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THE EFFECT OF DIGITAL FINANCE ON FINANCIAL INCLUSION

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ABSTRACT :

In this research paper, a study was made to discuss how the financial stability and inclusiveness. A step was taken to find the impact of digital finance on financial inclusion. The result was seen that there was a positive impact of financial inclusion on the economy Or we can say that, Digital finance through Fintech providers has positive effects for financial inclusion in emerging and advanced economies.. There are some consequences of the same as well . A final conclusion was made to investigate the connection between digital finance and economic crises to see if it contributes to the spread of financial contagion during a crisis.

INTRODUCTION :

In this study, the effects of digital finance on financial inclusion and the stability of the financial system are examined. Financial inclusion is currently a goal that all nations must reach because it is thought to have a favorable effect on economic growth and the prosperity of society. Research and conversations on the significance of financial inclusion for social welfare and economic prosperity are thus necessary. In order to lower poverty rates in poor and emerging nations, the G-20 and the World Bank have been driving this program since 2010 (Peterson K. Ozili, 2018). One of the efforts to achieve this financial inclusion target is through digital finance, namely financial products and services that use internet technology that makes it easier for people to directly access various kinds of payments, shopping, savings, investments, including loan and credit facilities .The payment facility is the service among these digital financial components that is growing the quickest and makes a significant contribution to the attainment of financial inclusion goals. We will therefore concentrate on digital payment services in this study. The significant expansion of online stores (e-commerce) and the availability of financial technology (fetch) have accelerated the usage of digital payment systems as one of the primary components of digital finance. The goal of financial inclusion is greatly aided by this circumstance, but on the other hand, it has prompted concerns from a number of parties, both about the effect on financial stability, according to academics and monetary authorities.

While it appears that people are becoming more accustomed to cashless transactions, some sort of unfavourable perceptions, such as security issues, poor network coverage, a lack of merchant willingness, high transaction costs, lack of user technology knowledge, etc., are preventing many from implementing the new system.

REVIEW LITERATURE :

(asif, Khan, Tiwari, Wani, & Alam, 2021)India must work to enhance financial inclusion in order to reach the under banked portions of the population and offer a stable operating environment for fintech companies. Regression and correlation were used in this study, together with secondary information obtained from the RBI, to analyze this influence. The objective was to ascertain how digital and fintech services would affect financial inclusion in India. The findings show that fintech companies have greatly boosted financial inclusion in this country, particularly for the middle class. Policymakers who are working hard to integrate every citizen of our nation into an organized financial system may find these findings to be useful. The reduction of poverty, the encouragement of balanced economic growth, and the maintenance of economic stability all depend on financial inclusion. A sizeable section of the populace in developing countries lacks access to even the most basic banking services.

(Ozili, 8 January 2018)However, a number of problems still exist that, if resolved, could improve how well digital finance functions for people, businesses, and governments. Digital finance and financial inclusion have several advantages for consumers of financial services, digital finance providers, governments, and the economy. The article's discussion of digital finance challenges is pertinent to ongoing discussions and national-level initiatives aimed at increasing financial inclusion in developing and emerging countries through digital finance. The convenience that digital finance offers to people with low and variable income is frequently more valuable to them than the higher price they will pay to obtain such services from conventional regulated banks. Digital finance through Fintech providers has positive effects for financial inclusion in emerging and advanced economies.

(Rismana, Mulyana, Silvatika, & Sulaeman, 2021)The achievement of financial inclusion goals, which have a favourable effect on economic growth and human well being, depends in large part on digital finance. Digital payments are one of the key components of digital finance and are becoming more important as e-commerce and financial technology (fintech) become more prevalent. Aside from these advantages, digital money is also considered to have a negative impact.

Negative effect on the stability of the financial system, particularly with regard to systemic risk. Determine the role of risk factors in digital financial relationships and financial stability was the aim of this study. However, as systematic risk rises, the beneficial effects of digital finance on financial stability will diminish. As a result, the growth of digital payments, the main component of digital finance, cannot continue to support the expansion of banking financing loans. By reducing credit availability when there is an increase in systematic risk, banks will have sufficient liquidity in the event of financial system instability and/or a financial crisis brought on by systematic risk. Increased systematic risk will have an impact on financial system instability, and in such conditions the banks will have liquidity difficulties and even a lack of liquidity.

(Durai & Stella, 2019)Financial inclusion means having access to services and goods including bank accounts, insurance, remittance and payment services, financial consulting services, etc. It gives people the chance to build savings, make investments, and access credit, and a high level of bank deposits would allow for a steady deposit base. There is a focus on financial inclusion in the current inclusive growth movement. The purpose of this article is to examine how digital finance affects a person's ability to access financial services. Internet banking, mobile banking, mobile wallets (apps), credit cards, and debit cards are all examples of digital finance. Convenience, Adaptability, Affordability, Security, User-Friendliness, Low Service Fee, Accurate Timing, Online Monthly Statement, Quick Financial Decision

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Making, Easy Interbank Account Facility, Internet Connectivity, and Usability are taken into consideration for the study. The impact of digital finance on financial inclusion is discussed in this article. In the daily lives of the populace, digital finance is essential. According to the study's findings, mobile banking benefits from usability, convenience, accuracy, and ease of interbank account access. Mobile wallets (apps) benefit from low service fees and accurate timing, and credit cards benefit from low service fees.

OBJECTIVE :

1. To find the relationship between digital finance and financial inclusion.
2. To find the pros and cons of digital finance.

Digital finance :

Digital finance is the delivery of financial services via mobile devices, desktop computers, the internet, or cards associated with a trusted digital payment system. 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. Although there is no agreed-upon definition of digital finance, there is general agreement that it includes all goods, services, technologies, and infrastructure that allow people and businesses to access payment, savings, and credit facilities online (without having to physically visit a bank branch or deal with the financial service provider). The user of digital financial services (DFS) must have a bank account that they own, control, or have been given permission to use, as well as sufficient funds (or an approved overdraft) to make payments in cash (cash outflows) or receive payments in cash (cash inflows) via digital platforms like mobile devices, personal computers, or the internet.

Financial inclusion :

Financial inclusion, according to a United Nations report, is the long-term provision of inexpensive financial services that enable the poor to participate in the formal economy (United Nations, 2016). The use of formal financial services by the poor can also be referred to as financial inclusion (Beck, Demirgüc-Kunt, & Levine, 2007; Bruhn & Love, 2014). In order to reduce poverty and promote economic growth, financial inclusion entails expanding the number of (usually poor) people who have access to official financial services, mostly through holding formal bank accounts. People who were previously financially excluded will be able to invest in education, save money, and start their own enterprises with more financial inclusion, which helps to reduce poverty and spur economic growth (Beck et al., 2007; Bruhn & Love, 2014).

Positive relationship of Digital finance and financial inclusion :

The assumption that a sizable portion of the excluded population owns (or has) a mobile phone and that the delivery of financial services via mobile phones and related devices can improve access to finance for the excluded population serves as the theoretical foundation for the relationship between digital finance and financial inclusion (World Bank, 2014). Increased digital finance can improve low-income and poor people's access to essential services, which will increase financial inclusion in rural areas. Greater availability of digital finance is frequently predicted to have favorable effects for financial

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inclusion, all other things being equal; implying a positive correlation between the use of digital finance and access to formal financial services. This is assuming that the excluded population has a mobile phone and reasonably priced internet connectivity. Users of digital financial services can inform and persuade their peers in the formal and informal (rural) sector to take advantage of digital financial services if the platforms are simple to use. This will increase the number of people using digital finance, which will increase financial inclusion. Two, more digital financial services directed at rural and underserved communities can increase access to credit for bank customers in these areas who are unable to easily access banks in the formal sector due to inadequate transportation networks and lengthy wait times in banking halls. This will also reduce bank branch traffic and costs because banks could more effectively maintain fewer branches, and the lower costs would have positive effects.

Negative effect of digital finance on financial inclusion :

Digital finance, however, may have detrimental implications on financial inclusion. Digital finance service providers are for-profit firms that use the technology to increase their own profitability or the chances for businesses linked with digital finance providers, such as banks and other financial and non-financial institutions, to grow profitably. Two, there may be geographic bias in the delivery of digital finance because companies that offer these services may decide to stop offering certain digital finance services to high-risk rural areas or communities that lack the necessary infrastructure, based on their own internal risk assessments, which may change from time to time. This will reduce financial inclusion. Mobile phones with contemporary (and current) operating software systems and applications that support digital finance services may be some of the supporting infrastructure required to make DFS function effectively. Three: When providing digital financial services, educational bias may be introduced. Based on their profitability assessment, digital finance providers may decide to reduce their focus on delivering digital finance to underprivileged and uneducated communities that lack the fundamental financial literacy needed to use and understand digital finance if the net financial value of doing so is very low.

FORCED FINANCIAL INCLUSION :

The government of several developed countries, through their financial system regulator, has used ultimatums to force individuals, businesses, and bank account holders to use digital financial services. They do this by imposing limits on daily cash withdrawals, levying steep fees for cash withdrawals that exceed a certain threshold, etc. because of the anticipated benefits of financial inclusion and digital finance. forcing people, businesses, and bank account holders to go "digital" may improve the welfare of bank account holders, but not that of people without a formal bank account (i.e., the unbanked population). These concerns, which are justified, stem from the fact that digital finance does not always result in greater financial inclusion but can instead lead to greater financial data inclusion, which is not the same as financial inclusion.

Regulatory concern/data security :

Customers and regulators are both concerned about data security. The widespread use of digital technologies has increased the scope and prevalence of cyberattacks that pose a serious threat to the security and privacy of customer data on digital channels. As a result, regulators may need to reconsider the trade-off between efficiency and security in the financial services sector as a result of their increased awareness of cyber risks (Corunna, 2016). Customers may lose trust in digital channels or refrain from utilizing them to conduct crucial financial transactions until robust customer protection measures are in place if they are aware that their data is vulnerable to cyber attacks. Strong consumer protection frameworks that apply to digital financial services are essential for fostering the trust and confidence that customers require (Malady, 2016). This can also help lower the rate of voluntary financial exclusion, or the population that chooses not to participate in digital finance because they are worried about ex-post data security.

PROS AND CONS OF DIGITAL FINANCE :

Pros :

(I) Increasing financial services to non-financial industries

(ii) Offering secure and convenient banking to the poor

(iii) Increasing aggregate spending to boost the GDP of digitalized economies

(iv) More power over consumers' personal finances

(v) Making quick financial decisions

(vi) The capability to send and receive funds instantly.

Cons:

(I) excludes people without mobile phones or other digital devices;

(ii) Depends too heavily on internet connectivity; and

(iii) The introduction of digital finance (whether voluntary or forced) in a country can result in voluntary financial exclusion if the populace is not ready for it.

(iv) Data security breaches in the digital sphere are frequent and can erode consumers' faith in digital banking systems.

(v) When they do, systemic black-swan concerns can be deadly for digital financial services globally

(vi) Platforms for digital finance that charge fees will benefit people with higher and middle incomes at the expense of people with lower incomes who can't afford the accompanying transaction expenses

(vii) Many policy and regulatory frameworks prevent the broad use of digital finance.

CONCLUSION :

In this article, the topic of digital finance is discussed along with how it affects financial stability and inclusiveness. The convenience that digital finance offers to people with low and variable income is frequently more valuable to them than the higher price they will pay to obtain such services from conventional regulated banks. Digital finance through Fintech providers has positive effects for financial inclusion in emerging and advanced economies. Despite the advantages of digital money, this essay has highlighted some of the obstacles it poses to financial stability and inclusivity. Finally, it would be fascinating to investigate the connection between digital finance and economic crises to see if it contributes to the spread of financial contagion during a crisis.

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