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Digital finance, a booster for Indian economy during Covid-19

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ABSTRACT

An efficient financial system is a prerequisite for a country's economic growth and development. Financial capability is a critical factor in stabilizing and functioning the financial markets. It acts as a building block for the mobilization of saving and allocating them to productive resources. The government of India, along Reserve Bank of India (RBI), have taken many policy initiatives to include the large unbanked masses into the financial mainstream. Recent development in communication and technology can efficiently bring financially excluded people cost-effectively under digital financial inclusion. This paper aims to examine the role of digital finance in bringing about financial inclusion among people and how it became an economic booster for the nation and its citizen during COVID-19. The study collects reports from RBI and other financial and non-financial institutions as relevant inputs. This research uses thematic analysis with a qualitative approach. This paper finds that Digital financial services have a great capacity to support financial inclusion for inclusive economic development. Especially in the times of COVID-19, digital financial services were a great help for humankind's survival. COVID-19 was the situation when there was a complete lockdown all over the nation .lockdown was necessary to save the life of people, and digital finance acted as a booster for any of the economies around the world.

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1. Introduction

The financial sector of any country plays a pivotal role in its economic growth and development (Erlando et al., 2020; Nasreen et al., 2020; Younas et al., 2022). The times of covid 19 have an impact on reducing economic growth. At this time, people are experiencing financial difficulties, and the poor are increasingly unable to rise from the economic downturn (Zubairu Surajo, 2022). Financial inclusion policy is one of the strategies to improve the national economy again. An inclusive financial sector ensures availability, ease of access, and usage of primary financial resources to all of its citizens (Kass-Hanna et al., 2022; Yanan et al., 2020). The ease of public access to financial resources can increase people's purchasing power and consumption in the national economy.

However, the existence of a financial inclusion program must be followed by financial literacy (Andreou & Anyfantaki, 2021; Yue et al., 2022). Financial literacy may be a combination of a person's awareness, knowledge, attitude, skill and behaviour to make an informed and practical decision in managing personal financial matters. Financial inclusion can create uncontrolled consumption patterns in the community without a good understanding of financial management. Therefore, financial knowledge is regarded as a form of investment in human capital that ensures smoothen consumption over time (Ahn & Nam, 2022; Lin & Bates, 2022).

Digital technology is proven to help people make financial transactions anywhere and anytime, such as m-banking services. Meanwhile, the ease of use of digital technology in financial transactions must be supported by the public understanding of digital technology. Digital finance can overcome various public problems with access to finance (Sheng, 2021). So, digital finance can improve the achievement of financial inclusion programs. Therefore, Expanding digital literacy is a critical factor for the government in assisting economic and social inclusion by promoting civic engagement, improving public safety and increasing access to public sector services. The technology has spread to internet banking, mobile banking, e-wallet, and credit and debit cards. However, the threat of cyber attacks is a red alert. Digital financial services can be more convenient and affordable (David-West et al., 2018; Lähteenmäki et al., 2022; Zhou et al., 2021) than traditional banking services enabling low-income and poor people in developing countries like India.

Impact of digital finance on financial inclusion and stability, this article provides a discussion on digital finance and its implication for financial inclusion and financial stability. Digital finance through Fintech providers positively affects financial inclusion in emerging and advanced economies (Neaime & Gaysset, 2018). The convenience that finance provides to individuals with low and variable income is often more valuable than the higher cost they will pay to obtain such services from conventional regulated banks (Vo et al., 2021).

Innovative financial technologies support livelihoods and economic outcomes, and the study examined how innovative financial technologies support people's livelihoods (Kouladoum et al., 2022). Access to digital technologies, in particular mobile phones, internet connectivity and biometric authentication, allows for a broader range of financial services such as banking, mobile phone banking and digital credit for the unbanked (Bui & Do, 2022; Hewa Wellalage et al., 2021; Liu et al., 2021).

A study conducted in India by PWC (2011) found that digitally active customers own large product holding. In the developing world, mobile communications are a rapidly growing technology, and it has a significant socio-economic impact. Digital transactions can overcome the difficulties of physical access to banks and other financial institutions and is also cost-effective. It also reduces human error. Due to the advantage of "anywhere Banking ", digitalization enables a robust reporting system. The mobile banking cost in India is Rs 1 or less, Rs 15 to 16 on ATMs.

Literature about digital financial inclusion is limited (Yue et al., 2022), so the study of the impact of the development of the financial inclusion sector to improve economic development is also still small (Mushtaq et al., 2019). Taking into account the importance of digital technology in increasing the effectiveness of financial inclusion, this study examines the role of digital finance in bringing about financial inclusion among people and how it became an economic booster for the nation and citizens in the times of COVID-19. This study discusses the more specific questions of how the Indian government improves digital finance; How is digital financial transaction in India today? How is the interrelation between digital financial inclusion and inclusive development.

2. Methods

For the present study analytical method is adopted. The study collects reports from RBI and other financial and non-financial institutions as relevant inputs. Besides, research articles from different reputed journals, websites and magazines have been used. Information such as the number of debit cards and growth was collected. And also, several credit cards growth of credit card was collected from 2014 – 2015 and 2018 – 2019. The report on the volume of digital payments in 2014 – 2018 was collected. And digital payment per capita was also collected from the RBI report during 2014 – 2019. This research uses thematic analysis with a qualitative approach. All reports and data collected from research materials will be processed with an analytical thematic approach developed by Braun and Clarke (2006). The thematic analysis method was conducted in the following steps; becoming familiar with the data, generating initial codes, searching for themes, reviewing themes, defining and naming themes and writing the report.

3. Results

Initiative Taken By Indian Government

With the opening of the Indian economy in 1991-1992, the adoption of computerization was accelerated. Several Indian commercial banks started to offer digital customer services to remain competitive in the globalized era. Banks also get benefitted from the adoption of new technologies. The banks' operational costs have significantly reduced with e-banking facilities. India is now approaching the second phase of financial sector reforms. With the increased integration of the Indian economy with the world economy, the risk associated with the world economy would also have a more significant impact on Indian economy. In the absence of such schemes, the instability in the financial position of the general citizens would increase. Although citizens are capable of using technology, they are incompetent to use it effectively, particularly when it comes to financial operation India's journey in the digital financial services path can be characterized as a two- phase growth process. The first phase includes the period up to August 2016, the period of demonetization and the second phase covers the period after demonetization.

In 2014, the Indian government introduced Pradhan Mantri Jan Dhan Yojna (PMJDY) for the financial inclusion of the unprivileged section of society. It is a bank-led financial inclusion aimed at having a bank account for all adult Indian citizens. Until March 4, 2020, there were 38.22 crore bank accounts with large public sector banks with a deposit of Rs 117015.5 crore. However, some controversy exists regarding the actual figure regarding new account opening and account dormancy. PMJDY has now been linked with Direct Benefit Transfer (DBT) and government-to-person (G2P) payments to provide government schemes' direct benefit to actual beneficiaries. So the new challenge to the government is to move from the access stage to active usage, the stage of financial inclusion. To promote digital transactions in PMJDY accounts, customers were issued RUPAY debit cards for cashless transactions. So far 29.20 crore RUPAY debit cards have been issued to the beneficiaries.

Digital Financial Transaction In India: Current Status, Future Goals And Challenges

Over the past few years, the issuance of debit and credit cards by the scheduled commercial banks in India has multiplied. Debit cards issued by commercial banks in India have grown at a compound annual growth rate (CAG) of 14%, from 55.4 crores in 2014 to 92.4 crores in 2019. In the same period, credit cards have grown at a CAGR of 22%, from 2.1 crore in 2014 to 4.7 crore in 2019.

Table 1: Issuance of Debit and Credit cards by a scheduled commercial bank (in a million)

Year	**Cards Debit**			**Credit Cards**		
	Number	**Growth**	**Cagr**	**Number**	**Growth**	**Cagr**
2014-15	554	67%	14%	21	123%	22%
2018-19	924			47		

Source: RBI

India's mission to a cashless economy is gaining momentum, with remarkable growth in digital transactions over the past few years. Adopting UPI and other digital innovations makes banking and payments very factual for customers. According to the RBI report, total digital transaction in volume terms recorded a growth rate of 25.7% in 2018-2019 compared to 2017-2018. The total volume of digital transactions has increased from 8.56 million to 24.13 million.

The report also points out that UPI transaction volume reached a peak of 799.5 million in March 2019 which is 405 times the volume in March 2018.

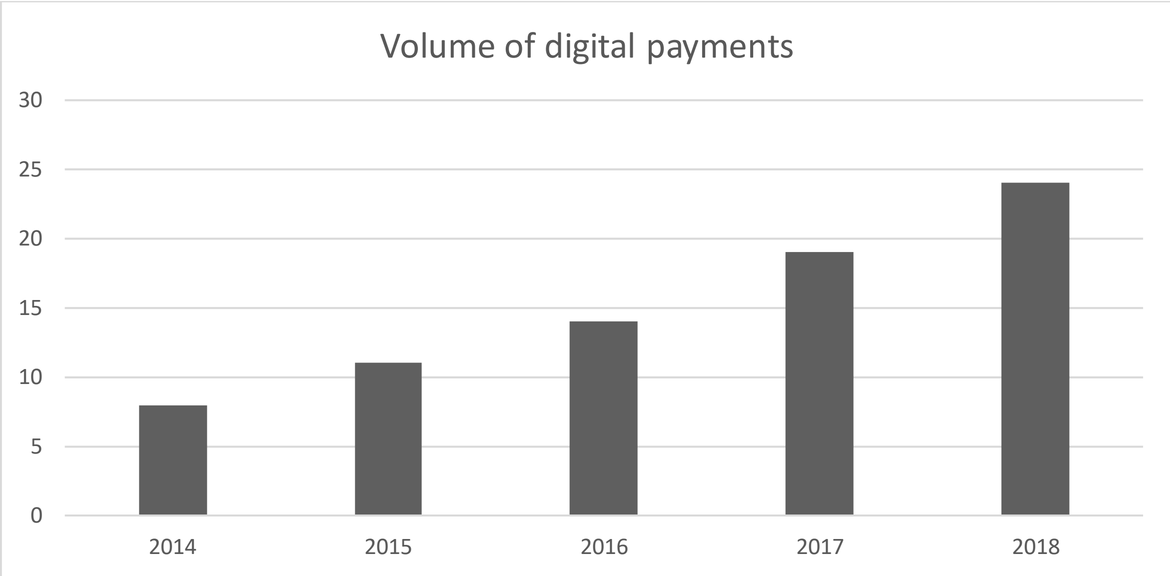

Fig.1 year-wise volume (in a million Rs) of digital payments in India

Source: RBI

An essential determinant for measuring digital transactions in the country is the digital transaction per capita measured by the formula. Yearly per capita transactions are equal to twelve times the total volume of digital transactions in one month per population. Over the past six years, per capita, a digital transaction in India has shown significant growth from 2.4 in March 2014 to 22.42 in March 2019. According to t h e RBI, a high level committee estimate deepening digital payments. Figure. 3 has reach 220 in March 2021, i.e. a 10- fold increase in 3 years (RBI)

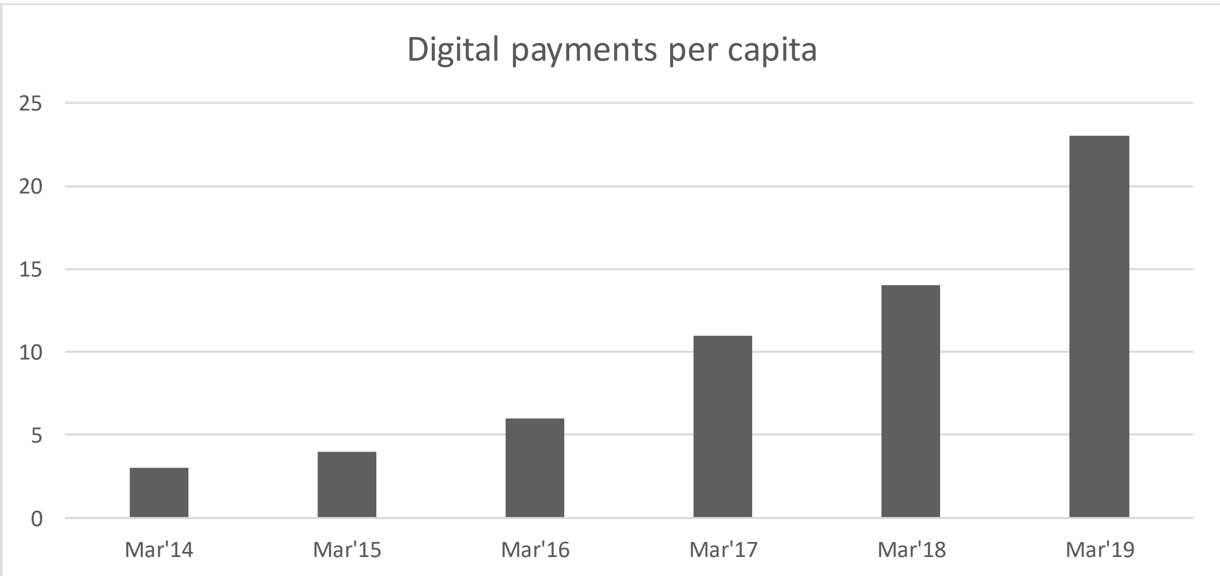

Fig.2 Digital payments per capita. Source:RBI data

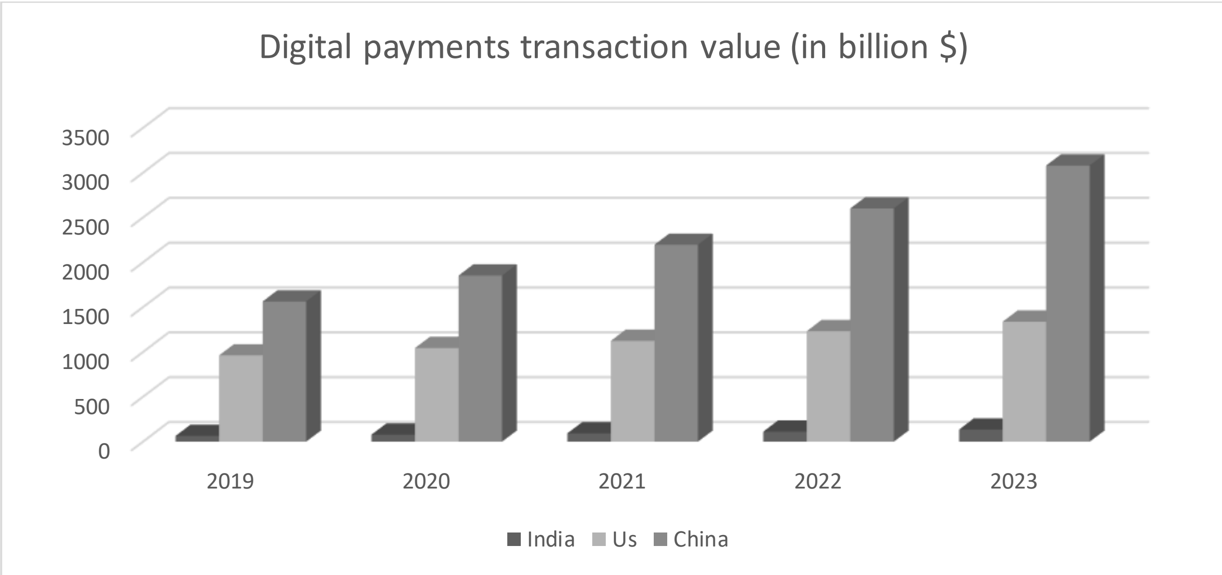

Fig.3 Digital payments transaction value of different countries from 2019-2023. Source: Statista.2019

India's digital payments transaction value is expected to grow at 135.2 billion US$ in 2023 as against 64.8 billion US$ in 2019 i.e. it is expected to grow at a CAGR of 20.2% over the period as against 8.6% in the USA and 18.5% in China (figure.3).

4. Discussion

Interrelationship Between Digital Financial Inclusion And Inclusive Development

Financial inclusion the level of economic development both from the demand and supply side. The demand side factors are 1) Illiteracy, 2) Poverty, 3) Uncertainty of job that reduces the ability to save and allocation of funds for credit and insurance, while the supply side factors include the cost associated with maintaining a bank account; Slow growth of bank branches and ATM'S; Lengthy and tedious process of banking operations. Digital financial inclusion brings great opportunities to consumers, businesses, and the government.

It provides convenient, affordable and secure banking services to the underprivileged section of the society in developing countries, as half of the total population of these countries own a mobile phone. Increased financial services bring job opportunities and generate consumer surplus. Consumers need to have an ever-increasing financial (and digital) sophistication to effectively use products offered through electronic channels (Andreou & Anyfantaki, 2021). The digital financial transaction helps financial institutions to reduce operational cost by minimizing manual paper works and documentation, as the deposits can switch banks within moments.

Increased use of digital financial services helps the government to reduce the volume of physical cash in circulation and acts as an effective tool for curbing high inflation levels. It increases government capability by providing public services more efficiently. Digital G2P (government-to-person) payments can improve the efficiency of payments by lowering the cost of distribution and receiving and increasing the speed of payment. It also increases the transparency of payments and reduces the linkage between the sender and receiver. Digital payments can be essential to women's economic development (Klapper and Singer, 2017).

5. Conclusion

Digital transactions in financial operations will be the most preferred form of transaction in the coming years. However, the benefit of digital financial inclusion has not been shared equally by all. Within the country, much improvement should be made to bridge the gap in accessing and functioning of technological innovations for digital transactions. Mere extension of digital services and bank accounts cannot fully break the systematic constraints faced by disadvantaged group. To become more effective in upholding human development and poverty alleviation, digital financial literacy programmes should be organized in holistic ways that capture the interconnected needs of the marginalized classes. The availability of online services to the unprivileged section of the community may be instrumental in this mission. Private and non-profit organizations can play a very effective role by providing training for improving the digital literacy skill of ordinary citizens of all ages.

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