



## ROLE OF DIGITALIZATION IN FINANCIAL INCLUSION

**Vikrant Kumar**

NET-JRF, Research Scholar (Ph. D), Department of Commerce,  
Himachal Pradesh University, Summer Hill, Shimla – 171005

E-Mail: vikrantkupwan@gmail.com

Ph. no. 8894091080

### ABSTRACT

*Financial inclusion means connecting the weaker and marginalized section of the society to banking system so that they can also avail various banking service. Through Digital India government is making efforts to provide all government services by electronic means to all the citizens. To get the benefit of these digitalized services all the citizens are required to get connected to the banking system. NITI Aayog CEO Amitabh Kant once said that “India needs a progress towards a cashless society and accomplishing the objective of Digital India will bring more individuals into the formal money related framework, digital transactions will play an important role in accomplishing the Digital India vision and to propel financial inclusion”. In the present study, the role of digitization in financial inclusion during the year 2014 - 2017 has been studied. The research is mainly based on secondary sources, various ready-made sources such as published reports of the government of India, the website of RBI, E-journals, and e-newspapers have been utilized.*

**Keywords:** Digital India, Financial Inclusion, Banking, Digitalization.

### INTRODUCTION

Financial inclusion is a comprehensive term which is used to define the facility of savings and loan services to the underprivileged in low-cost and accessible form. It comprises the opening of bank accounts for those who were not connected to banks earlier. And providing the facility to transfer money easily is also a part of it. Its main objective is to assure access to

formal credit avenues to individuals who bank on informal sources for their pecuniary requirements. Financial inclusion also comprises the provisions for financial education to the poor so that they can also, make the best utilization of their cash. Government is trying to speed up the growth of financial inclusion through the Jan Dhan Yojana, Direct benefit transfer schemes, Aadhaar linking programmes, and

use of emerging delivery channels, such as mobile wallets. 10 small finance banks (SFBs) and 11 payment banks (PBs) have been set up with the approval of RBI, which has further deepened the inclusion process. Financial inclusion is vital to:

- Inculcate the habit of saving and investment among the people
- Provide formal credit routes to the marginalized segment of society
- Facilitates various public subsidies and welfare schemes of the government.

With the 'digital India' initiative government is trying to achieve all these objectives, which will make the payment system more efficient and transparent and growth of financial inclusion will definitely increase to next level.

### **REVIEW OF LITERATURE**

Sharma and Kukreja (2013) <sup>[1]</sup> had analysed the survey report of the World Bank on financial inclusion. They made a comparison of financial inclusion in India with that of the rest of the world. They made a comparison of the banking sector of different countries to analyse the status of banking expansion. They concluded that India needs to improve a lot to reach the impoverished section of society. Tamilarasu (2014) <sup>[2]</sup> in his research paper had studied the role played by the Indian banking industry in the development of financial

inclusion in the country. He observed that with the passage of time the population of officers per office is decreasing and the number of banks showed an increasing trend. Kaul and Mathur (2017) <sup>[3]</sup> concluded that the digitalization brings innovation, new job opportunities, ease of working, and growth in the economy. It helps to bring transparency in the system and also play an important part in the accomplishment of financial inclusion goal as it can help to have a greater reach to the people. Chaki (2018) <sup>[4]</sup> suggested that in order to encourage smaller banks to make their own POS terminals, acquire merchants, and push towards digital payment, RBI has to make the MDR more equally distributed among Acquirer Bank, Issuer Bank, and network provider. Only then it is possible that smaller banks will get the incentive to acquire merchants by aggressive marketing policy.

### **RESEARCH METHODOLOGY**

To study the level of financial inclusion various well proven financial inclusion indicators have been used Such as:

- Credit to Deposit ratio
- Branch penetration
- ATM Density

## **OBJECTIVES**

- 1) To describe the concept of financial inclusion and digital India.
- 2) To find out the effect of digitalization on financial inclusion

## **BRIEF DESCRIPTION OF FINANCIAL INCLUSION AND DIGITAL INDIA**

### **Financial Inclusion**

Financial inclusion means connecting the low-income section of society to the banking system at a very low and affordable cost. It helps to reduce the gap of banking habits of two extreme section of the society rich and poor. As per world bank group, financial inclusion denotes the situation where people and business houses have access to utilitarian and reasonable financial products and services to meet their different needs such as savings, credit, transactions, payments, and insurance products. <sup>[18]</sup>

### **Digital India**

Digital India campaign is inaugurated by the Government of India to ensure that Government services can be made available to all the citizens of country electronically by upgraded online infrastructure and expanding Internet connectivity as well as by making the country digitally stronger in the field of technology. <sup>[19][20]</sup> This also includes a scheme to provide swift internet

connections to rural areas. The concept of digital banking system under digital India will prove to be very helpful in financial inclusion. By using the electronic means the government can now easily reach the unbanked people of India. So, the main motive of this ambition is to provide infrastructure and electronic services on demand. This initiative will surely fasten the speed of financial inclusion. <sup>[21]</sup>

## **EFFECT OF DIGITALIZATION ON FINANCIAL INCLUSION**

Digital India is an initiative undertaken by the NDA Government headed by 14th Prime Minister of India Shri Narendra Modi on 1st July 2015 to ensure that the governmental services will be made available electronically to all the citizens of the country. To analyze the effect of digitalization on financial inclusion first of all various steps undertaken by the government under digital India initiative have been explored and then the level of financial inclusion during 2014-18 has been measured before and after these initiatives.

### **I. Steps taken by government of India for Digitalizing Indian Economy (Refer figure1)**

### **II. Status of Financial Inclusion Before and after Digital India initiative of Government of India**

Table 1. shows that the number of branches in rural as well as urban areas has been increased during 2014 to 2018, in 2014 the total number of branches were 115822 which increased to 140133 in 2018. Because after digital India initiative all the payments and direct benefit transfers etc. were done through banks without carrying cash, so to meet the requirement of the people all these branches were opened. The total commercial banks also increased from 151 to 153. This is the indicator of increased financial inclusion. From this analysis, it can be concluded that financial inclusion has been increased as more branches were opened during 2014 to 2018.

Note: India's geographical area amounts to 32, 87,263 km<sup>2</sup> Geographic branch penetration is a very important measure of financial inclusion. Geographic branch penetration means a number of bank branches per 1000 square kilometres (km<sup>2</sup>). It is calculated by using following formula:  
Geographic branch penetration = {total number of branches/total geographical area of the country} x 1000.

Table 2 shows the number of branches in India and geographic branch penetration. The geographic branch penetration increased from 35.23 to 42.63 which indicates that financial inclusion has been increased.

Total population of India as per 2011 census 1,210,193,422

Table 3. shows that the total number of ATMs has been increased from 161750 to 208354 during 2014-2017. The ATM penetration has been increased from 13.37 to 17.22 which is the indicator of increased financial inclusion. ATM penetration has been calculated as follow:

Demographic ATM penetration = {total number of ATMs / total population of the country} X 100000. During 2014-17 various new branches have also been opened, in 2014 11315 new branches were opened, in 2015 8598 new branches were opened, in 2016 6986 new branches were opened and in 2017, 4830 new branches were opened. Further, banking outlets in villages have been increased to 598093 in 2017 from 383804 in 2014. All these indicate that financial inclusion has been increased during 2014-2017.

Table 4. shows that credit to deposit ratio has been decreased since 2014. It is because of the reason that total deposits have increased whereas total credit allowed has not increased much. Deposits of the banks have been increased due to the various schemes of the government of India like JANDHAN Yojana, Direct benefit transfer and digital India initiatives etc.

## CONCLUSION

From the above examination, it very well may be inferred that during 2014 -18 rate of financial inclusion has been expanded enormously. The aggregate number of branches, add up to number of ATMs and Branch penetration Index, the total number of banking outlets in rustic territories, and the aggregate number of banks in the country has been increased during 2014 to 2017 which demonstrates that Digital India activities have played a perilous role in expanding financial inclusion in the Indian economy. To maintain and speed up this growth government is required to give more importance to rural banking, as a major portion of the population of our country lives in villages. Further, the government should spend money on the advertisement of various financial initiative under digital India initiative so that every citizen can get the benefit of these services which will result in increased financial inclusion.

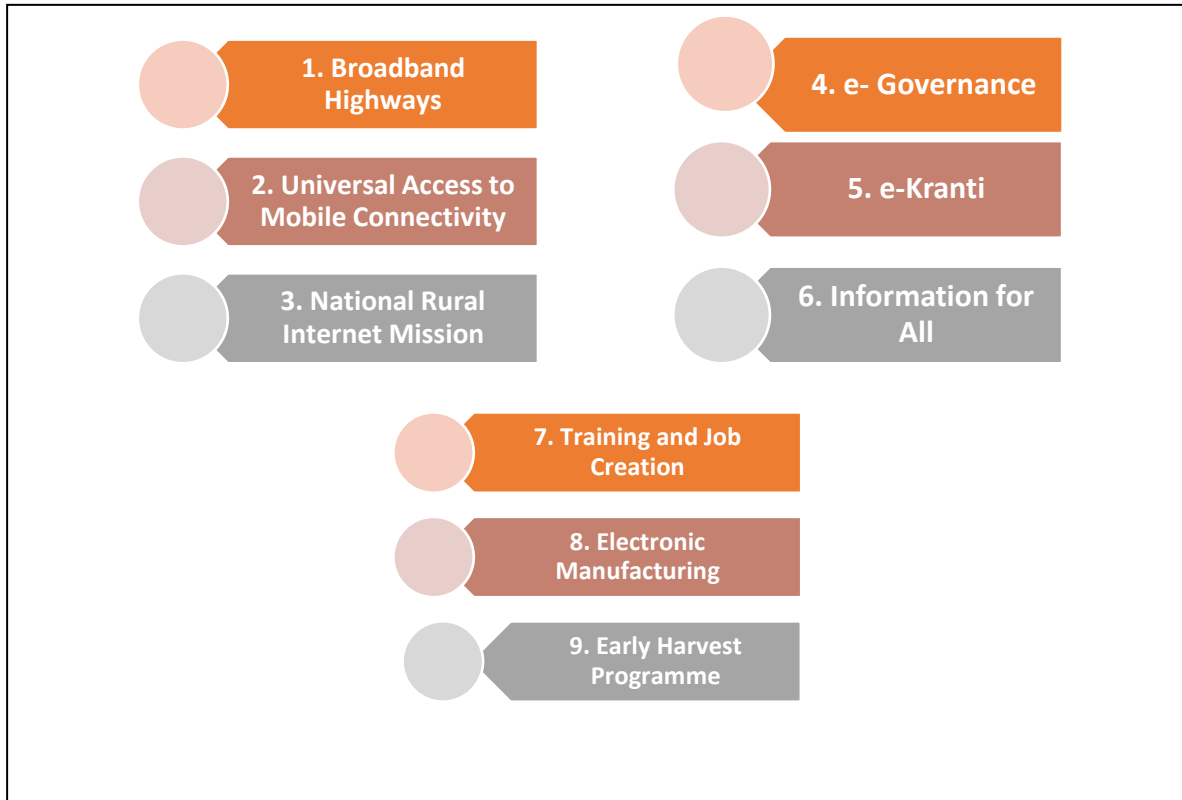
## REFERENCES

- 1.Sharma, A. and Kukreja, S. (2013). An analytical study: relevance of financial inclusion for developing nations. International journal of engineering and science, 2(6).
- 2.Tamilrasu, A. (2014). Role of banking sectors on financial inclusion development in India. International interdisciplinary Research journal, 2(2).
- 3.Kaul, M. and Mathur, P. (2017). Impact of digitalization on the Indian economy and requirement of financial literacy. Proceedings of International Conference on Recent Innovations in Engineering and Technology, Jaipur, India, pp. 100-105.
- 4.Chaki, B. (2018). Digitization in Transaction Banking. Chetana's R.K. Institute of Management and Research, 9(1),13-24.
- 5.Reserve Bank of India - <https://www.rbi.org.in/>
- 6.National Payment Corporation of India - <http://www.npci.org.in/>
7. <http://www.worldbank.org/en/topic/financialinclusion>
- 8.[http://pmjdy.gov.in/Pdf/financial\\_inclusion.pdf](http://pmjdy.gov.in/Pdf/financial_inclusion.pdf)
- 9.<http://www.affairscloud.com/what-is-financial-inclusion-importance-in-india/>
10. [http://investor.cisco.com/files/doc\\_downloads/report\\_2014/white\\_paper\\_c11-481360.pdf](http://investor.cisco.com/files/doc_downloads/report_2014/white_paper_c11-481360.pdf) accessed 30 June 2015
11. [www.iimb.ernet.in/research/sites/default/files/WP%20No.%20474.pdf](http://www.iimb.ernet.in/research/sites/default/files/WP%20No.%20474.pdf)
12. [www.brookings.in/wp.../Advancing-Financial-Inclusion-in-India.pdf](http://www.brookings.in/wp.../Advancing-Financial-Inclusion-in-India.pdf)
13. [www.ripublication.com/ijaer16/ijaerv11n3\\_04.pdf](http://www.ripublication.com/ijaer16/ijaerv11n3_04.pdf)

14. <http://www.worldbank.org/en/topic/financialinclusion/overview>
15. Bhandawat, A. (n.d.). Financial Inclusion - Role of Indian Banks in Reaching Out to the Unbanked.  
<http://www.allbankingsolutions.com/Articles/Articles-AB-Financial-Inclusion.htm>
16. The Economic Times  
<https://economictimes.indiatimes.com/industry/banking/finance/banking/all-you-should-know-about-financial-inclusion/articleshow/50387778.cms>
17. Pathak, B. (2015). Indian financial system. noida: Pearson.
18. <https://www.worldbank.org/en/topic/financialinclusion/overview>
19. Prakash, Amit. "Digital India needs to go local". The Hindu. Retrieved 2017-02-26.
20. Mannathukkaren, Nissim. "The grand delusion of Digital India". The Hindu. Retrieved 2017-02-26.
21. <https://www.indiacelebrating.com/government/digital-india/>

**FIGURES**

**Figure 1.**



**TABLES**

**Table 1: Detail of Banks In India**

YEARS	NUMBER OF COMMERCIAL BANKS			
	Scheduled commercial banks	Of which RRBs	Non-scheduled commercial banks	Total commercial banks
2014	146	57	5	151
2015	148	56	4	152
2016	149	56	4	153
2017	144	56	4	148
2018	149	56	4	153

Source: <https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!9>

**TABLE 2: Geographic Branch Penetration**

YEARS	NUMBER OF BANK BRANCHES					NO. OF BRANCHES PER 1000 SQ. KM
	Rural	Semi-Urban	Urban	Metropolitan	Total	
2014	43641	30926	21783	19472	115822	35.23
2015	48033	33523	23522	20785	125863	38.29
2016	49902	35704	24794	22187	132587	40.33
2017	48774	38230	25131	27105	139240	42.36
2018	49384	38481	25307	26961	140133	42.63

Source: <https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!9>

**TABLE 3: Bank Branches And Demographic ATM Penetration**

YEARS	TOTAL NO OF ATM'S	NO. OF ATM PER 10000 PERSONS	NO. OF NEW BANK BRANCHES OPENED	NO. OF BANKING OUTLETS IN VILLAGES
2014	161750	13.37	11315	383804
2015	189279	15.64	8598	553713
2016	198952	16.44	6986	586307
2017	208354	17.22	4830	598093

Source: <https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!9>

**TABLE 4: Credit To Deposit Ratio** Amount In Billion

YEARS	TOTAL CREDIT ALLOWED	TOTAL DEPOSIT	CREDIT TO DEPOSIT RATIO
2014	67352	85332	78.9%
2015	73882	94338	78.3%
2016	78965	100927	78.2%
2017	81162	111139	73.0%

Source: <https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!9>