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Next Phase of Banking Evolution Banking 4: Convergence of Banking and Technology

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ABSTRACT

An effective financial system is necessary for the socioeconomic development of a nation. It serves as a foundation for mobilising savings and distributing them to useful resources. The Government of India and the Reserve Bank of India have implemented variety of policy efforts to bring the vast unbanked masses into the financial mainstream after realising the importance of financial inclusion as a catalyst for inclusive growth. Recent advancements in communication technology can be used extremely effectively to include the financially excluded individuals in digital financial inclusion in a way that is both efficient and affordable. For inclusive economic development, digital financial services have a lot of potential to boost financial inclusion. Banking 4 or rejuvenation of banking sector is convergence of finance and technology. There are whole spectrum of technologies and innovations that have transformed the way of providing and delivering financial services. This paper highlights Banking 4 as a landscape in meeting financial inclusion goal through Digidhan Gram initiative study.

KEYWORDS: Banking 4.0, digital financial services, ICT, inclusive growth, DIGIDHAN yojna

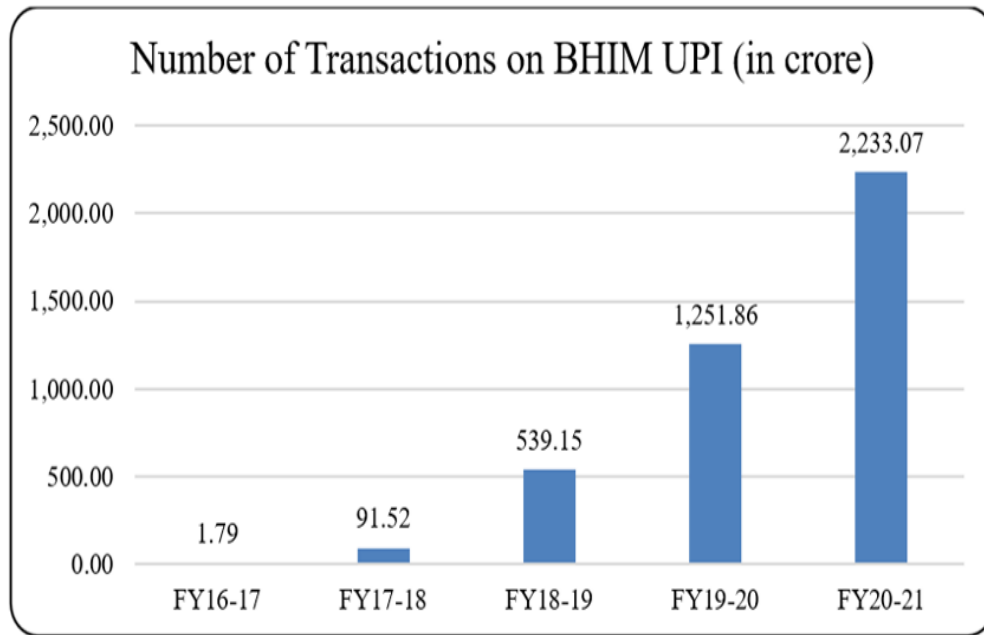
Introduction

Any nation's financial sector is essential to its development and growth on the economic front. The stability and efficiency of the financial markets are significantly influenced by financial capabilities. All of its residents may access, use, and benefit from basic financial resources thanks to an inclusive financial industry. Many formerly convenient items and services have now become absolutely necessary as a result of the pandemic. Digital traffic is increasingly drawn to banking, which formerly mostly involved consumers visiting brick and mortar locations. The biggest boost to financial inclusion efforts in recent years has come from Digital India.

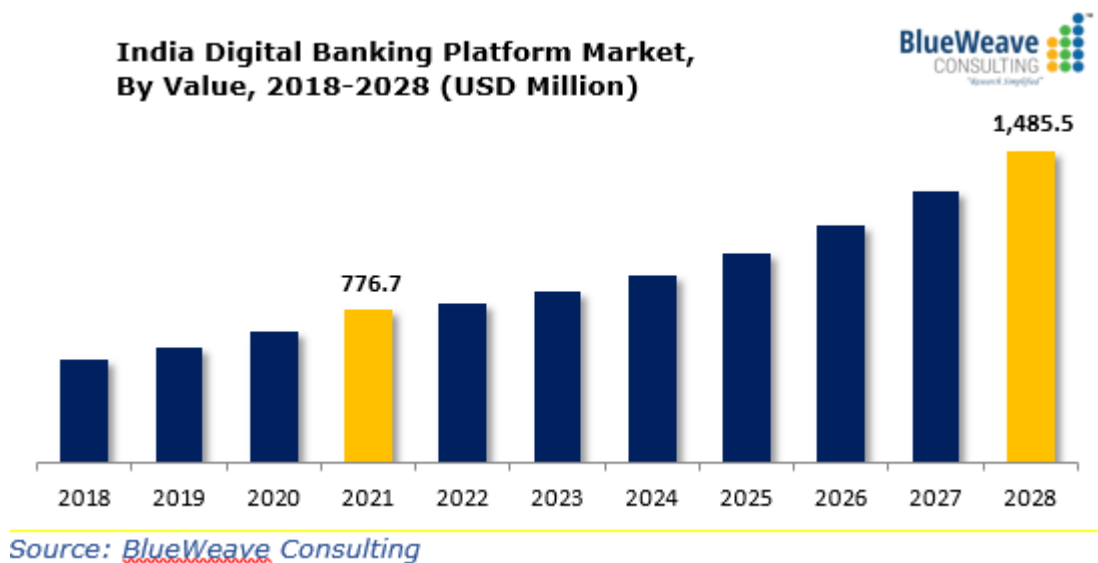
Microcredit, microfinance, and financial inclusion were the starting points of the trip. Today, it is focused on achieving digital financial inclusion. Financial literacy is crucial for using these financial resources wisely. A person's awareness, information, attitude, skill, and conduct required to make educated and effective decisions in managing their own finances can be summed up as having financial literacy. Financial literacy is viewed as a type of human capital investment that guarantees smoother consumption over time. A wide range of financial behaviours, such as business literacy, retirement planning, borrowing, and investment planning, are stimulated by financial understanding. Governments may support economic and social inclusion through fostering civic involvement, enhancing public safety, and extending access to public-sector services by raising digital literacy.

Banking 4.0 also observes the emergence of these cutting-edge and in-demand technologies in its operations and infrastructure, similar to Industry 4.0, which is characterised by the arrival and influence of emerging technologies like Artificial Intelligence (AI), Machine Learning (ML), edge computing, data science, cybersecurity and more. Banking 4.0 would be entirely digital, mobile-first, and low-overhead. The fourth level of financial inclusion, known as digital financial inclusion which will transform the lives of those at the base of the pyramid is made feasible by the availability of ICT and AI. Fintech, Insuretech are the major players in the modern society.

According to the Digital India Programme, India will become a society and knowledge economy where everyone has access to digital services and governance. Over the years it can be seen that India has emerged as a hotspot of growing fintech firms providing services like : wallets, paperless lending etc. The expansion of inclusive financial services has the potential to alter the Indian economy and is a crucial component of the Digital India agenda. In the Union Budget for 2017–18, the Indian government announced the creation of a mission to promote digital payments with a goal of 2,500 crore digital transactions through UPI, USSD, Aadhaar Pay, IMPS, and debit cards during the fiscal year. DIGIDHAN Mission was therefore established in June 2017 to promote digital payments.



Above chart shows growth in UPI transactions showing growth in digital payments. Further growth witnessed is given below as research by Blueweave consulting.



LITERATURE REVIEW

Financial capabilities, which are a combination of understanding, information, attitude, skill, and behavioural changes required for making solid financial decisions that are appropriate to their social and financial conditions, include financial literacy as a crucial component (World Bank, 2013).

According to the life cycle hypothesis, financial literacy is a type of human capital needed to balance a consumer's lifetime income between savings and consumption in order to maximise his utility (Modigliani and Brumberg, 1954).

A higher level of financial literacy gives people and families more control over their money and assists them in making wiser financial decisions (Subha and Priya, 2014).

Financial literacy, in the opinion of Tomaskova, Mohelska, and Nemcova (2011), is the best defence against citizen over-indebtedness. . Poor people naturally contact with formal financial institutions less frequently and prefer unofficial channels (Matin, Hulme and Rutherford 2002). According to a PWC (2011) study conducted in India, consumers who are active online have substantial product holdings.

Mobile communications are a rapidly evolving technology in the developing world that has a substantial socioeconomic influence on underprivileged people (Abraham, 2006). Mobile banking can be utilised as a tool for financial inclusion because it is available to both those with low incomes and those with higher incomes.

For account and loan statements, fund transfers, insurance and portfolio management, utility bill payments, and other purposes, Indian smartphone users are rapidly using internet-based mobile-banking apps (D'Souza, 2018). The World Bank reported that more than 80 nations have introduced digital banking services that employ mobile devices (The World Bank 2020; Chu 2018).

As a result, millions of formerly underserved and excluded poor people are switching from cash-based transactions to formal financial services, where they can access a range of services like payments, transfers, credit, insurance, securities, and savings (The World Bank 2020).

OBJECTIVE:

The objective of the present study is-

- to examine the present status of the digital financial inclusion in India.
- analyse the role of digital financial literacy in boosting inclusive development of India through digidhan mission
- how effective is digital transformation in banking and finance sector to achieve financial inclusion.

METHODOLOGY:

Various reports published by financial and non - financial institutions have been used as relevant input. Besides, research articles from different reputed journals, websites and magazines have been used. In addition primary data collection was done through random sampling questionnaire survey at Amaniganj, Lucknow.

ANALYSIS AND FINDINGS :

1. According to official data on the DigiDhan Dashboard, the total number of digital transactions between April 1, 2020 and March 8 2021 stood at 4,877.51 crore, against the 4,579.94 crore transactions clocked in 2019-20 showing a major increase.
2. Utilizing digitally driven financial inclusion to advance the economic and social development of the country is one of the main goals of the current administration. The first stage in the mission is to open a bank account for every Indian. Under PMJDY, technology is being used to deliver fundamental financial services such as pensions, insurance benefits, and remittance facilities, to the socially and economically disadvantaged.
3. Additionally, the Indian government and Reserve Bank of India (RBI) have launched a number of programmes to improve people's digital financial literacy. For instance, the Ministry of Electronics and IT launched the Digital Saksharta Abhiyan to give one crore rural individuals access to such tools and training in digital financial literacy. The scheduled commercial banks in India have issued increasingly more debit and credit cards over the last few years.
4. With increase in digital transactions over the past few years, India's mission to become a cashless economy is gaining steam. The inclination of elder generations and rural populations for traditional banking methods is one of the main obstacles to online banking in India.
5. MeitY has created "Digidhan Dashboard," a platform for reliable reporting, monitoring, and analysis of all digital payment transactions taking place in the nation, to track the rise of digital payments. In addition to tracking the increase in digital payment transactions in the nation, it offers information for efficient planning of promotional activities for digital payments.
6. Information about the expansion of digital payments and related infrastructure is made available to everyone. The stakeholders are granted privileged access to evaluate their performance for better implementing and promoting digital payments.
7. For women in rural India, gaining access to financing is still difficult. The financial services company L&T Financial Services launched the "Digital Sakhi" programme SIDBI is playing a great role in conducting research in this area.
8. Interrelationship between digital financial inclusion and inclusive development is clear. Both the supply and demand sides of the economy have an impact on financial inclusion. The supply side factors include - the cost of maintaining a bank account; the slow growth of bank branches and ATMs; and the laborious nature of banking operations whereas the demand side factors are - illiteracy; poverty; job uncertainty that reduces the ability to save and allocate funds for credit and insurance. Financial inclusion makes it possible for those with low incomes to achieve financial independence, economic stability, and poverty reduction. Rapid mobile network growth in developing nations has created new opportunities for meeting the demands of the underserved population in terms of financial services. The delivery of financial information can be done at a minimal cost via mobile communications.

9. Primary survey done at Amaniganj area gave clear indication that if proper ecosystem is established for digital transactions, it shall be accepted at village level.
10. It was observed that more than 70 percent people were aware of digital money transactions.
11. Digidhan Gram projects can be used in near future for leveraging digital money transactions.
12. Digital money transactions have gained sensitization through installation of POS machines.

CONCLUSION :

Over the last two years there has been a massive adoption of digital transactions making financial transactions more convenient and accessible. Indian payment and settlement system has got revolutionized with UPI, BHIM,IMPS. The limitations that disadvantaged groups experience cannot be completely eliminated by the simple expansion of digital services and bank accounts. Therefore, Digital financial literacy programmes should be structured to address the interconnected requirements of the underprivileged classes in order to support human development and reduce poverty. Proper ecosystem needs to be developed with more digidhan mitra and good awareness programmes to gain confidence of people. Banks too have new competitors in form of fintech firms. Although a major portion of population will still rely on traditional banking system but banks need to make more emphasis on technological improvements for competing with fintechs. They must capitalize on fintech innovations for improving their customer experience

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