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REVIEW ARTICLE

IMPACT OF DIGITIZATION AND DEMONETIZATION ON FINANCIAL INCLUSION IN INDIA

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Impact of Digitization and Demonetization on Financial Inclusion in India

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Abstract – Purpose - *With the introduction of internet in 20th century, there was a paradigm shift of economy towards digitization. Promotion of financial inclusion and digitization has become the need of the hour for achieving inclusive growth of the economy. Therefore, the objective of the paper is to study the impact of digitization and demonetization on financial inclusion in India and also to assess the relationship between demonetization, financial inclusion and digitization.*

Design / Methodology /Approach - *The study is based on facts and information collected from various government periodical publications, published articles, magazines, E- journals, RBI report, NABARD report, websites, etc.*

Findings- *The findings of the study revealed that the digitization and demonetization both have positive and negative impact on financial inclusion. The study further concluded that after demonetization, 23.3 million new accounts were opened under Pradhan Mantri Jan Dhan Yojna. Out of which 53.6 % were in urban areas and 46.4 % were in rural areas. Thus, demonetization, financial inclusion and digitization are positively related, and lead to inclusive growth in the economy.*

Keywords: *Digitization, Financial Inclusion, Demonetization, Inclusive Growth.*

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INTRODUCTION

Financial inclusion is defined as “the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players”. This provision of access to banking services to nearly 47 per cent of the reportedly unbanked population in India has the potential to unfold huge growth opportunities for financial services players. By using digital channels, transaction costs could be lower than those incurred through traditional channels by as much as 90 per cent, thereby bringing down break even costs. This is expected to lead to future benefits from lower operating costs, along with increased business volumes, while also driving financial inclusion. It could also give banks an opportunity to spread the costs or investments in technology over a much larger base and increase the utilization of existing technology.

Digital India is not only transforming India but also helping to achieve the United Nations Sustainable Development Goals Agenda 2030. There have been 3264 million digital transactions between Nov 2016

and Feb 2017, 20 million people and 718,000 shopkeepers got trained through DigiDhan Melas. The steps taken by RBI on financial inclusion needed support of digital infrastructure to reach the unbanked population. In the series of initiatives announced by the government, Pradhan Mantri Jan-Dhan Yojana (PMJDY) is a National Mission for Financial Inclusion to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance and Pension in an affordable manner. RuPay, India's own payment gateway with more than 175 million accounts has received the much needed popularity and is now comparable with peers such as Visa and MasterCard in India. Likewise, since 2014, mobile phone users have increased 1.5 times standing at 1080 million. Even more impressive is the 1.9 times increase of internet users since 2014 and the number of Aadhar Cards has increased 1.8 times since 2014, standing at 1110 million now.

IMPACT OF DIGITIZATION IN ACHIEVING INCLUSIVE GROWTH

Digital India Initiative - This focuses on the provision of infrastructure as a utility to every citizen,

digital empowerment, services on demand and governance.

- An investment of USD18.4 billion to provide last mile internet connectivity, better access to government services, and development of IT skills
- Provision of Wi-Fi services in cities with a population of more than one million, as well as major tourist centres.
- Provision of broadband internet access to 250,000 village clusters by 2019 at a cost of about USD5.9 billion.
- Availability of 'digital lockers' to each citizen, allowing them to store all their original identification documents and records.
- Development of 100 smart cities in India, for which USD1.2 billion has been allocated.
- Universal phone connectivity.
- Setting up of 400,000 internet access points Digital inclusion targeting job creation for nearly 1.7 crore people trained in IT, telecom and electronics.
- Creation of at least 8.5 crore indirect jobs related to IT.
- Focus on moving towards automation in delivery of government services .
- Achievement of a leadership position in IT towards betterment of health, education and banking services.
- Widened internet access and an enabled use of shareable private space on a public cloud model in order to empower citizens digitally.

Aadhar card

An Aadhar card provides a 12-digit individual identification number, issued by the Unique Identification Authority of India (UIDAI), to serve as a proof of identity and address. This card is based on **biometrics technology**. Over 880 million 'Aadhar' cards have been issued as on 21 July 2015. The programme aims to achieve 100 per cent coverage by 2016.

Direct benefits transfer (DBT)

The scheme was initiated to facilitate disbursements of government entitlements such as those under the National Rural Employee Guarantee Act (NREGA), social security pension scheme, handicapped old age pension scheme, etc. of any central or state

government bodies, using 'Aadhar' and authentication thereof, as supported by UIDAI.

Mobile penetration and Smartphone usage

Mobile penetration of around 90 per cent is likely to drive financial literacy as well as inclusion, as players are betting on mobile-based financial services. An increased Smartphone proliferation, projected at 50 per cent by 2020, and falling handsets costs are likely to increase acceptance, better servicing as well as security.

National Digital Literacy Mission (NDLM) –This initiated with the vision to make at least one person in every family digitally literate with digital literacy skills by 2020 and provide digital literacy to 6 crore rural households, including Anganwadi and authorized ration dealers across the country. So far, 8.2 million people have been trained to use digital devices and services and further leverage it to improve livelihoods and access e-governance.

DEMONETIZATION, FINANCIAL INCLUSION AND DIGITIZATION

On 8 November, 2016 Prime Minister Narendra Modi announced the demonetization of all 500 Rs. and 1000 Rs. bank notes of Mahatma Gandhi Series. This move was implemented as a tool to measure the stock of black money hoarded, and to make India a cashless digital economy. After demonetization, 23.3 million new accounts were opened under Pradhan Mantri Jan Dhan Yojna. Out of which 53.6 % were in urban areas and 46.4 % were in rural areas. Deposits of Public sector banks (in million) under PMJDY has increased from 203.6 as on November 9, 2016 to 222.9 as on 1st March, 2017. Out of which increase in rural areas are from 114.3 to 122.1 during November 9, 2016 to 1st March, 2017 and increase in urban areas are from 89.3 to 100.8 during November 9, 2016 to 1st March, 2017. Deposits of Regional Rural banks under PMJDY have increased from 43.1 as on November 9, 2016 to 46.4 as on 1st March, 2017. Out of which increase in rural areas are from 37.1 to 40 during November 9, 2016 to 1st March, 2017 and increase in urban areas are from 6 to 6.4 during November 9, 2016 to 1st March, 2017. Likewise, deposits of Private Sector Banks under PMJDY have increased from 8.4 as on November 9, 2016 to 9 as on 1st March, 2017. Out of which increase in rural areas are from 5.3 to 5.4 during November 9, 2016 to 1st March, 2017 and increase in urban areas are from 3.1 to 3.6 during November 9, 2016 to 1st March, 2017. Likewise, deposits of Scheduled Commercial Banks under PMJDY has increased from 255.1 as on November 9, 2016 to 278.4 as on 1st March, 2017. Out of which increase in rural areas are from 156.7 to 167.5 as on 1st March, 2017 and increase in urban areas are from 98.4 to 110.9 during November 9, 2016 to 1st March, 2017. Jan Dhan Accounts contribute 4.6 percent in aggregation of deposits of commercial banks after demonetization.

Deposits under Pradhan Mantri Jan Dhan Yojna (PMJDY): Number of Accounts (in million)

	As on November 9, 2016			As on March 1, 2017		
	Rural	Urban	Total	Rural	Urban	Total
Bank Group						
Public Sector Banks	114.3	89.3	203.6	122.1	100.8	222.9
Regional Rural Banks	37.1	6	43.1	40	6.4	46.4
Private Sector Banks	5.3	3.1	8.4	5.4	3.6	9
Scheduled Commercial Banks	156.7	98.4	255.1	167.5	110.9	278.4

Source: "Macroeconomic Impact of Demonetization- A Preliminary Assessment", RBI, 2017.

Thus, demonetization, financial inclusion and digitization are positively related and lead to inclusive growth in the economy.

CONCLUSION

The findings revealed that the shift from brick and mortar business to digital platforms will help provide the services in rural areas, at a low cost, along with increased business volumes and further increases digital financial access to provide high quality, affordable financial services which further lead to financial inclusion and inclusive growth in the economy. Likewise, one of the biggest components of financial inclusion is financial literacy. No matter how many banks you open, if a person does not know about the financial options that are open to him, policies/schemes and financial instruments will mean little. Thus, digital India is giving thrust to affordable devices, internet access and digital literacy. In order to take the benefits of Digital India to every corner of country, a vast network of more than 2.5 lakh Common Services Centers has been created, expanding from 83,000 CSCs in May, 2014. This has developed digital entrepreneurs among poor, marginalized, dalits and women of India. More than 34,000 women are working in these CSCs that provide digital services like ticket booking, telemedicine, and Aadhaar service to people.

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