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A Study on Conceptual Prospective of Digital Finance with Financial Inclusion

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ABSTRACT

At this time whole world is facing the economic problem due to spreading of Covid-19. Due to this Covid-19 pandemic every sector of the economy adversely affected and incurred heavy losses because most of the businesses and other things were based on offline dealing. Now it become some important to focus on online platform for interaction/ Communication and trading so that things could be done properly. So at this time digital finance will play an eminent role in smooth functioning of economy. As we know that finance is life blood of the business but without digitalization, it is not possible to spread the finance in the hands of people. This study provides the concept, significant and benefit of digital finance for the people and economy as well.

Key Words: Digital Finance, Fintech, Financial Inclusion and Digital Financial Inclusion.

INTRODUCTION

In this 21st century, the relevance of financial inclusion and digital finance for reduction of level of poverty and growth of economies is attracting to academicians, analyst and policy makers, this because of many number of issues persist and if we will take it into consideration, the work of digital finance can be better for individual, Govt. and economy as well. There are an number of befits of financial inclusion digital finance to the financial services users, providers and Govt. such as spreading the finance among rural and poor people who had fear about getting finance from different organisation due to high involvement of documentation. But digital finance and financial inclusion has reduced the fearness among those people and it also reduces the cost of financial intermediation for banks and fintech providers. But still an area where disparity is going exist and there is need of high attention among fintech providers that is digital finance, financial data inclusion and digital financial inclusion. There are a very less number of articles and literatures which have shown the relation among all there concept. By the study we have discussed this issue also.

CONCEPTUAL FRAMEWORK

Digital Finance - From a practitioner's point of view, digital finance is financial services delivered through mobile phones, personal computers, the internet or cards linked to a reliable digital payment system.

According to **Gomber, Koch, and Siering (2017),** digital finance encompasses a magnitude of new financial products, financial businesses, finance-related software, and novel forms of customer communication and interaction - delivered by Fintech companies and innovative financial service providers. While there is no standard definition of digital finance, there is some consensus that digital finance encompasses all products, services, technology and/or infrastructure that enable individuals and companies to have access to payments, savings, and credit facilities via the internet (online) without the need to visit a bank branch or without dealing directly with the financial service provider.

Financial Inclusion: Financial inclusion involves increasing the number of (mostly poor) individuals that have access to formal financial services mainly through having formal bank accounts, which contributes to poverty reduction and economic growth. With greater financial inclusion, individuals who were previously financially excluded will be able to invest in education, save and launch businesses, and this contributes to poverty reduction and economic growth **(Beck et al., 2007; Bruhn & Love, 2014).** A comprehensive financial system is enviable and will give opportunities for all people, particularly the poor, to access and shift funds, grow capital, and shrink risk.

Digital Financial Inclusion: The CGAP defines digital financial inclusion as “digital access to, and the use of, formal financial services by the excluded and underserved population” **(CGAP, 2015)**.

Fintech Provider: The term ‘Fintech’ denotes ‘financial technology’ and is defined as the delivery of financial and banking services P.K. Ozili / Borsa Istanbul Review 18-4 (2018) 329 _ e340 331 through modern technological innovation led by computer programs and algorithms. A Fintech

provider, on the other hand, is defined as an individual or company that uses a technology platform, whether online or offline, to provide new financial services or to improve the delivery of existing financial services. Ideally, a provider would qualify to be termed a Fintech provider if it uses technology (whether online or offline) to provide, or to improve, the delivery of financial services such that the number of hurdles between requesting for a financial service and receiving the financial service is significantly reduced for users of financial services. However, and in practice, the technology adopted by some self-identifying Fintech providers do not significantly reduce the hurdles that customers must go through between requesting for a financial service and receiving the financial service, which then cast doubts on whether these individuals or companies should be termed 'Fintech', and the debate about whether to de-classify such companies as 'Fintech' is still on-going in some countries. Fintech companies play an important role in the digital finance economy. Fintech providers are emerging in the financial services sector to either compete with banks or to complement the functions of banks to their customers. In the real world, some Fintech companies provide financial services at a higher cost while the cost of obtaining financial services from banks is relatively lower but the lengthy process of waiting to obtain a loan from regulated banks is making customers turn away from bank providers to non-bank providers. For instance, a customer that walks into a bank on Monday requesting for £70,000 loan is not likely to obtain the full loan amount requested for on Monday, and this phenomenon is attributed to the fact that bank regulators and banks' internal risk management procedures require banks to spend a considerable amount of time to assess whether an individual qualify to receive a loan or not. Despite the high cost of obtaining financial services from nonbank providers, individuals and companies with low and/or volatile income still prefer to use the services of non-bank providers, many of whom are not currently regulated in emerging countries and in most African countries. Finally, Fintech companies are diverse, and their diversity largely depends on available technology whether online or offline. Examples of Fintech businesses are those that engage in quick check-cashing services, payday lending, and related services. Finally, the activities of Fintech providers can have implications for financial inclusion and stability.

REVIEW OF LITERATURE

The term Fintech' denotes _financial technology' and is defined as the delivery of financial and banking services through modern technological innovation led by computer programs and algorithms **(Ozili, 2018).** The Indian Fintech market has been growing upwards in the last five years **(PWC, 2019).** Increased entrepreneurial activities in India and the growth of Fintech start-ups have, in turn, resulted in increased adoption of Fintech solutions by the customers in India **(PWC, 2019)**.In 2018, India ranked second globally in the Fintech adoption rate. The average percentage of Fintech users in the country is 57.9%, behind China's 83.5%, and much higher than developed countries'34.2% **(Academy of Internet Finance, Zhejiang University, 2018)**. ―With a strong technological ecosystem as its backbone and a huge market base with low penetration of financial services (FS), the Indian Fintech market holds immense potential ― (PWC, 2019).―In India, along with sustained funding, both supply-side factors such as Government and regulatory support, and technological advancements and demand-side factors such as large unmet needs and rising customer digital expectations have been converging to drive the Fintech market‖ **(PWC, 2019)**.There is no single and commonly accepted definition for digital finance. But, certain features of digital finance products and services are consensually accepted. The features include the usage of the internet, access to finance products online, and no need of visiting the branches of FSPs. So, digital finance comprises all finance products, services, technology, and infrastructure that facilitate access to payments, savings, credit, remittance, and other financial transactions through online platforms and thus, digital finance avoids direct dealing with the banks and FSPs **(Ozili, 2018).**The goal of financial services made available via digital platforms is to contribute to poverty reduction and to contribute to the financial inclusion objectives of developing economies **(United Nations, 2016).**

Yan Shen and Yiping Huang (2016), Introduction to the special issue: Internet finance in China Internet finance, which is often referred to as "digital finance" and "Fintech". Internet finance refers to the new business model of utilizing the Internet and information communication technologies to accomplish a wide range of financial activities, such as third-party payment, online lending, direct sales of funds, crowd funding, online insurance, and banking. The Internet can significantly lower transaction costs and reduce information asymmetry, enhance the efficiency of risk-based pricing and risk management, and expand sets of feasible transactions.

OBJECTIVE OF THE STUDY

1. To give conceptual framework and benefit of Financial Inclusion
2. To provide conceptual prospective and benefit of Digital Finance
3. To assess the role of digital finance in digital financial inclusion

RESEARCH METHODOLOGY

The study is of Analytical and Descriptive nature. On the basis of concept and previous literature we have tries to know the relation between digital finance and Financial Inclusion. With the help of the study, we can understand the terminology of financial inclusion and Digital Finance.

BENEFITS OF DIGITAL FINANCE, FINANCIAL INCLUSION, AND DIGITAL FINANCIAL INCLUSION-

Digital Finance: Digital finance has some benefits. For instance, digital finance can lead to greater financial inclusion, expansion of financial services to non-financial sectors, and the expansion of basic services to individuals since nearly 50% of people in the developing world already own a mobile phone **(World Bank, 2014).**

Two, digital finance has the potential to provide affordable, convenient and secure banking service to poor individuals in developing countries **(CGAP)**. Recent improvement in the accessibility and affordability of digital financial services around the world can help millions of poor customers move from cash-based transactions to formal digital financial transactions on secured digital platforms **(CGAP)**.

Three, digital finance promises to boost the gross domestic product (GDP) of digitalised economies by providing convenient access to diverse range of financial products and services (and credit facilities) for individuals as well as small, medium and large businesses, which can boost aggregate expenditure thereby improving GDP levels. Digital finance can also lead to greater economic stability and increased financial intermediation, both for customers and for the economy where they and their families reside.

Four, innovation in digital finance can have long-term positive effects for banking performance. **Scott, Van Reenen, and Zachariadis (2017)** examine the impact on bank performance of the adoption of SWIFT, a network-based technological infrastructure and set of standards for worldwide interbank telecommunication. They examine 6848 banks in 29 countries in Europe and the U.S. They find that the adoption of SWIFT (i) has large effects on profitability in the long-term; (ii) these profitability effects are greater for small banks than for large banks; and (iii) exhibits significant network effects on performance.

Five, digital finance also benefits governments by providing a platform to facilitate increase in aggregate expenditure which subsequently generates higher tax revenue arising from increase in the volume of financial transactions **(Manyika et al., 2016).**

Financial Inclusion- Financial inclusion also enables them to handle income shocks over unforeseen emergencies such as illness or loss of employment (**Collins, Morduch, Rutherford, & Ruthven, 2009).** According to **Dev (2006),** financial inclusion can be viewed both as a business opportunity and social responsibility when self-help groups and microfinance institutions participate in inclusion programs, because these two agents are important to improve financial inclusion.

Benefit of Digital Financial Inclusion: Digital financial inclusion has some benefits. Digital financial inclusion promises to help banks lower costs by reducing queuing lines in banking halls, reduce manual paperwork and documentation and to maintain fewer bank branches **(IFC, 2017; Manyika et al., 2016).** With digital financial inclusion, large number of depositors can easily switch banks within minutes; forcing banks to provide quality services or risk losing depositors to rival banks. For financial and monetary system regulators, digital financial inclusion also helps to reduce the amount of physical cash in circulation and is instrumental in reducing high inflation levels in developing and poor countries **(GPFI, 2016)**. Digital financial inclusion can improve the welfare of individuals and businesses that have a reliable digital platform with which to access funds in their bank accounts to carry out financial transactions **(CGAP, 2015).**

Benefit of Fintech- There are benefits of doing business with Fintech providers. There are reasons why individuals would rely on Fintech providers even though federally insured banks can provide the same financial services to customers at lower costs than Fintech providers. **One,** Fintech providers can provide quicker financial services with a seamless process, making it easier for low income

individuals to manage their financial obligations on a day to day basis. **Two**, Fintech providers do not handle deposits like banks which implies that Fintech providers will face fewer regulations (or will be unregulated in some countries) and the low regulatory burden they face makes it easier for Fintech providers to focus on improving their financial technology and intermediation function while reducing cost, where possible, to serve customers better. **Three**, Fintech providers can partner with traditional lending institutions which can help them reduce operational costs and improve the quality of their intermediation activities. Partnering with traditional lending institutions can help Fintech providers become sustainable over time, and the financial technology of Fintech providers can add value to the activities of the traditional lending institutions they partner with, particularly in 'process improvement' for their online lending business. **Four**, some Fintech providers have superior ability to provide instant emergency funds or loans in smallamounts to individuals with low and poor incomes compared to banks and other lending institutions. This is because conventional banks and other lending institutions are not obliged to provide emergency funds to anyone, and any request for emergency funding at a conventional bank or lending institution must go through the usual credit risk assessment process which may be too lengthy for individuals that need instant emergency funds. This puts some Fintech providers in a better position to provide emergency funds in small amounts at higher interest rates to individuals with middle and low incomes. **Five,** there is the potential for technology to provide convenience. Fintech providers that operate via online platforms can electronically provide increased convenience to users by providing access to such services and making it available always from any location where the user or consumer can access the Internet. This enables Fintech providers to help customers to avoid having to travel to a banking hall to undertake financial transactions.

CONCLUSION

As per the above discussion on digital finance we can say that digital finance through fintech providers has significance effects for financial inclusion in emerging advanced economies, and benefit is that it provides to individuals with low and variable income is more significant to them than the highly cost that is to be paid for obtaining services for conventional regulated bank. Finally, an interesting point is that future research could be made for exploring the relationship between digital finance and economic crisis to determine that this will help to propagate financial contagion during crisis. And after this pandemic we can understand the significance of digitalisation and digital finance when all the things were going on through online.

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