of digital finance. Because digital finance providers may decide to stop providing specific services to high-risk rural areas or communities lacking the necessary infrastructure based on their own internal risk assessments, which may change from time to time, there may be geographic bias in the delivery of digital finance”. This will reduce financial inclusion. Mobile phones with contemporary (and current) operating software systems and applications that enable digital financial services may be some of the supporting infrastructure required to make DFS function effectively. When providing digital financial services, educational bias may be introduced. Based on their profitability assessment, digital finance providers may decide to reduce their focus on delivering digital finance to underprivileged and uneducated communities that lack the fundamental financial literacy needed to use and understand digital finance if the net financial value of doing so is very low.

5. STRATEGY OF DIGITAL FINANCIAL INCLUSION

A solution offered by the private sector for broader financial inclusion is digital finance. Private sector players like Fintech institutions can help underprivileged and poor in providing digital financial services and encourage them for participation in the formal financial sector like banking, via online platforms, smartphones. The underprivileged and excluded population can connect the bank accounts with digital payment services like UPI, Pay Wallet, digital cards (Mikhaylov & Petrov, 2021). Additionally, if access to digital finance is affordable, low-income and underprivileged people will engage, which will have a good impact on financial inclusion. Figure 2 illustrates the significant contributions that banks, FinTech, and the government make to financial inclusion and the fight against poverty.

[1] Source: https://www.usaid.gov/sites/default/files/documents/15396/mSTAR_IndiaDFI_Report_DRAFT_FINAL.pdf

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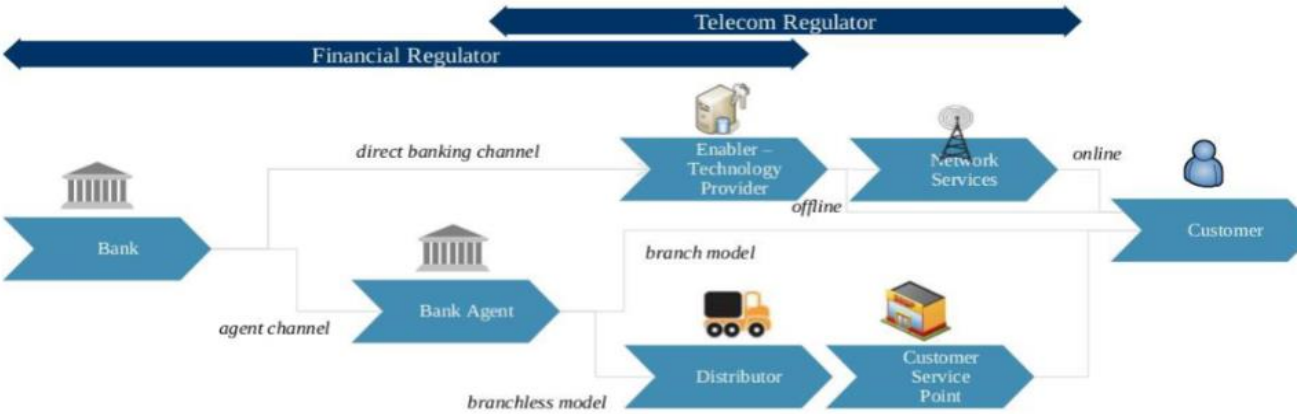

Figure 2: Stages of digital financial services (Source: Micro Save 2013)

The people who have access to formal financial services through formal bank accounts become the part of financial inclusion and thus increasing the proportion of people (mostly the poor) accessing the digital financial services. Financial data inclusion entails combining all of the population's biometric information to their bank accounts. From a policy standpoint, financial data inclusion is simpler to accomplish than financial inclusion. By linking biometric data to bank accounts, it is possible to accomplish two goals: it makes it possible for financial transactions to occur through digital channels that can be verified and linked to specific people or businesses, and it makes it easier to track the demographics and financial status of users of these services (Gupta & Mittal, 2020; Mittal, 2020b) .

The excluded group can actively make digital transaction and participate in financial data inclusion. They can obtain online banking credentials for the online access of their transaction history. They will be able to use digital channels to conduct daily transactions online and thus increasing financial inclusion. In this opinion, full-scale financial data inclusion and the public's desire to participate in digital activities are essential for digital finance to achieve greater financial inclusion.

6. CONCLUSION

Many developing nations despite the benefits of digital financial services, are still facing difficulties due to non-acceptance of digital payments by the merchants. Due to high bank fees and high setup costs, small companies in urban and rural parts of developing countries cannot accept digital payments (Dukic et. al., 2018; Kaur & Kaur, 2021; Raharja et. al., 2020). As a result, impoverished people who have digital banking credentials are unable to pay for services from these firms. When poor people participate in the digital system but are unable to pay for necessities from nearby small businesses because it is too expensive for them to use digital payment devices like point-of-sale (POS) devices in developing countries, the increase in financial data inclusion in these circumstances does not improve financial inclusion.

Many consumers in developing economies do not actively utilise digital channels (Ananda et. al., 2020; Kaur et. al., 2021). Customers' lack of confidence has a detrimental impact on programmes for government financial inclusion in developing nations, and this issue is worse in nations with weak consumer protection policies and institutions. Customers' use of digital financial channels to access basic financial platforms may be lessened due to low levels of financial literacy and awareness. The implication is that people on low incomes and those who are concerned about their personal finances will have little incentive to use digital channels that they I do not understand, (ii) do not have the financial literacy to understand how it works, (iii) and if they are not aware of existing digital finance infrastructure.

Greater "digital financial inclusion" and "access to finance" appear to be somewhat conflated. To solve this, it is important to first recognise that if digital banking is open to all and free from prejudice, it will increase the welfare of people who have formal bank accounts and who want to use personal digital devices to perform basic financial activities on their accounts. But in several emerging nations, the availability of digital banking services is mistakenly frequently conflated with access to those services. The availability of online banking services by banks in developing nations does not imply that those with low incomes and the poor will have easy access to these services. In fact, these people frequently discover that it is less expensive to conduct certain transactions in-person rather than online platforms. This indicates that just because digital finance is accessible to people with low incomes and those who are poor, it doesn't necessarily mean that they have easy access to it. Even though everyone will have access to digital finance products, low-income people will only find such access convenient if using a digital finance product is less expensive than going into a bank. Although it may be expensive for the poor, this does not imply that Fintech and/or digital financial providers should not charge a fee for their services. The key is to deliver digital financial services responsibly, efficiently, and at a price that is both affordable for customers who use them (i.e., customers) and sustainable for providers of digital financial services.

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Finally, it would be fascinating to investigate the connection between digital finance and economic activities of a nation specifically during the crisis if it contributes to the spread of financial contagion.

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