

AIR Spotlight - Push to Financial Inclusion and Digital Banking

AIR Spotlight is an insightful program featured daily on the All India Radio Newsonair. In this program, many eminent panellists discuss issues of importance which can be quite helpful in [IAS exam](#) preparation. In this article, financial inclusion and digital banking are discussed.

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What is Digital Banking and Financial Inclusion?

- Digital banking and financial inclusion involve the deployment of cost-saving digital means to reach currently financially excluded and underserved populations.
- It provides a range of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers.

Significance of Digital Banking and Financial Inclusion

- The essential components of digital banking that foster financial inclusion for the unbanked are digital banking platforms, smartphone banking apps, and POS payments services.
- They enable customers to make and receive payments, view and manage their finances and make seamless payments to merchants.
- The benefits of digital financial inclusion include access to financial services, cheaper transactions, personalized financial services, and greater security.
- Digital banking services promote planning for their long-term financial well-being, increasing their economic participation and economically empowering them.
- Access to digital banking services fuel economic growth and improve unemployment rates by creating the means to pay people for work and services.

The **Nachiket Mor Committee Report** released in 2014 marks an important milestone towards promoting financial inclusion in a mission mode.

How can digital banking help with improving financial inclusion in India?

- **Reducing barriers to entry with lower cost digital services:** Compared to traditional banking, digital banking services are cheaper to manufacture, distribute and support.
- **Removing biases:** Systemic biases have contributed to the issues we've faced with financial inclusion for years, but these can be eradicated. [Artificial intelligence](#) offers a powerful tool that can be leveraged to remove biases from processes, systems, and decisions.
- **Providing bespoke services that are easy to access and easy to use:** With digital technology, banks can offer services that mimic cash, immutable payments and intuitive budgeting tools.

- **Fighting cybercrime and reducing the risk of theft or loss:** Digital services offer a safe and secure alternative to holding cash, particularly for businesses that primarily engage with cash transactions.
- **Harnessing the power of data:** Leverage data to help educate and advise customers, particularly those with limited experience in financial management.
- **Open Banking and New Payments Models:** Evolving business models, regulatory policies, open banking, and new payment methods also have implications for [financial inclusion](#).

Government initiatives for an inclusive growth

Scheme	Description
Jan Dhan Yojana	“Pradhan Mantri Jan-Dhan Yojana (PMJDY)” ensures access to various financial services like availability of basic savings bank account, access to need-based credit, remittances facility, etc. Read more on the Jan Dhan Yojana .
Digital India	The ‘ Digital India ’ initiative, coupled with a payments infrastructure, is laying the cornerstone for a digital economy, keeping in mind the increasing willingness of people to use the internet, and the rising data traffic in the country.
Direct benefits transfer (DBT)	The scheme was initiated to facilitate disbursements of government entitlements such as those under the National Rural Employment Guarantee Act (NREGA), social security pension scheme, handicapped old age pension scheme, etc. The provision of these services is expected to encourage electronic retail payments and facilitate interoperability across banks in a safe and secured manner.

Why is Budget 2022 a great push towards digital inclusion?

- **Post offices to be connected to the core banking system**
 - Budget 2022 proposed that all 1.5 lakh post offices in India be brought under the core banking system. This will enable financial inclusion and access to accounts through net banking, mobile banking, ATMs.
- **CGTMSE Scheme revamp**
 - The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) will also be revamped with an additional credit of Rs 2 lakh crore for MSMEs.
 - CGTMSE provides a guarantee to lending institutions up to a certain limit for all lending done by them to the MSME sector.
- **Setting up of 75 Digital Banking Units**
 - Seventy-five digital banking units are proposed to be set up in 75 districts in the country by Scheduled Commercial Banks (SCB).

- This would enable a large base of customers to be introduced to digital banking.
- **Introduction of Central Bank Digital Currency (CBDC)**
 - Digital currency, using blockchain and other technologies, would be issued by the Reserve Bank of India in 2022-23, which will give a big boost to the digital economy.
 - The adoption of CBDC will make digital currencies more accessible to the people just as UPI made digital cash easier to use.

Read more on the [Union Budget 2022-23](#) in the link.

How Covid-19 pandemic accelerated digital banking?

- The Covid-19 pandemic has boosted the use of digital and contactless payments and led to a sharp increase in digital banking.
- Banks are using digital channels to offer a range of services, including onboarding new customers through video KYC, deposits and withdrawals, outward remittances, payment collections, etc.
- As the pandemic disrupted economic activity, including banking and financial operations, it accelerated digital banking services.
- The impact of the pandemic is accelerating digital transformation plans as banks race to significantly upgrade their online and mobile banking services.

Challenges:

- Financial exclusion denies access to many services and invariably pays more for basic services and utilities.
- The key regulatory issues raised by digital financial inclusion relate to agents, anti-money laundering and countering the financing of terrorism rules, regulation of e-money, etc.
- Digital financial inclusion also carries risks for the same vulnerable financially excluded and underserved customers that benefit from the opportunities, mainly:
 - novelty risks for customers due to their lack of familiarity with the products, services, and providers
 - vulnerability to exploitation and abuse
 - agent-related risks due to the new providers offering services not subject to the consumer protection provisions that apply to banks and other traditional financial institutions
 - digital technology-related risks can cause disrupted service and loss of data, including payment instructions
 - risk of a privacy or security breach resulting from digital transmittal and storage of data
- Other hurdles in digital financial exclusion are high costs, credit risk, and lack of documentation.

Ways to Give Push to Financial Inclusion and Digital Banking:

- Supporting platforms for e-KYC, based on 'Aadhar'.
- Enhancing quality of service that is aligned to target customer ecosystem and needs.

- Supporting mobile platforms and analytics to understand customer segments and needs.
- Innovating distribution models that go beyond the brick and mortar and manpower-intensive operating models.
- Making available customer service models like multilingual, voice-based interaction, simplified service offerings.
- Basing innovation needs on already existing technological initiatives that are scalable and capable of integration with emerging disruptive technologies such as Prepaid Instruments (PPI), Point of Sale (PoS), [payment banks](#), etc.

Way Forward:

Today, digital inclusion is a prerequisite for financial inclusion. Banks need to invest in building more capabilities to enhance service simplicity, availability and interoperability. There is a need for ecosystem players to adopt a holistic approach on going digital and integrating business strategy covering all constituents to create a remarkable customer experience.

Digital banking will shape India's banking sector with cheaper banking alternatives and varied innovative financial products and services becoming more readily available. Thus, digital banking will act as a catalyst for achieving greater financial inclusion in India.

Read more Gist of AIR Spotlight [here](#).