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DIGITAL FINANCE AND ITS IMPACT ON FINANCIAL INCLUSION

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ABSTRACT

Financial inclusion may be defined as the process of ensuring access to financial services and adequate credit where needed by vulnerable groups such as weaker sections and low income at an affordable cost. Financial inclusion includes access to financial products and services like banks accounts, insurance, remittance & payment services, financial advisory services etc. It provides individuals with the possibility to save for future stability, a high level of bank deposit would enable a stable deposit base, opportunities to build savings, make investments and access credit. Now a day, there is an inclusive growth focused on financial inclusion. Collectively, these are achieved with the enabling of new banking technology. Many banks have arrived with new banking technology that took place in the new scenario of banking customers that is called “Digital finance”. Thus, digital finance has given a new shape to the banking industry. Digital finance is a financial service delivered through mobile phones, personal computers, the internet or cards linked to a reliable digital payment system Digital finance has the potential to provide affordable, convenient and secure banking service. Digital finance provides greater control of customer personal finance, quick financial decision making, and the ability to make and receive payments. Financial inclusion is a win-win situation that is achieved through digital finance.

Keywords: Financial inclusion, Digital finance, Financial Products, Financial services, Innovative Financial Technology.

Introduction

Digital finance and financial inclusion have several benefits to financial services users, digital finance providers, governments and the economy. Since 2010, the G-20 and the World Bank have led the initiative for increased financial inclusion in developing countries to help reduce poverty levels in developing and emerging economies (Peterson K Ozili, 2018)¹. Access to digital technologies allows a wider range of financial services such as online banking, mobile banking etc. The technology has spread internet banking, mobile banking, e-wallets, mobile wallets, and credit and debit cards. It provides several benefits like convenience, easy financial transactions etc. to the customer. However, the threat of cyber-attacks is the red alert which coincides with the evolution of the economy. It seems that while people are getting comfortable with cashless payments, some kind of negative perceptions like security problems, poor network coverage, and lack of merchant willingness, high transactional costs, lack of users' knowledge on technology etc. are holding back many from adopting the new system

Digital financial services can be more convenient and affordable than traditional banking services, enabling low-income and poor people in developing countries to save and borrow in the formal financial system, earn a financial return. It is vital to the public as it boosts security for their cash and it's more convenient compared to keeping money at home traveling with the money. However, the provision of digital finance involves the participation of different players such as banks/financial institutions, mobile network operators, financial technology providers, regulators, agents, chains of retailers and clients (Haider H, 2018)². It can eliminate such transaction costs and provide affordable, convenient and secure banking services to poor individuals in developing countries.

¹ Peterson K Ozili (2018), "Impact of Digital Finance on Financial Inclusion and Stability", MPRA Paper No. 84771, posted 24 February 2018 10:08 UTC Online at <https://mpra.ub.uni-muenchen.de/84771/>

² Haider, H. (2018). "Innovative financial technologies to support livelihoods and economic outcomes",. K4D Helpdesk Report. Brighton, UK: Institute of Development Studies

Financial inclusion refers to the access and applying a set of adequate financial services by households and firms is essential for advancement as it can help poor family units enhance their lives while likewise impelling financial movement. Digital financial services are held out as key money-related answers for enhancing monetary consideration (Agufa midika michelle, 2016)³. Financial inclusion is bridging the gap between cash and digital payments. Customers are connected to a digital payment system, they are able to transfer money instantly and cheaply to friends, family and business collaborate (Radcliffe & Voorhies, 2012).

Objectives

In this paper, we the researcher intends to identify the impact of digital finance in bringing about financial inclusion among people. Digital finance includes Internet banking, Mobile banking, Mobile Wallets (apps), Credit card and debit card. Financial inclusion is taken for the study are Convenience, Adaptability, affordability, Security, User-friendly, Low Service charge, Accurate timing, Online Monthly statement, Quick financial decision making, Easy interbank account facility, Internet Connectivity, and Usability.

Review of literature

⁴**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, crowdfunding, 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.

⁵**Agufa Midika Michelle (2016)**, The Effect Of Digital Finance On Financial Inclusion In The Banking Industry In Kenya, The study concluded that digital finance doesn't have any correlation on financial inclusion in banking sector in Kenya since banking institutions adopt

³Agufa Midika Michelle (2016), The Effect Of Digital Finance On Financial Inclusion In The Banking Industry In Kenya, Nov 2016

⁴ Yan Shen and Yiping Huang “Introduction to the special issue: Internet finance in China” china economic journal, 2016 vol. 9, no. 3, 221–224

⁵ Agufa Midika Michelle (2016), The Effect Of Digital Finance On Financial Inclusion In The Banking Industry In Kenya, Nov 2010

digital financial services to lower operating cost associated with opening and operating branches to improve their profitability and financial performance and not to foster financial inclusion.

⁶**Peterson K Ozili (2018)**, Impact of Digital Finance on Financial Inclusion and Stability, this article provides a discussion on digital finance and its implication for financial inclusion and financial stability. Digital finance through Fintech providers has positive effects for financial inclusion in emerging and advanced economies, and the convenience that digital finance provides to individuals with low and variable income is often more valuable to them than the higher cost they will pay to obtain such services from conventional regulated banks.

⁷**Huma Haider (2018)**, Innovative financial technologies to support livelihoods and economic outcomes, the study examined the innovative financial technologies support livelihoods of people. Access to digital technologies, in particular mobile phones, internet connectivity and biometric authentication, allows for a wider range of financial services, such as online banking, mobile phone banking, and digital credit for the unbanked. Digital financial services can be more convenient and affordable than traditional banking services, enabling low-income and poor people in developing countries to save and borrow in the formal financial system, earn a financial return and smooth their consumption.

Research Methodology

A well-structured questionnaire was carefully prepared for the collection of primary data. Multiple choices and Likert scale questions were carefully framed to study the impact of digital finance in financial inclusion. The Cronbach's alpha is 0.976, proving its reliability and validity. Data were entered into the Statistical Package of Social Sciences (SPSS) ver. 20.0 for analysis. The statistical techniques used for analyzing the data are One way ANOVA and Reliability test. One way ANOVA is similar to test, but it is used when you have two or more groups and you wish to compare the mean scores on the continuous variable. It is called one way because you are

⁶ Peterson K Ozili (2018), Impact of Digital Finance on Financial Inclusion and Stability, MPRA Paper No. 84771, posted 24 February 2018 10:08 UTC Online at <https://mpra.ub.uni-muenchen.de/84771/>

⁷ Haider, H. (2018). "Innovative financial technologies to support livelihoods and economic outcomes". K4D Helpdesk Report. Brighton, UK: Institute of Development Studies

looking at the impact of only one independent variable on your dependent variable. The study conducted a post hoc test to find which group is significantly different from another group.

Analysis and Findings

The aim of this analysis is to identify the impact of digital finance (Internet Banking, Mobile Banking, Mobile wallets (Apps), Credit card and Debit card) on financial inclusion. One way analysis is used to identify the impact of digital finance on financial inclusion.

Table 1: One way ANOVA for significant difference among digital finance and financial inclusion

Financial Inclusion	Digital Finance					F value	P value
	Internet banking	Mobile banking	Mobile wallets (Apps)	Credit card	Debit card		
Convenience	3.37a (1.165)	3.24ab (1.091)	4.05b (1.105)	4.00b (.849)	3.94b (1.056)	2.655	.037*
Adaptability	3.37 (1.165)	3.35 (.931)	3.95 (1.050)	4.00 (.843)	4.06 (1.507)	2.348	.060
Affordability	3.47 (1.219)	3.59 (.939)	4.05 (.923)	4.00 (.849)	3.94 (1.025)	1.289	.280
Security	3.37a (1.165)	3.47ab (1.007)	4.05ab (1.050)	4.12ab (.766)	3.94b (1.026)	2.384	.057
User friendly	3.42a (1.170)	3.41a (1.121)	4.20ab (.894)	4.00ab (1.104)	3.94b (1.056)	2.418	.054
Low Service charge	3.37a (1.165)	3.29a (1.160)	4.15ab (1.040)	4.00ab (.849)	4.06b (1.046)	2.639	.039*
Accurate timing	3.07a (1.165)	3.35ab (1.169)	4.15ab (1.030)	3.00b (.829)	4.21b (.863)	2.652	.038*
Online Monthly statement	3.58 (1.071)	3.41 (1.121)	4.05 (1.050)	3.96 (.824)	3.94 (1.032)	1.408	.237
Quick financial decision making	3.58a (1.219)	3.35ab (1.057)	4.20ab (.768)	4.00ab (.849)	3.94b (1.058)	2.407	.055
Easy inter bank account facility	3.47a (1.219)	3.35ab (.931)	4.25b (.786)	4.00b (.856)	3.94b (1.056)	2.871	.027*
Internet	3.47	3.35	4.05	4.00	3.94	1.599	1.81

connectivity	(1.124)	(1.007)	(1.050)	(.849)	(1.056)		
Usability	3.37a (1.165)	3.24a (1.091)	4.05b (1.050)	4.12b (.766)	4.06b (1.056)	3.385	.012**

(Source: Primary data) ** Highly Significant *Significant

Inference

****with DMRT (Duncan multiple range Test)**

Since the p-value is less than 0.01 the null hypothesis is rejected at 1% level of significance with regard to Usability. Based on Duncan multiple range Test (DMRT) the Internet banking, Mobile banking is significantly different with the Mobile wallets (apps), Credit and debit card at 5%. Hence, there is no significant difference between Internet banking, mobile banking, Mobile wallets (apps), Credit card and debit card with regard to Usability.

***with DMRT (Duncan multiple range Test)**

Since the p-value is less than 0.05 the null hypothesis is rejected at 5 % level with regard to Convenience, Low service charge, accurate timing, and easy interbank account facility. Based on Duncan multiple Range tests, Internet banking, Mobile wallets (apps), Credit card and debit card is significantly different at 5%. But the digital finance of mobile banking is not different from any other group. In Low service charge, Internet banking, Mobile banking is significantly different with the debit card at 5%. But the digital finance of mobile wallet and credit card is not different with any other group. In Accurate timing, Internet banking has significantly differed with the credit card and debit card at 5% level. But the digital finance of Mobile banking and mobile wallets (apps) is not different from any other group. In easy interbank account facility, Internet banking is significantly different with Mobile wallets, credit card, and debit card at 5%. But the digital finance of Internet banking and mobile banking is not different from any other group.

There is no significant difference among Digital finance (Internet banking, mobile banking, mobile wallets (APPS), Credit card and Debit card with respect to Adaptability, Affordability, Security, User-friendly, Online monthly statement and quick financial decision making. Since the p-value is greater than 0.05. Hence the null hypothesis is accepted at 5% level with regard to Adaptability, Affordability, Security, User-friendly, Online monthly statement, and quick financial decision making.

Conclusion

This article provides a discussion on Digital finance and its impact on financial inclusion. Digital Finance plays a vital role in the day to day activities of the people. The findings of the study found that Usability, Convenience, Accurate timing, and easy interbank account facility has positive impacts on Mobile banking, Low service charge and accurate timing has significant impacts on mobile wallets (apps) even Low service charge has positively impacted on the credit card. Hence the study concludes that the digital finance (Internet banking, mobile banking, mobile wallets (apps), credit card and debit card has a significant impact on financial inclusion. Though digital fiancé has many negative on an issue like affordability, security, adaptability etc. Every human being intends to avail the facility of digital finance in their lives.

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