

Digital Financial Services In India – A Surface Level Analysis

Dr. S. Mayilvaganan

Associate Professor of Commerce, A.V.C. College
(Autonomous), Mannampandal

S. Musalini

II-M.Com., A.V.C. College (Autonomous),
Mannampandal

Abstract: Digital Financial Services (DFS) in India have experienced considerable development, transforming how financial transactions are conducted and contributing to increased financial inclusion. This growth is determined by factors like policy changes, technological advancements, increased mobile access, and the availability of reasonable internet access. Digitalization has a key impact on the financial market and banks and will go on with too many changes in the future. Hence, this paper discusses the concept of Digital Finance, Digital Financial Service and Digital Financial Inclusion (DFI) in particular with Indian context. The paper also focuses on the evolution of DF in India and the challenges to be addressed for the further success of the industry.

Keywords: Digitalization, Digital Finance, Digital Financial Inclusion, Digital Financial Services.

I. INTRODUCTION

India is now one of the most energetic global economies on the back of healthy banking and other financial services. India has a multifaceted financial sector witnessing rapid growth both in terms of strong development of existing financial services firms and new entities inflowing the market. The sector usually consist various financial institutions like commercial banks, insurance companies, non-banking financial companies, co-operatives, mutual funds and other financial institutions.

II. FINANCIAL SERVICES

Financial service is an indispensable segment of financial system. Financial services are the foundation of a modern economy. The financial service sector is crucial for the prosperity of a nation. Financial services refer to services provided by the finance industry. The finance industry consists of a wide range of organizations that deal with the management of money. These organizations include banks, insurance companies, consumer finance companies, stock brokers, investment funds and some government sponsored

enterprises. They provides financial services to people and corporations.

III. DIGITAL FINANCE

Digitalization of banking refers to the shift from traditional, paper-based banking to digital formats, using technology to improve efficiency, accessibility, and customer experience. It includes integrating innovative technologies like mobile banking, online platforms, and AI to make more efficient operations, offer variety of services, and improve customer services. Digital finance refers to the process of transforming traditional banking and financial services through the use of new technologies. It is a financial service delivered through mobile phones, personal computers, the internet or cards linked to a reliable digital payment system. It ensures the affordable, convenient and secure banking services. Digital finance provides better control of customer personal finance, speedy financial decision making, and the ability to make and receive payments.

IV. DIGITAL FINANCIAL SERVICES

Digital financial services inclusion enables individuals and businesses to access and utilize digital financial services like mobile banking, digital payments, online transactions, and digital wallets, promoting financial stability and convenience. This inclusion is crucial for financial inclusion, economic growth, poverty reduction, and women's empowerment. Initiatives like Jan Dhan Yojana, UPI, and digital literacy programs in India have significantly contributed to promoting digital financial services inclusion, bridging the financial divide and fostering economic development.

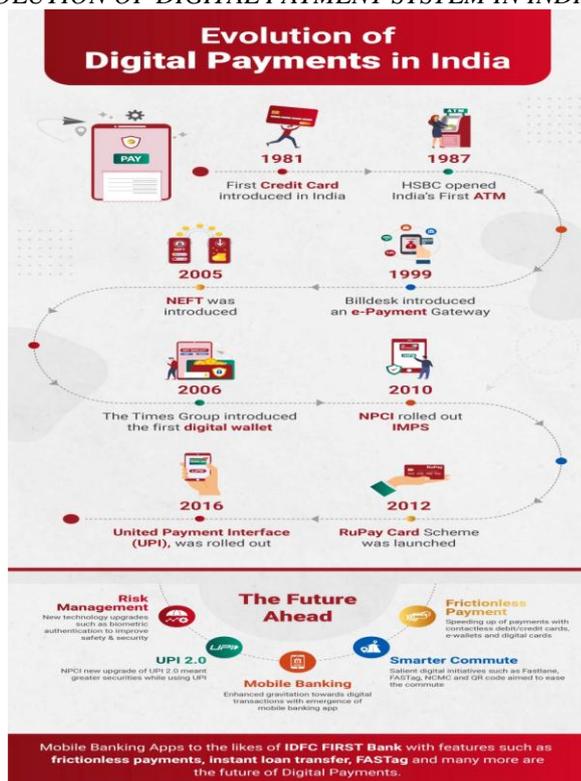
OBJECTIVES OF THE STUDY

- The objectives of the study are listed below:
- ✓ To understand the evolution of digital payment system in India
 - ✓ To know the digital journey of Indian financial sector.
 - ✓ To study the challenges in the growth of digital financial transactions in India.

V. METHODOLOGY

The study is based on data collected from secondary sources. The said information has been gathered from various published sources like literature published by Government of India, RBI, journals, magazines, newspapers, research papers, websites, etc. relevant to the present study.

EVOLUTION OF DIGITAL PAYMENT SYSTEM IN INDIA



Source: explained-evolution-of-digital-payments-in-india.png (2501x5667)

The evolution of digital payment systems has transformed the way we transact, offering unprecedented convenience, speed, and security. Here's a brief overview:

EARLY DAYS:

Barter System: The earliest form of trade, where goods and services were exchanged for other goods and services.

Coins and Banknotes: The introduction of physical currency simplified transactions and facilitated trade.

DIGITAL REVOLUTION:

Credit and Debit Cards: Revolutionized payment processing, allowing consumers to make transactions without physical cash.

Online Banking: Enabled users to manage accounts, transfer funds, and pay bills online.

E-wallets and Mobile Payments: Services like Paytm, Google Pay, and PhonePe allow users to store funds digitally and make transactions.^{1 2}

Unified Payments Interface (UPI): India's real-time payment system, enabling instant transactions between banks.

Blockchain and Cryptocurrencies: Decentralized and secure alternatives to traditional payment methods.

Artificial Intelligence (AI) and Machine Learning (ML): Enhancing fraud detection, personalization, and security.

Contactless Payments: Near Field Communication (NFC) technology enables quick and secure transactions.

VI. INDIA'S DIGITAL FINANCIAL JOURNEY

India's digital financial journey has been remarkable, driven by a combination of government initiatives, technological advancements, and a vibrant fintech ecosystem. Here are some key milestones and developments that have shaped the country's digital financial landscape:

KEY INITIATIVES:

Pradhan Mantri Jan Dhan Yojana (PMJDY): Launched in 2014, this scheme aimed to provide every household with at least one bank account, resulting in over 500 million zero-balance accounts being opened.

Aadhaar-enabled services: India's unique biometric digital identity system has played a crucial role in promoting financial inclusion and security.

Unified Payments Interface (UPI): Introduced in 2016, UPI has revolutionized digital payments, with over 16 billion transactions processed in October 2024 alone.

Digital India initiative: This initiative has accelerated the adoption of digital technologies, including in the financial sector.

DIGITAL PAYMENT REVOLUTION:

UPI transactions: UPI has become a game-changer in digital payments, with billions of transactions processed every month.

Digital wallets: Platforms like Paytm, PhonePe, and Google Pay have become popular, allowing users to store money digitally and make payments.

Mobile banking: Mobile banking has increased financial inclusion, especially in rural areas.

IMPACT ON FINANCIAL INCLUSION:

Increased access to financial services: Digital platforms have expanded access to financial services, including microcredit, microfinance, and direct benefit transfers.

Reduced leakage and fraud: Digital transactions have reduced leakage and fraud, ensuring that government subsidies and welfare benefits reach intended beneficiaries directly.

Empowering small businesses: Digitalization of payments and lending has enabled micro, small, and medium enterprises (MSMEs) to access formal credit and streamline operations.³

FUTURE OUTLOOK:

Artificial intelligence and machine learning: AI and ML are expected to play a significant role in shaping India's financial future, with applications in lending, credit assessment, and more.

Fintech growth: India's fintech sector is poised for massive growth, driven by increasing digital expansion and a strong focus on financial inclusion.

VII. DIGITAL FINANCIAL SERVICES EXPANSION IN INDIA

India's digital financial services sector has experienced remarkable growth, driven by technological advancements, increasing smart phone usage, and government-backed initiatives. Here are some key statistics and explanations:

Digital Payment Transactions: Surged from 14.59 billion in 2018 to 164.43 billion in 2024, showcasing a dramatic shift in the nation's financial behavior. UPI transactions reached ₹18.41 trillion in January 2024, marking a 52% increase in volume and a 42% increase in value compared to the previous year.

Financial Inclusion: The financial inclusion index reached 64.2 in March 2024, starting at 43.4 in March 2017, indicating increased access to financial services. Over 500 million zero-balance bank accounts were opened under the Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme, creating a massive base of banked individuals who previously had no access to the formal financial system.

Digital Banking: Digital banking has become an integral part of India's financial ecosystem, with platforms like YONO by SBI having over 75 million active users. The emergence of

digital-only banks is redefining the traditional banking model, offering seamless 24/7 services through digital platforms.

User Demographics: 55% of PMJDY account holders are women, and 66% reside in rural areas, indicating increased financial inclusion among these groups. Younger demographics (<35) represent 53% of digital lending clientele, driven by app familiarity and gig economy linkage.

Growth Drivers: Increasing smart phone penetration and internet usage have driven digital financial services growth. Government initiatives like Digital India and PMJDY have promoted financial inclusion and digital payments. Fintech innovations and collaborations with non-banking financial companies (NBFCs) have expanded the range of financial products available to consumers.

VIII. CHALLENGES OF DIGITAL FINANCIAL SERVICES

Digital financial services offer numerous benefits, but they also come with several challenges. Here are some of the key challenges:

Cybersecurity threats: Digital financial services are vulnerable to cyberattacks, data breaches, and hacking.

Data protection: Ensuring the security and confidentiality of sensitive customer data is a significant challenge.

Digital divide: Limited access to digital infrastructure, such as internet and mobile networks, can hinder the adoption of digital financial services.

Technical issues: Technical glitches, downtime, and poor user experience can erode trust in digital financial services.

Regulatory framework: Ensuring compliance with evolving regulatory requirements can be complex and time-consuming.

KYC and AML: Implementing effective Know Your Customer (KYC) and Anti-Money Laundering (AML) measures is crucial.

Digital literacy: Many users lack the necessary digital literacy to effectively use digital financial services.

Trust and awareness: Building trust and awareness about digital financial services is essential for adoption.

Scalability: Digital financial services need to be scalable to accommodate growing user bases.

Interoperability: Ensuring seamless transactions across different platforms and systems is crucial.

Customer support: Providing effective customer support for digital financial services can be challenging.

IX. SUGGESTIONS

India can overcome challenges in digital financial services by enhancing cyber security measures, expanding digital infrastructure, particularly in rural areas, and promoting financial literacy and digital awareness. Strengthening regulatory frameworks and encouraging innovation and adoption of fintech solutions will also be crucial. Additionally, educating users about digital financial services, benefits, and

risks, and conducting awareness programs can increase adoption. Clear guidelines and regulations, robust security measures, and data protection can build trust and ensure stability. Encouraging fintech innovation and collaboration, supporting startups, and designing user-friendly services can drive growth and inclusion, ultimately transforming India's financial landscape.

X. CONCLUSION

If the government addresses the aforementioned suggestions, it will likely boost digital financial services in India, driving financial inclusion, enhancing user experience, fostering innovation, building trust through robust security and regulation, and ultimately promoting economic growth. This, in turn, can lead to a more digitally empowered and financially inclusive society, aligning with India's vision of a Digital India, and transforming the country's financial landscape for the better.

REFERENCES

[1] Amudhan, S., Banerjee, S., & Poornima, J. (2022). Impact of Digital Transformation of Banking Sector in Rural

Areas. *Journal of Positive School Psychology*, Volume 6 (2), pp763–771.

[2] Bachas, P., Gertler, P., Higgins, S., & Seira, E. (2018). Digital financial services go a long way: Transaction costs and financial inclusion. In *AEA Papers and Proceedings*, Vol. 108, pp. 444-48.

[3] Bansal, S., & Singh, A. (2022). Government initiatives for digital financial inclusion in India. *Indian Journal of Finance*, 16(3), 44-56.

[4] Ghosh, S. (2021). Regulating digital finance: Insights from India. *International Journal of Financial Regulation*, 18(4), pp 58- 71.

[5] Mahesh, A. & Ganesh Bhat, (2021). Digital Payment Service in India - A Case Study of Unified Payment Interface. *International Journal of Case Studies in Business, IT, and Education (IJCSBE)*, 5(1), pp 256-265.

[6] Stella & Durai, (2019). Digital Finance And Its Impact On Financial Inclusion", *International Journal of Emerging Technologies and Innovative Research*, ISSN: 2349-5162, Vol.6, Issue1, pp.122-127.

[7] Sushmita Mukherjee (2011). Application of ICT In Rural Development: Opportunities and Challenges, *Global Media Journal–Indian Edition*, ISSN 2249-5835, Vol. 2, No.2