India: Ability, Knowledge, and Application of Digital Banking to Achieve Financial Inclusion

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Abstract
The analysis of digital banking in India and its effects on financial inclusion will be aided by this article. According to the hypothesis, there isn't a meaningful connection between financial inclusion and digital banking. However, information about online banking services in India and the pace at which banking services are used is what provides proof of the expansion of financial inclusion during the last eight years through the use of digital banking systems. Secondary sources, such as the Reserve Bank of India website and global bank data, provided the study's data.
Keywords: Financial Inclusion, Digital Banking, e-KYC, UPI, RTGS, NEFT.

Introduction

Financial inclusion is the idea that everyone should have effective access to a wide range of financial services, especially the most disadvantaged members of society. In order for there to be effective access, there must be a sufficient quantity of economically viable goods and services that are also well-made and well planned. These ought to make individuals aware of their many demands, whether they financial, insurance, investment, or savings-related. Its objective is to guarantee that financial services actually improve users' financial health rather than just giving everyone access to them. In this way, financial inclusion contributes to the establishment of a foundation for just and sustainable national growth.

As a result, it is a goal that people all around the world, including India, pursue. To encourage financial inclusion, international organisations and the Indian Financial Authority set up specialised committees and created a chain of stakeholders. The COVID-19 pandemic's unparalleled consequences have made it more important than ever to pursue financial inclusion and system expansion. For this reason, the nation has recently taken a more proactive stance in favour of fintech services and digitization. The transition from the old to the new structure will assist the clients in switching from cash to cashless transactions. Improving client convenience and contributing to the achievement of global leadership in digitalization.

The potential of digitalization is growing, and this has made it possible for many startups, digitalization companies, and operators to thrive and raise new generations. The Reserve Bank of India (RBI) has taken significant steps to improve customer convenience and advance financial technology in the banking sector. The National

Common Mobility Card (NCMC), the licence to operate white-label ATMs, the Master Card and VISA issuance process, and the consumer grievance redressal system were all adopted by the RBI. By launching Digi Dan Melas around the nation and offering incentives to consumers through the Lucky Grahak Yojana, Digi Dan Vyapari Yojana, and numerous other programmes, the Indian government welcomed the Fintech sector. The Reserve Bank of India (RBI) has concentrated on four key pillars in order to make fintech an impact in the area of financial inclusion.

They are

1. Digital Identification and Know Your Customer (KYC).
2. Infrastructure for digital Payments and Savings.
3. Creation of Literacy of Fintech industries.
4. Regulatory Approach.

Digitalization and Financial Inclusion

Digital technologies have the potential to significantly reduce costs and foster innovation, making it possible to provide financial services to the low- income population on a large scale. The banking industry's use of digital technology innovation enhances customer experiences, accessibility, and affordability of financial services across national borders.

Review of Literature

In the contemporary era of self- reliance and Economic growth, empower the individual households in the grass root level with financial inclusion by utilizing the effective mode of banking service is very important. The strongest root of growth in banking sector is placed in the acceptance of fintech in the different areas. The areas of potential expansion of fintech have occurred in transaction execution like payment, clearing and settlement, fund management like deposit, lending and investment management and last part is insurance. (Giorgio Barba Navaretti et.al, 2017).

According to World Bank data, India is the second largest country in the world after China in terms of Financial Inclusion where nearly 190 million people do not have the bank account and who having the banking account, they are not effectively using it. Therefore, the financial inclusion is unfinished task in India till today and the explore of new measures and adaptation of technology is a kind of alternative solution for the financial inclusion problem (Global Findex, 2017).

According to Richa (2022) Digital Financial Inclusion is the provision of financial services to all individuals, households, organizations and governments through digital means thereby contributing to the achievement of poverty reduction, increased financial mediation and sustainable development goals. Digital Financial Inclusion seeks to provide a range of digital financial services that provide opportunities to access money, transfer funds, raise capital, save money and reduce risk.

Fintech uses different technologies and various digital platforms to deliver the fintech products to the customers. It is believed that the fintech has the potential to provide the financial services to the excluded populations due to its convenience, speed, low cost and penetration of mobile phones and internet usage. Better financial knowledge, behaviors, acceptance and usage of advanced technology, usage of mobile phones may promote the financial inclusion and more reachable to the grassroot level and improve the quality of life as well as the welfare of the society (Maria & Shinta Havidz, 2020).

The different studies undertaken in the countries like UK, USA, African countries and European regions to measure the financial inclusion actually happened with the help of fintech. The countries like Africa which is categorized as low financial literacy region, can also penetrating its financial literacy rate with the help of mobile phones, improved applications and increasing the access and usage of technology there by increasing the financial inclusion (Evans, 2015).

Research Objectives

1. To comprehend the necessity of digital transformation in the banking industry to attain financial inclusion.
2. To research and evaluate digital banking's function in India.

Hypothesis of the Study

H0: There is no significant relationship between digital banking and financial inclusion in India.
H1: There is a significant relationship between digital banking and financial inclusion in India.

Research Methodology

The current study is based on secondary data, which was gathered from a variety of sources, including reports provided by Findex 2017, the Reserve Bank of India, and the National Payment Corporation of India, as well as publications published in reputable journals. Both the analysis and the data display processes employed standard statistical techniques.

Data Analysis and Interpretation Bank Access Through Fintech (E-KYC)

The ability of the participants to on board customers quickly, effectively, and safely using digital methods is one of the most important aspects of the financial data field. Fintech offers a service known as Electronic Know Your Customer (e- KYC). This can be accomplished by biometric equipment and OTP on mobile phones, which eliminates the need for paper work and the manual gathering of several evidence documents. Every year, all public and private sector banks as well as other financial institutions embrace e-KYC efficiently due to its ease of use and comfort. Year over year, the rate of customer enrollment is rising, as shown below:

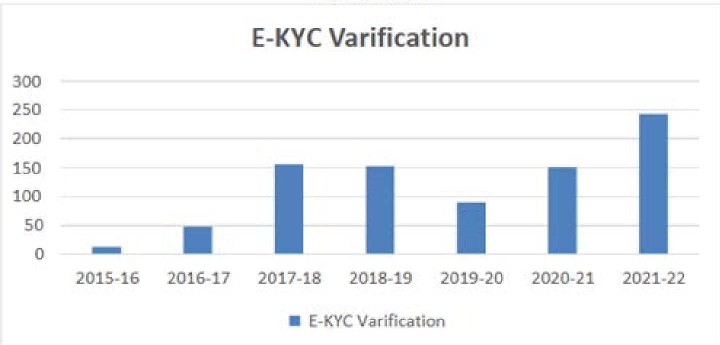
Table 1.1 E-KYC Verification

(Volume in million)

Year	E-KYC Verification
2015-16	12.63
2016-17	47.55
2017-18	155.95
2018-19	152.74
2019-20	89.56
2020-21	150.67
2021-22	243.54

(**Source**: NPCI Annual Reports)

Chart 1.1



The aforementioned figure and Table 1.1 present the e-KYC performance from the 2015–16 fiscal year to the 2021–22 fiscal year. The ease with which biometric and Aadhar verification can be completed has led to a noted rapid development in e-KYC verification. Because it requires less paperwork, this method is favoured worldwide. Additionally, it has been noted that the COVID- 19 pandemic has resulted in a decrease in KYC verification in 2019–20. Many of these individuals are more worried with their personal safety than with visiting banks and creating bank accounts.

Rupay Card Usage

Rupay, the nation's first domestic card payment network, is accepted at Points of Sale, ATMs, and online retailers all over India. The network is extremely safe and guards against phishing attempts. Following the implementation of the Pradhan Mantri Jan Dan Yojana in 2014, the Rupay card acquired its identity. Rupay contactless cards are the result of ongoing innovation with the goal of having a single card for all payments. For holders of Rupay cards, the new e- commerce experience is the Bharat E-Commerce Payment Gateway (BEPG).

Table 3.1 Transaction by using Rupay Card

(Volume in million)

Year	Rupay Card Usage at PoS*	Rupay Card Usage at E-com
2014-15	5.25	0.85
2015-16	25.41	10.24
2016-17	195.22	87.56
2017-18	459.55	208.11
2018-19	695.02	432.06
2019-20	822.59	658.13
2020-21	701.99	679.68
2021-22	843.9	672.46

The use of the Rupay card for E-commerce transactions and point-of-sale terminals is displayed in the aforementioned table. People in the modern online era enjoy using cards for everyday transactions to meet their demands and requirements. Due to fear and lack of popularity, there were few transactions made using the cards system at PoS and E- com in the first year. It was only 5.25 million to.85 million annually. We may observe how these two systems' transactions have grown quickly. By the conclusion of 2021–2022, there were 843.9 million transactions made at PoS using rupay cards, compared to 672.5 million transactions made online. The card system and card-based transactions are growing yearly as a result of digitization, youth awareness of these services, and the government's JAM Trinity project.

Table 1 Performance of Digital Infrastructure in Banking Sector

(Amounts in million)

Year	RTGS	NEFT	UPI	BHIM	Credit Cards	Debit Cards
2012-13	68.5	394.1	-	-	396.6	469.1
2013-14	81.1	661.0	-	-	509.1	619.1
2014-15	92.8	927.6	-	-	615.1	808.1

2015-16	98.3	1,252.9	-	-	785.7	1,173.5
2016-17	107.8	1,622.1	17.9	-	1,087.1	2,399.3
2017-18	124.4	1,946.4	915.2	2.0	1,405.2	3,343.4
2018-19	136.6	2,318.9	5,353.4	6.8	1,762.6	4,414.3
2019-20	150.7	2,744.5	12,518.6	9.1	2,177.3	5,123.9
2020-21	159.2	3,092.8	22,330.7	16.1	1,764.1	4,014.0
2021-22	207.8	4,040.7	45,956.1	22.8	2,239.9	3,938.7

The table above lists the various digital banking infrastructures that are helpful for achieving financial inclusion even in rural areas. The performance of RTGS and NEFT transactions during the previous ten years has drastically changed.

RTGS and NEFT had 3,092.8 million and 159.2 million transaction volumes at the end of FY 2020–21, respectively, because of their extensive availability and services in all branches. Young individuals tend to favour payment infrastructures such as the Unified Payment System, which is referred to as financial technology. The volume increased by 17.9 million to 45,956.1 million between 2016 and 2022 as a result of an easy-to-use operation mechanism that allows even non-techies to manage bank accounts using smart electronics. The performance of debit and credit cards is noteworthy, with a nearly 25% increase in both. However, in 2020–21 and 2021–22, the number was slightly reduced to 18% due to COVID-19, and in 2021–22, credit card issuance and usage are starting to pick up speed.

Suggestions

The following suggestions are made with the help of the present study.

1. The digital financial service providers should educate the people towards the available banking products for the effective usage.
2. Digital Financial inclusion drive should be initiated through implementing different financial inclusion programs.
3. Existing bank account holders should encourage by the banks to have access different services of online banking.
4. Educate the people not only about the available products and services but also awareness about the risks and risk handling bodies of formal financial institutions.

Conclusion

Financial services will be easier to obtain and use if financial innovation, such as digitization, is used more frequently. However, achieving financial inclusion is challenging without sufficient knowledge about banking services. Financial inclusion refers to providing everyone with inexpensive access to banking services. Because digital banking has no geographic restrictions, the service provider can reach every part of the nation with it. This is the reason that many financial inclusion programmes are becoming more and more popular, making financial inclusion possible. Examples of these initiatives include e- KYC, online banking, JAM trinity (Jan Dhan, Aadhar, and Mobile). The study's null hypothesis-that is, the idea that there is no meaningful connection between digital banking and financial inclusion in India-is disproved because of how quickly financial inclusion is growing as a result of digital banking services.

Every year, there is an increase in the number of NEFT, RTGS, UPT, and card transaction transactions as well as their access rates. Financial inclusion lacks meaning if one has only access to financial services. Effective use of financial services combined with strong awareness is necessary for the banking sector's sustainable financial inclusion in order to determine the success of financial inclusion.