

A Study On The Role Of Digital Banking In Promoting Financial Inclusion In Rural India

Dr. Roopavathi. V

Assistant professor in commerce, GFGC

SANDUR, BELLARY district, Karnataka

Abstract:

Financial inclusion is the process of ensuring access to financial services and credit for all, especially the economically underprivileged. A large segment of India's population are left out of the ambit of banking services due to plethora of issues which exists in the conventional banking system. It is ironical to state that more than one third of the total population in underdeveloped countries are still excluded from the ambit of banking services. Many research studies conducted in this direction infer that, bringing those financially excluded population, under the banking ambit, results in not only individual welfare and results in social welfare too. From past almost one decade, the G-20 countries and the World Bank have led the initiative for increased financial inclusion in developing countries to help reduce poverty levels in developing and emerging economies. Financial inclusion has been a cornerstone of economic development in India. Digital banking, leveraging technology to deliver banking services through electronic platforms, plays a transformative role in this regard. This research report explores how digital banking contributes to financial inclusion, focusing on its impact in rural India. Digital banking encompasses a range of services, including online banking, mobile banking, digital wallets and micro-ATMs, which have drastically simplified access to financial services. The advent of the internet, smartphones and government-led initiatives like Digital India have fueled the adoption of digital banking. Digital banking allows people in remote areas to access financial services without visiting physical bank branches, overcoming barriers such as distance and time constraints. Services like Aadhaar-enabled Payment Systems (AePS) and mobile banking facilitate secure, instant transactions, even in rural areas. This research article provides a detailed discussion on digital finance and explores the impact of digital finance for financial inclusion and financial system stability - an issue which has not been addressed in the earlier studies.

Key words: Financial literacy, Digital Finance, Financial Inclusion, Rural India, Performance.

Introduction:

During 2015, when ICICI bank adopted Akodara village in Gujarat state, the village was known to be India's first digital cashless village where most of the people use digital method to make payments between rupees 10 to 5000. This event turned the attention of everyone towards digital finance and mobile banking, which allows its customers to conduct financial transactions remotely using a mobile device such as a smartphone or tablet. Unlike the related internet banking it uses software, usually called an app, provided by the financial institution

for the purpose. Mobile banking is usually available on a 24-hour basis. Some financial institutions have restrictions on which accounts may be accessed through mobile banking, as well as a limit on the amount that can be transacted. Mobile banking is dependent on the availability of an internet or data connection to the mobile device. The process of digital financial inclusion begins with the assumption that the excluded and/or underserved population has some sort of formal bank accounts and need digital access to enable them to carry out basic financial transactions remotely. From the bank's point of view, mobile banking reduces the cost of handling transactions by reducing the need for customers to visit a bank branch for non-cash withdrawal and deposit transactions. Mobile banking does not handle transactions involving cash, and a customer needs to visit an ATM or bank branch for cash withdrawals or deposits. Many apps now have a remote deposit option; using the device's camera to digitally transmit cheque to their financial institution.

Benefits of Digital Banking:

Rural India, home to approximately 65% of the population, has traditionally faced challenges in accessing formal banking services. Digital banking, however, has begun to bridge this gap significantly. Digital finance aims at reaching the financially excluded and underserved populations with a range of formal financial services suited to their needs, which are delivered in a cost effective manner to customers and at the same time, sustainable for the service providers. The CGAP (*Consultative Group to Assist the Poor*) defines digital financial inclusion as “digital access to, and the use of, formal financial services by the excluded and underserved population” (CGAP, 2015). It encourages the users to avoid cash based transactions.

Cost-Efficiency: Digital platforms reduce operational costs for banks, enabling them to offer no-frills accounts and affordable services tailored to rural populations.

Convenient and Instant Transactions: Mobile banking apps, Unified Payments Interface (UPI), and digital wallets enable quick and seamless transactions, promoting cashless ecosystems.

Credit and Insurance Penetration: Digital platforms support microloans and crop insurance tailored to rural farmers, reducing dependency on informal credit systems.

Financial Literacy: Digital banking initiatives often incorporate financial literacy campaigns, helping users understand and effectively utilize financial products.

Pradhan Mantri Jan Dhan Yojana (PMJDY): Launched to bring unbanked rural households into the formal banking system, the scheme has leveraged digital banking to facilitate the opening of zero-balance accounts.

Direct Benefit Transfer (DBT): Digital banking ensures subsidies, pensions, and other government benefits reach beneficiaries directly, eliminating middlemen and leakage.

Growth in mobile connectivity and affordable internet access, supported by initiatives like BharatNet, has expanded digital banking penetration.

Micro-ATMs and Banking Correspondents (BCs) serve as critical touch points for cash withdrawal and financial services in villages.

Fintech companies like Paytm, PhonePe, and BharatPe are empowering rural users with accessible digital payment solutions. Partnerships between banks and fintech firms are bringing innovative products to rural markets.

A large amount of the excluded population owns a mobile phone and that the provision of financial services via mobile phones and related devices can improve access to finance for the excluded population. Provided that the excluded population have a mobile phone and affordable internet connectivity, greater supply of digital finance is often predicted to have positive effects for financial inclusion. Greater digital finance when applied to the lives of low-income and poor people can improve their access to basic services, thereby leading to greater financial inclusion in rural areas. Greater digital financial services channeled to rural and poor communities can improve access to finance for bank customers in rural and poor communities who cannot conveniently access banks located in the formal sector due to poor transportation networks and long waiting hours in banks. Easy-to-use digital finance can provide a more convenient platform for individuals to carry out basic financial transactions including payments for electricity, water supply, money transfer to family and friends etc.

Review of Literature:

Dr. N. Rakesh, Dr. K. Suresh Kumar, Dr. S. Satheesh Kumar (2018) discussed the current state of electronic payments and examined the spectrum of services provided by UPIBHIM technology. The study employs an analytical and critical research method. Furthermore, information is gathered from secondary sources such as journals, government websites, and news items. Electronic transactions have increased, according to the conclusions of this study. This is only possible if the Indian people recognizes and accepts popular tools like credit and debit cards, net banking, and e-wallets. Surprisingly, though, UPI turned out to be the clear winner.

Dinesh, T. M., Kiran Kumar Reddy, and Suhasini, K. (2018) in their research, they looked into how demonetization affected digital payments in India. Via May 2016 to October 2017, data for the study was acquired from the NPCI web portal through an exploratory data analysis. The study found that demonetization had a significant impact on digital payments, which was most noticeable in RTGS and mobile transactions.

Dr. M Sumathy and Vipin KP (2017) investigated the factors which influence people's perceptions of safety as well as their attitudes and levels of awareness about digital payments among urban respondents Kerala's Malappuram District.

Dr. C.B. Pavithra, Dr. K. Geetha (2021) this article examined the characteristics which influence customers' perceptions of digital banking services, as well as the level of satisfaction and preference for these services.

Bhavesh J. Parmar, Darshan B. Ranpura, Chirag R. Patel, Nainesh Kumar P. Patel (2013) in their study assessed online banking applications in remote locations. The goal of this study is to look into the possibility of employing online banking among the new generation of rural areas. S. Md.

Shakir Ali, Md. Wasim Akhtar, S. K. Safiuddin (2017) in their paper, the elements that influence and promote digital transactions in rural economies by evaluating factors like market analysis, infrastructure readiness, and stakeholder accountability. They found that some fundamental macro obstacles, company limits, and consumer-related issues need to be solved for ensuring future advances of digital transactions.

Objectives of the Study:

The present research study aims

- (i) To study demographic factors affecting to rural business consumer while selecting internet banking;
- (ii) To investigate the factors that rural banking business consumers consider while using digital banking services;
- (iii) To figure out why people favor internet banking over traditional banking;
- (iv) To find out how to improve internet banking services

Research Methodology

The research is purely descriptive in nature. The goal of this research is to figure out what factors influence customers' preferences for digital banking over traditional banking. In the following paragraphs the research methodology adopted in the study has been discussed.

Data Collection: The research uses both primary and secondary data. Secondary data had been obtained from a variety of published sources. Data from ASSOCHAM reports is also used to fully comprehend the matter under investigation.

Sampling Design and Size: A structured questionnaire survey was used to collect primary data. This study used non-probability and convenience sampling techniques. Data from 150 respondents was gathered with the goal of determining the rural consumer's preferred method of Internet banking.

Questionnaire Structure and Design: The questionnaire has two parts: structure and design. Part I is about the demographic profile, and Part II is about the elements that influence how customers perceive digital banking services. All questions were assessed using a Likert scale for agreement/relevance with statements, 1 indicates strong disagreement/completely irrelevant remarks, while 5 indicates strong agreement/completely relevant statements.

Statistical Analysis: The Statistical Package for the Social Sciences (SPSS) 26.0 trial version for Windows was used to analyse the primary data. Exploratory factor analysis was used to investigate the factors impacting business customers' adoption of digital financial services.

Challenges of digital banking services in Rural India:

Despite significant progress, challenges persist in scaling digital banking in rural areas. Some of them are -

Digital Literacy: Low levels of digital literacy hinder the adoption of digital banking services.

Misunderstandings about security features lead to reluctance and trust issues.

Infrastructure Gaps: Intermittent electricity and poor internet connectivity in remote areas impede seamless digital transactions.

Cyber security Concerns: Fraud and phishing attacks are barriers to building trust among rural users.

Cultural Resistance: Many rural inhabitants still prefer traditional cash-based transactions due to habit and lack of confidence in technology.

Recommendations for Enhancing Digital Banking in Rural India

- To maximize the impact of digital banking on financial inclusion, the following measures can be implemented:
- **Strengthening Infrastructure:** Accelerate the deployment of reliable internet and mobile networks in rural areas.
- **Expand the reach of micro-ATMs and BCs.**
- **Promoting Digital Literacy:** Launch targeted awareness campaigns and training programs to educate rural populations on using digital banking safely and effectively.
- **Customizing Products:** Design digital banking services tailored to the needs of rural users, such as small-value credit, crop insurance, and payment solutions for small businesses.
- **Ensuring Security:** Develop robust cyber security frameworks and educate users on safe digital practices to build trust.
- **Public-Private Partnerships (PPP):** Encourage collaboration between government, banks, and fintech companies to enhance the reach and efficiency of digital banking services.

Digitalization of banking helps in maintaining the transaction details in computer servers, which can be saved for any length of time. One of the key ways digital banking helps the rural population is by facilitating greater access to banking services. Since bank branches are few in rural areas, visiting them is a significant challenge, as people living in these areas often have to travel long distances to access banking services. The role of digital banking in the rural development of India. By making the rural population bankable and giving them the resources they need for business and other economic activities, digital banking increases small businesses' access to credit. The ability to improve one's financial literacy and acquire money management skills is another benefit

of online banking platforms. Digital banking, on the other hand, has enabled people living in rural areas to access their bank accounts from the convenience of their homes or places of business. They have the ability to conduct transactions like bill payment, money transfers, deposit account creation, checking account balances, and more. This makes it much easier for them to manage their finances without having to travel long distances.

Conclusion

Digital banking has emerged as a cornerstone of financial inclusion in India, particularly in rural areas where traditional banking has struggled to make inroads. While challenges remain, government initiatives, technological advancements, and collaborations between public and private sectors have created a robust framework for progress. By addressing existing barriers and empowering rural communities through digital solutions, India can achieve its vision of inclusive economic growth.

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