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Assessing the Effects of Digital Financial Services on Broadening Financial Inclusion: An In-Depth Study

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Abstract: *It is counterintuitive to state that over one-third of the population in underdeveloped countries lacks access to financial services in the twenty-first century. Including the financially excluded population in banking operations is beneficial for both society and individual well-being, according to a number of research conducted in this field. Since 2010, the World Bank and the G-20 countries have led the push for greater financial inclusion in developing nations in an effort to reduce the prevalence of poverty in developing and emerging economies (GPFI, 2010). These days, policy makers and scholars are becoming increasingly aware of the value of digital finance and financial inclusion in lowering poverty and promoting economic development. This is mostly due to the several issues plaguing the conventional banking sector, which continues to leave a substantial segment of the populace without access to financial services. Digital money has the potential to help individuals, companies, governments, and the economy at large if these issues are addressed. At an affordable price, digital currency and mobile technologies can satisfy the needs of small transactions. When transactions are completed in bulk, it may also expedite them and cut down on more precise time. Digital finance and financial inclusion benefit the economy, governments, and financial service consumers in a number of ways. For instance, they cut the cost of financial intermediation for banks and Fintech businesses, expand the number of underprivileged individuals with access to credit, and raise total government expenditure. The gap is rather broad and receiving more attention in the domain of digital banking and financial data inclusion and management. The relationship between them and the issues they cause for financial inclusion hasn't received much attention in the past. Investigating the effects of digital finance on financial system stability and financial inclusion is the aim of this study. This study provides an in-depth analysis of the subject and tackles an issue that has not been addressed in other research works: the impact of digital finance on financial inclusion and the stability of the financial system*

Keywords: Digital Finance, Financial Inclusion, Financial literacy, Financial Stability

I. INTRODUCTION

Digital financial inclusion is reaching presently underserved and financially excluded populations with a range of formal financial services that are appropriate for their needs and responsibly provided at a cost that is sustainable for providers and affordable for customers by leveraging cost-saving digital means. "Digital access to, and the use of, formal financial services by the excluded and underserved population" is how the CGAP defines digital financial inclusion (CGAP, 2015). At least 80 nations have introduced cutting-edge digital financial services using mobile phones and related devices as of right now (GSMA, 2014), with the goal of encouraging millions of underprivileged consumers to switch from cash-based transactions to just digital financial services. The premise behind the digital financial inclusion process is that the underprivileged and/or excluded population has formal bank accounts and need digital access to do simple financial operations from a distance. An effective digital financial inclusion program should be tailored to meet the needs of the excluded and underserved population and should be responsibly delivered at a cost that is affordable for customers and sustainable for providers, provided that the excluded and underserved population understands and can be convinced of the intended benefits of digital financial inclusion. By expanding the amount of financial transactions in the financial

system, fintech companies may stimulate economic development during prosperous economic times. However, it is yet unclear if fintech companies' actions might worsen economic crises during lean economic times.

The essential components of digital financial inclusion are as follows:

Users may use digital transactional platforms to send and receive payments, perform transfers, and store value electronically by using devices that transmit and receive transaction data and connect to a bank or non-bank allowed to store electronic value.

The devices that customers use may be either electronic gadgets, such as mobile phones, that transmit data, or tools, such as credit cards, that connect to an electronic device, such as a point-of-sale (POS) terminal.

Consumers have the option to convert cash into electronically stored value (also known as "cash-in") and stored value back into cash (also known as "cash-out") through retail agents who are equipped with a digital device that is connected to a communications infrastructure in order to send and receive transaction data.

More financial services, including credit, savings, insurance, and even securities, may be offered by banks and non-banks to the impoverished and financially excluded using digital transactional platforms. Digital data is often used by these businesses to target customers and control risk.

Over 1.7 billion people globally lack bank accounts, which prevents them from using mobile money or banking services, according to a 2017 Global Findex Database research. China has the highest percentage of unbanked individuals globally (223 million), followed by Indonesia (95 million), Pakistan (100 million), and India (190 million), according to the same poll. Furthermore, compared to China, India, Pakistan, and Indonesia, the proportion of unbanked individuals in these four countries is lower: Bangladesh, Nigeria, Mexico, and Indonesia.

Advantages of Promoting Digital Finance:

Digital financial inclusion has a lot of benefits. A discussion of a few of them follows:

Digital financial inclusion lowers the costs related to banking transactions by reducing banking hall wait times, doing away with manual paperwork and documentation, and keeping fewer bank branches.

Thanks to digital financial inclusion, many depositors may switch banks rapidly, placing pressure on institutions to provide excellent services or risk losing business to rivals.

The advent of digital money may make it possible for underprivileged individuals in developing countries to access affordable, practical, and safe financial services. Thanks to recent advancements in the accessibility and affordability of digital financial services globally, millions of disadvantaged customers may be able to transition from cash-based transactions to digital financial transactions on secure digital platforms.

Digital finance promises to boost GDP in digitalized economies by providing simple access to a broad variety of financial goods and services for individuals as well as small, medium, and large corporations. This may be accomplished by raising total spending, which boosts GDP levels. Digital finance may lead to increased financial intermediation and economic stability, which would be advantageous to both consumers and the economy.

Financial and monetary system authorities assert that digital financial inclusion is critical in reducing high rates of inflation in developing and poor countries, as well as in reducing the amount of physical money in circulation.

Given the prevalence of mobile phones in emerging and underdeveloped countries, digital finance might play a role in promoting financial inclusion, expanding the reach of financial services into non-financial sectors, and offering essential services to customers.

Digital financial inclusion could help individuals and businesses who have access to a trustworthy digital platform for managing their finances and withdrawing money straight from their bank accounts.

If the poor have no or very little cost access to a digital transactional platform (such as smartphones, laptops, and other devices), then the benefits of digital financial inclusion may materialize as planned.

Governments benefit from digital finance because it provides a platform for simpler spending increases overall, which increases tax revenue via an increase in the volume of financial transactions. It has a major positive impact on any country's economy by drastically reducing the quantity of counterfeit money in circulation.

Given that a large portion of the excluded population has mobile phones, providing financial services via these and related technologies may make credit more accessible to them. Expanding the availability of digital finance is generally

anticipated to positively affect financial inclusion, provided that the marginalized group has access to low-cost internet connection and a mobile phone. Applying more digital finance to the lives of low-income and underprivileged people may lead to increased financial inclusion in rural areas as it may improve their access to basic services. Expanded digital financial services aimed at impoverished and rural communities might improve bank customers' access to credit. These customers often don't have simple access to banks in the formal sector due to poor transportation and long wait periods. People may find it more comfortable to do routine financial operations, including transferring money to friends and family or paying for their electricity or water supply, with the help of easy-to-use digital finance.

Disadvantages of Digital Financial Inclusion:

Despite its seeming utopia, digital financial inclusion has thrones, which is reason for concern. Among them are:

Customers who are unfamiliar with the goods, services, and providers run the danger of being taken advantage of and mistreated. This is known as "novelty risks."

Since service providers are exempt from the consumer protection laws that govern banks and other conventional financial institutions, there aren't many "Agent-related risks."

There are inherent technology-related hazards in the system that might lead to lost data, including payment instructions, and interrupted service. There's also a chance that digital data transmission and storage could compromise privacy or security.

Those without a smartphone or other digital gadget are not served by digital finance.

Because of the system's over-reliance on internet connection, those without internet access are not included.

If the populace is not prepared for digital banking, the manner it is implemented in various nations may result in voluntary financial exclusion.

High- and medium-income people will profit from fee-based digital banking systems, but the poor and impoverished will suffer because they cannot pay the accompanying transaction charges.

Full-scale digital financial transactions are not made possible by many legislative and regulatory frameworks.

II. REVIEW OF LITERATURE

According to Banerjee et al. (2017), raising awareness may help promote financial inclusion by boosting the amount of financial goods and services that are used. The researcher's underlying hypothesis is Leon Festinger's (1957) hypothesis of Cognitive Dissonance, which postulates that action and belief might be inconsistent, leading to dissonance and perhaps facilitating a change in behavior, attitude, and action. When considering Digital Financial Literacy and Digital Financial Inclusion, the Theory of Cognitive Dissonance implies that there is a discrepancy between awareness and utilization level of digital goods and services, which results in dissonance. Changes in awareness and use are possible if the dissonance is appropriately addressed. As a result, this idea primarily contributes to the foundation of the issue raised. The majority of studies influenced financial inclusion via financial literacy. The primary conclusions of Banerjee et al.'s (2017) study indicate that awareness serves as a mediator variable between financial inclusion and financial literacy.

It has been shown that Prasad et al. (2017) promotes literacy and use, which promotes inclusivity. By gathering questions from the same field and using digital notions, a structured questionnaire was created. The researcher's approach, which holds that digital financial inclusion is influenced by digital financial literacy, has been validated. Data was analysed using Smart PLS Version 3 on a sample of 200 respondents. The findings demonstrate the statistical significance of the researcher's hypothesis. Additionally, the percentages of digital financial inclusion and digital financial literacy are 62.2 % and 76.42%, respectively. These data imply that the higher inclusion rate is a result of increased awareness, which in turn raises use levels.

III. RESEARCH METHODOLOGY

The goal of the survey is to gauge the state of digital financial inclusion and literacy. The nature of the present research is descriptive. To gather information, a systematic questionnaire was used. Different sets of published surveys were used to frame the questionnaire. The majority of the questions focused on financial inclusion and literacy. Each and every section of the completed questionnaire now includes the digital component. For both Digital Financial Inclusion and Digital Financial Literacy, there are two sets of seven questions in the questionnaire. Digital Financial Inclusion was

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measured with the use of usage-related questions, whereas Digital Financial Literacy was measured using awareness-related questions. Every question had a five-point rating system. The percentage of score made it easier to comprehend each sample member's degree of digital financial inclusion and financial literacy. Version 3 of Smart PLS was used to analyze the questionnaire's validity and reliability. Digital Financial Inclusion and Digital Financial Literacy were assessed using a 200-person sample size.

IV. FINDINGS OF THE STUDY

The goal of digital financial inclusion is to provide underserved and financially excluded communities with a variety of formal financial services that are tailored to their requirements by using the cost-effective digital methods.

Being aware of all the available digital goods and services is crucial as it boosts utilization, which in turn promotes economic expansion.

People's personal financial gains rise when they are well-informed about the many goods and services that are on the market.

Including those who are economically excluded in banking operations promotes societal as well as individual wellbeing. In an effort to lower the rate of poverty in developing and emerging economies, the World Bank and the G-20 countries have spearheaded the push for greater financial inclusion in developing nations since 2010.

Mobile technology and digital money can meet the demands of small transactions at a reasonable price. Additionally, it may speed up transactions when done in bulk and reduce time spent more precisely.

Financial inclusion and digital finance have many positive effects on the economy, governments, and consumers of financial services. For example, they make money easier to access for the underprivileged and lower the cost of financial intermediation for banks and Fintech companies.

By expanding the amount of financial transactions in the financial system, fintech companies might stimulate economic development during prosperous economic times. However, it is still uncertain if fintech companies and their operations can worsen economic crises during lean economic times.

V. CONCLUSION

Since many members of the excluded population possess mobile phones, offering financial services via these and similar devices might increase their access to credit. A larger supply of digital finance is often expected to have good impacts on financial inclusion, assuming that the excluded population has access to inexpensive internet connectivity and a mobile phone. Increased financial inclusion in rural regions may result from applying more digital finance to the lives of low-income and impoverished individuals, since this can enhance their access to essential services. Therefore, there is a lot of room for growth in the provision of digital financial inclusion and banking services in a nation like India where a sizable portion of the population is still unbanked.

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