Financial Inclusion and Digital India: A Critical Assessment

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Financial inclusion is one of the cornerstones of a developing economy. Launched in 2015, Digital India has been regarded as a significant intervention to bring the unbanked population, who had been kept out of the mainstream economy, into the formal financial net. While there has been an improvement in digital transactions across the country, issues still remain of last-mile connectivity of banks and other financial institutions, dormant accounts, among others.

Financial inclusion relates to connecting marginalised and the underprivileged in the society to the mainstream economy, by means of providing financial literacy and access to banking and financial services. It is a multidimensional approach that involves bringing on board various stakeholders from the government and the people. India, with a population of more than 1.3 billion, has a large number of people who are still out of the formal financial net. As per the World Bank, about half of India’s population is financially excluded (World Bank 2017a). On the other hand, a survey by Standard & Poor’s Financial Services estimates that only 24% adults in India are financially literate (Klapper et al 2014).

Although the situation has improved considerably over time, owing to the major banking
and economic reforms undertaken in recent years, there still exists both a great need and the potential to tap into this unbanked population and bring them into the financial net. In a diverse country like India, financial inclusion is a critical part of the development process. Since independence, the combined efforts of successive governments, private institutions, and the civil society have helped in increasing the financial-inclusion net in the country. There has been an emphasis to provide last-mile connectivity of banks and other financial institutions.

In recent times, the biggest fillip to the efforts of financial inclusion has come from Digital India. Various initiatives under Digital India, like easy banking facilities for all, simplification of procedures relating to financial instruments like Permanent Account Number (PAN), unique identification process of Aadhaar, simplification of tax procedures through the goods and services tax (GST), etc, have contributed significantly to the efforts of financial inclusion in the country.

This article analyses the impact of such initiatives, and the scope of Digital India in converting traditional manual procedures of availing government services into electronic ones. Besides, the impact of Digital India on important sectors, such as direct and indirect taxation structures, banking institutions, and delivery of government schemes would be assessed.

The efficacy of Digital India vis-à-vis financial inclusion can be measured by the growth in digital transactions and the proportion of the poor and their ability to access banking facilities. According to the World Bank’s Global Financial Inclusion Database or Global Findex report (2017), 80% Indian adults have a bank account—27 points higher than the 53% estimated in the Findex 2014 round. The Findex 2017 report also estimates that 77% Indian women have bank accounts, against 43% and 26% respectively in 2014 and 2011 (Qazi 2019). These figures, however, contrast with the statistics from the other spectrum. According to the same report, about 190 million adults in India do not have a bank account, making India the world’s second largest nation in terms of unbanked population after China (World Bank 2017b). Figure 1 below provides a break-up of the unbanked adult population globally.
Financial Inclusion and the Evolving Scenario

The concept of financial inclusion has evolved over a period, and has been studied by policymakers and researchers. India has developed its financial ecosystem and has brought about major changes to increase the last-mile connectivity of financial services to its people. The intent has been to provide the underprivileged and marginalised access to financial resources to improve their lives. It has been observed that financial inclusion has the potential to reduce poverty, create jobs, among others.

The lack of inclusive growth, due to large inequalities in economic and/or social realms, often translate into inequalities in terms of opportunities, leading to huge disparities in the critical sectors of health and education (Goldberg 2019). Earlier, private institutions did not engage with the poor as customers on a significant scale. This has now changed, and there has been an active participation of the private players, as they have also realised that bringing the poor into the financial net is beneficial to their business models as well.

Traditionally, institutions like the Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) have taken initiatives to promote financial inclusion. These include the opening of bank branches in remote areas, issuing Kisan Credit Cards (KCC) using information technology to spread awareness and literacy, linkage of self-help groups (SHGs) with banks, increasing the number of automated teller machines (ATMs) and business correspondents, increasing credit facilities and insurance covers for the marginalised people, among others.

According to the RBI, Kerala, Maharashtra, and Karnataka have achieved high financial
inclusion (Index on Financial inclusion (IFI) > 0.5), while Tamil Nadu, Punjab, Andhra Pradesh, Himachal Pradesh, Sikkim, and Haryana have been identified as a cohort of medium financial inclusion (0.3–0.5). The remaining states have been categorised as states with low financial inclusion states (< 0.3). The above figures are important, because they indicate three critical variables of financial inclusion, namely penetration of financial services (number of adults having bank accounts), availability of banking services (number of bank branches per population of 1,000), and the usage of the financial services (measured as outstanding credit and deposit) (Chattopadhyay 2011).

Perhaps, the biggest fillip to the efforts of financial inclusion in the recent years has come from Pradhan Mantri Jan Dhan Yojana (PMJDY). Launched in 2015, its objective is to provide no-frills bank accounts to every individual above 10 years of age across the country, even in the remotest parts. As per the estimates in March 2020, the total number of beneficiaries of the programme have been more than 380 million (Ministry of Finance 2020). The introduction of unique identification Aadhaar number has also contributed to the financial inclusion in the country. By significantly changing the concept of individual identity, Aadhaar has not only brought about a secure and easily verifiable system but also easy to obtain as well to help in the financial inclusion process. The combination of Aadhaar, PMJDY, and a surge in mobile communication has reshaped the way citizens access government services.

**Digital India and the Reliance on Technology**

The concept of Digital India is driven by the idea that a large country like India cannot afford to rely on traditional public service delivery mechanisms. With limited resources and a huge population to cater to, the use of technology has been ramped up in order to provide government facilities to maximum numbers of people, and, in the process, improving transparency and accountability.

The expectations of citizens with regards to the government include on-demand availability of public services, single-window online platforms, one-point help centres, and effective communication and alerts. Digital India aims to meet these expectations by building electronic portals for service delivery, creating necessary support infrastructure, integrating government services and databases, and enhancing the skills of the stakeholders through awareness programmes and trainings. These measures are being implemented in the Income Tax Department, Central Board of Indirect Taxes and Customs, postal department, banks, public sector units, among others.

The latter section deals with the benefits accrued to beneficiaries of various government schemes, the availability of facilities to make payments, and existing bottlenecks and challenges to Digital India.
Integration of Financial Services

As mentioned above, Jan Dhan–Aadhaar–Mobile (JAM) trinity has a positive impact on the banking sector and financial inclusion in the country. Jan Dhan accounts are no-frills accounts which can be opened with ease. These accounts are linked to Aadhaar numbers of the individuals, which in turn is linked to the Direct Benefit Transfer (DBT) scheme. With the launch of JAM services, there has been a significant improvement in terms of targeted and accurate payments. They have also helped in weeding out duplication of entries, and bringing down the reliance on cash mode of payments.

Since its pan-India roll out in 2014, 488 schemes and services from 63 ministries have been brought under the DBT (DBTM 2019a). Similarly, until March 2020, the total number of beneficiaries under Aadhaar-enabled services had been 436.98 crores (DBTM 2019b).

Proliferation of Payment Facilities

The launch of Digital India has brought about a change in terms of payment facilities available to the stakeholders, especially from the underprivileged sections. KCC, general credit cards (GCC), and mobile banking facilities have been encouraging the poor to participate in the digital ecosystem. With the strengthening of the Unified Payment Interface (UPI) by RBI, digital payments have been made secure, compared to the past. To this end, many payment gateways have come up to further improve digital transfers.

As per a World Bank report, the total volume of digital transactions in India (including various payment channels and mechanisms, such as net banking, mobile banking, debit cards, credit cards, prepaid instruments, mobile wallets, among others) grew by compound annual growth rate (CAGR) of 30% from 1,142 million in April 2015 to 1,928 million in April 2017. On the other hand, mobile banking transactions grew more than five times, from 19.75 million in April 2015 to 106.18 million in April 2017. Similarly, mobile wallet transactions grew from 11.96 million transactions in April 2015 to 387.6 million transactions worth Rs 15,408 crore in January 2020 (World Bank 2018; RBI 2020).

As a result, anyone with a valid bank account and mobile phone can make quicker and easier payments. The payment system has been made more accessible due to offline transaction-enabling platforms, like Unstructured Supplementary Service Data (USSD), which makes it possible to use mobile banking services without internet, even on a basic mobile handset. On the other hand, the Aadhar-enabled payment system (AEPS) enables an Aadhar enabled bank account (AEBA) to be used at any place and at any time, using micro ATMs.

E-governance Platforms

There have been efforts to increase the scope of Digital India to align with the working of multiple departments and government schemes, in meeting the objective of financial
Several departments and government schemes have been brought under the ambit of Digital India. This has particularly paid significant dividends in the area of direct taxation and for the Income Tax department, due to the introduction of e-governance platforms. The key services, like income tax returns (ITR) filing, tax deducted at source (TDS) compliance, and refund delivery mechanism, have been made online.

Out of the 66.8 million ITRs filed in the financial year 2018–19, 65 million ITRs (98%) were filed electronically, and 95% of the refunds were electronically remitted to the taxpayers (Income Tax Department 2019). So, one does not have to run from pillar to post for a refund. On the compliance front, 1.5 million notices/letters were issued electronically in fiscal 2017–18, and 89% of all notices and letters were delivered through emails (Income Tax Department 2018). All these initiatives have proved to be significant as they ensure that financial inclusion expands to other institutions, and not just confined to the banking sector.

The reforms brought by the GST platform have also ensured that small and medium scale enterprises (SMEs) come under the ambit of financial inclusion. The GST has brought about a robust electronic filing and monitoring system, which uses pre-filing of information in forms and integration of databases. This reduces the compliance burden of assessees, particularly the SMEs, and motivates them to be a part of the financial system. As of August 2019, 12 million taxpayers were registered on the GST system with the total number of payment transactions numbering more than 100 million (GSTN 2019).

Under Digital India, information and communication technology has provided convenient tools to spread awareness about financial schemes and services. The RBI initiatives, such as Project Financial Literacy, the engagement of business correspondents to provide banking services to the poor, Unified Payments Interface, among others, have provided a shot in the arm to the efforts of financial inclusion (Karuna 2018).

**Bottlenecks and Major Challenges**

There is no doubt that India has significantly improved the financial inclusion of the marginalised sections, and Digital India has turned out to be an important intervention. However, the digital divide is too wide and there exist many bottlenecks and challenges which need immediate attention.

To begin with, High Level Principles for Digital Financial Inclusion, published by the G20 under the rubric of Global Partnership for Financial Inclusion in 2016, provides useful insights to address the issues impeding financial inclusion, and how digital technologies can help in the process (World Bank 2017b). These include the promotion of financial services as a national plan, the need to balance innovation and risk, providing legal and regulatory frameworks, and expanding the digital financial ecosystems, among others. Similarly, it
suggests the need to ramp up investments for digital tools that can help integrate systems and databases making it easier for auditors and regulators to process information. It also highlights that the advent of digital systems would mean huge data volumes and without the presence of adequate data mining and data analytics, countries would have to handle too much data with limited outcomes.

The most common barriers to the digital financial inclusion include the non-availability of suitable financial products, lack of skills among the stakeholders to use digital services, infrastructural issues, teething problems between various systems, and low-income consumers who are not able to afford the technology required to access digital services (Niranjan 2017).

Another challenge to digital financial inclusion arises from the attitude of the stakeholders. For instance, take the case of Jan Dhan bank accounts. When the scheme was launched in 2015, banks were given ambitious targets to open accounts for the marginalised. This has resulted in the opening of many dormant accounts which never saw actual banking transactions. All such activities incur costs on the institutions, and thus, huge operative costs only proved to be detrimental to the actual objective. To avoid these counterproductive outcomes, it is important that all stakeholders participate in such programmes with proper intent and not just for the sake of it.

Another major bottleneck faced by Digital India, with respect to financial inclusion, is the heavily dominated cash economy in the country. The data from RBI reveals that cash circulation has increased in 2018 after demonetisation. As per a report of the International Labour Organization (ILO), about 81% of the employed persons in India work in the informal sector (ILO 2018). The combination of a huge informal sector along with a high dependence on cash mode of transaction poses an impediment to digital financial inclusion.

There is also a gender dimension to financial inclusion in the country. According to the 2017 Global Findex database, 83% of males above 15 years of age in India held accounts at a financial institution in 2017 compared to 77% females (World Bank 2018). This is attributed to socio-economic factors, including the availability of mobile handset and internet data facility being higher among men than women.

In conclusion, for the success of digital initiatives, there has to be a multidimensional approach through which existing digital platforms, infrastructure, human resources, and policy frameworks are strengthened (Kim 2014). More importantly, human resources should be leveraged by skilling and positively engaging with them to achieve the last-mile connectivity of financial institutions.

If corrective measures are taken to tide over the existing problems, interventions, such as Digital India, have the potential to amplify the benefits of economic growth to the poor. Not only will it reduce the costs for the financial institutions, but it would also address safety concerns and accuracy of the data involved in financial transactions.
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