



Impact of Digitalization on the Indian Financial System

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ABSTRACT

Digitalization or digital transformation is more than just adopting cloud, social, mobile or big data technologies. It is about using technology to create new values or change the business model. Digitally transformed businesses typically create an ecosystem where all market participants and consumers participate. 1st July, 2015 is a day when an initiative was being taken by our honorable Prime Minister Narendra Modi towards “making India Digital”. The campaign aimed to connect rural areas with high speed internet network and to improve the digital literacy. Indian economy is growing at a fast pace that requires the people to be financial literate to take judicious decisions. After this digitalization, the financial transactions have to be done through internet. So, Digital financial literacy is gaining importance. This paper analyses the importance of financial literacy in today’s world. The finding of the study will identify the obstacles in the execution of various programmes to make India financial literate and strategies to execute these policies effectively and efficiently. There are some financial services providers that have taken on a back seat approach and observe the developments in this digitalization space. This is probably a safer approach given the risks and costs involved. On the other extreme end, there are also financial service providers who have yet to embark on any digitalization strategy. However, this does not mean they will not be able to leapfrog ahead once they have strategized their digital strategy.

KEYWORD: *Indian economy, Digital India, Financial literacy, Financial System*

I. INTRODUCTION

India is the fastest growing economy in the world. The Indian economy is the seventh largest economy in the world measured by GDP and third largest by Purchasing Power Parity (PPP) after US and China. The Indian economy has seen a lot of changes from being self-reliant to opening its door for global trading by allowing LPG(Liberalization, Privatization and Globalization) in 1991 under the then Finance Minister Dr. Manmohan Singh. And since then there is no seeing back. According to the latest Economic Survey 2017-18, the Indian economy will continue to grow more than 7 per cent in 2018-19. According to Fitch Ratings Agency, India’s Gross Domestic Product (GDP) will likely slowly accelerate to 8 per cent by FY 2018-19, driven by the gradual implementation of structural reforms, higher disposable income and improvement in economic activity. The recent steps of the Indian government have shown positive results in the growth of the GDP. According to a Goldman Sachs report released in September 2015, India could grow at a potential 8 per cent on average during from fiscal 2016 to 2020 powered by greater access to banking, technology adoption, urbanization and other structural reforms.

The 1990s also saw the entrance of technology in India and people were introduced with the use of personal computers and gradually the automation took every sector by storm and now we can see the virtual world that exists and anything can happen in it from uniting the world to initiate a war if not handled properly. But in a developing country like India the process of digital soundness has been slow and got a huge push to go digital when the demonetization

shook everyone. Although there have been various initiatives taken by our Honorable Prime Minister Mr Narendra Modi such as Make In India, Swatch Bharat Abhiyan, Digital India etc. But it was during this money crunch when people started recognizing the benefits of being digitally sound and how useful it is. Our government has emphasized ongoing cashless as it will make transactions smoother and transparent and eliminates the existence of parallel economy which poses threat to the peace in our country and also helped in their financial inclusion plan and has seen that demonetization has made the accounts opened under Pradhan Mantri Jan Dhan Yojana operational. As rightly said by Rajat Gandhi on financial inclusion “No matter how many banks may open and how many boots you have on the ground, if the person does not know about the financial options that are open to him, policies, schemes and financial instruments will mean little. It is important for a person to know what to look for and only then think of the benefits that he can obtain from it.” Thus this makes the financial literacy all the more important. Financial inclusion is a quantitative term and financial literacy is more about the quality. Financial literacy focuses on the understanding one should have to how to use and manage the money efficiently and reduce the risk and save their money from environmental changes such as changes in the economy, inflation etc. With the demonetization people have also realised how important it has become for them to know about their money and what affects it the most and how they can protect. During this phase digital awareness has also gained importance and people are also willing to learn the new modes available for them to manage their money in the cashless way. During this time the online payment options have helped people to survive the cash crunch they faced and have also become the driving force for digital literacy and financial literacy.

II. OBJECTIVE OF THE STUDY

1. To understand the obstacles in the path of digitalization and the economic growth.
2. To understand how every step taken towards financial literacy is affected by various factors and how they are interrelated and interdependent.
3. To understand the requirement of financial literacy.

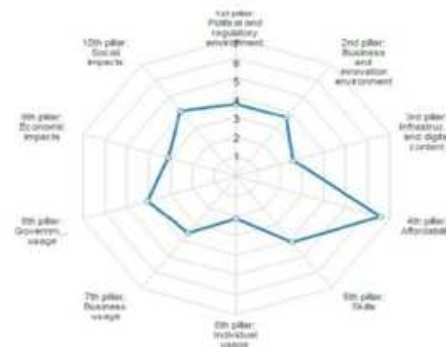
III. RESEARCH METHODOLOGY

The study is exploratory and quantitative in nature. The secondary information is used for the analysis of

the problem. Sources for the secondary data are originated from the various sources like special investigation team report, newspaper and Reserve bank of India (RBI) websites.

Digital World and Digital India:

In the Global Information Technology report 2017 published by World Economic Forum India Ranked at 91st position in Network Readiness Index among 139 countries slip down by 2 positions in the overall ranking. The change is marginal but this drop is an indicator of our slower pace than other countries. In the overview given the World Economic Forum, the lack of infrastructure (based on which it is ranked 114th) and low levels of skills among the population (101st) remain the key bottlenecks to widespread ICT adoption, especially in terms of individual usage (120th). A third of the Indian population is still illiterate (95th) and a similar share of youth is not enrolled in secondary education (103rd). India's performance in terms of providing online services and allowing e-participation has so far been in line with that of peer countries, but not the global best. Only 15 out of 100 households have access to the Internet and mobile broadband remains a privilege of the few, with only 5.5 subscriptions for every 100 people. This is in spite of the fact that affordability has long been one of the strengths of the Indian ICT ecosystem, with the country ranking 8th this year in this area. There is a deep divide that persists between well-connected metropolitan hubs and remote rural areas, where even the most basic infrastructure is insufficient. The Digital India initiative started by our honorable Prime Minister Mr. Narendra Modi is one of the necessary steps needed for our economy to compete with the digitalization transition going on around the world and aims to close the gap by fostering investment in digital infrastructure, improving digital literacy, and increasingly providing online services to citizens.



Digitalization and GDP Growth:

Impact of digitalization on a country can be assessed

on the basis of its impact on the government, on the economy and the society. We have seen a major change in every sector with the emergence of digitalization. The digitalization has created new job opportunities, have led to innovation in very sector and also led to the growth of the economy i.e. have helped in the GDP growth of the country. The government has emphasized on the digitalization as it brings transparency, better control, better job opportunities, it also provides an ease of access to the people and an upward movement in their quality of life. The study conducted by Strategy& (formerly known as Booz and Company) Shows that the increase and effective utilization of digitalization can increase their GDP. They analyzed that constrained economies realize a 0.5% increase in GDP per capita for every 10% increase in digitalization, while advanced digital economies show a 0.62% increase in GDP per capita for every 10% digitalization increase. India is known as the powerhouse of the software industry and is in a leading position in global sourcing market but there is still a great deal of work to be done for its Digital India campaign. Digitalization will be helpful if it can reach the maximum people and for that each and every citizen of the country should be able to easily access the facilities for which they not only need to be connected to internet but also have digital literacy to be able to use facilities provided to them.

The divide between well-connected metropolitan hubs and remote rural areas is one of the main aims of Digital India Program. For this the Central government is hopeful of achieving the complete roll-out of broadband network across 2.5 lakh village panchayats in the country by 2018 as per Bharat Net programme, which aims to provide broadband connectivity to all panchayats in the country, the panchayats will have an ecosystem that will further boost the connectivity and bridge the digital divide in the country. India has also started collaborating with various countries and business organizations (like Google, Cisco etc.) for speeding up its digitalization process by infrastructural development, increasing access to internet and also started the transformation of cities to smart city. This Campaign also got some propellant in the form of free/cheapest 4G mobile data and cheapest Wi-Fi broadband for the customers. Company Reliance Jio Infocomm Limited (RJIL) a subsidiary of Reliance Industries gave push to internet usage by introducing ground smashing data pack rates, at initiation of the project by Reliance the SIM

was issued free of cost with 4GB 4G data just by submitting the photocopy of Aadhaar card and IMEI no of your 4G or LTE or VOLTE enabled handsets and after the end of March 2017 at a price lowest of all other service providers.

Digitalization and Demonetization:

Digitalization transition through Digital India Programme aims to provide the much needed thrust to the nine pillars of growth areas, namely Broadband Highways, Universal Access to Mobile Connectivity, Public Internet Access Programme, e-Governance: Reforming Government through Technology, e-Kranti - Electronic Delivery of Services, Information for All, Electronics Manufacturing, IT for Jobs and Early Harvest Programmes. Every pillar has its own importance, complexities in implementation and is a propellant for the overall growth of the country.

1. Broadband Highways:

It covers three components broadband for all rural, broadband for all urban and National information infrastructures.

2. Universal Access to Mobile Connectivity:

It focuses on network penetration and filling the gaps in connectivity in the country.

3. Public Internet Access Programme:

To provide Common Services Centres (CSCs) and Post Offices as multi-service centres,

4. e-Governance:

Reforming Government through Technology: Government Process Re-engineering using IT to simplify and make the government processes more efficient is critical for transformation to make the delivery of government services more effective across various government domains and therefore needs to be implemented by all Ministries/ Departments.

5. e-Kranti :

Electronic Delivery of Services: The Government approved the National e-Governance Plan (NeGP), comprising of 31 Mission Mode Projects (MMPs) and 8 components. e-Kranti is an essential pillar of the Digital India initiative and there are 44 Mission Mode Projects under e-Kranti, which are at various stages of implementation.(includes Banking, Post office, Income tax, Land records, Agriculture, Gram Panchayats etc.)

6. Information for All:

Online hosting of information & documents to

facilitate open and easy access to information for citizens,

7. **Electronics Manufacturing:**

It focuses on promoting electronics manufacturing in the country with the target of NET ZERO Imports by 2020 as a striking demonstration of intent.

8. **IT for Jobs:**

It focuses on providing training to the youth in the skills required for availing employment opportunities in the IT/ITES sector.

9. **Early Harvest Programmes:**

It consists of those projects which are to be implemented within short timeline.

Digitalization is a boon and needs to be utilized properly with the recent case of demonetization we can assess that it has helped people during the demonetization from Nov. 8 2016 to Dec. 31 2016 when the country faced cash crunch, when Rs. 500 and Rs. 1000 notes were scraped and new currency was circulated in replacement of old notes. This step not only shook the tax evaders but also pushed India to become more digitally sound country and has also highlighted the benefits and need to go cashless (or have a less cash based economy). Demonetization has also increased the transactions from mobile wallet and digital payment channels. Pay tm said it hit a record of 5-million transactions a day, processing Rs. 24, 000 crore worth of payments, less than a week into the Indian government's decision to demonetise Rs.500 and Rs.1, 000 notes making it the largest digital payments company in the country It may be seen as a temporary phase but the ease of access and availability has made more of a good alternative than the paper or plastic money. With the adaptation of technology in the banking sector more and more transparency came in the flow of money in the economy.

Pradhan Mantri Jan Dhan Yojana gave push to financial inclusion that everyone whether from urban area or from rural area should have a account so that everyone is connected in the economy and demonetization led to the operation alization of Jan Dhan accounts which were opened under the scheme. It also had multiple benefits like people who did not had the identity proofs registered themselves for Aadhar card and other identity proofs and will also help in direct transfer of benefits to the concerned person. Digitalization in this situation helped to have

a virtual access to the money and with the concept of e-kranti in the banking sector it will become easier for the people to avail the financial services provided by them. Having a bank account is not the only matter of concern but also having the knowledge that how their money gets affected by economic situation of the country and various other factors for having a control over their finances is also important. When people are financially literate, they are more likely to explore the products and services offered by banks and use them for their benefits. This accelerates the pace of financial inclusion, where everyone can access the basic banking facilities rather than relying on the orthodox systems of money market such as borrowing money from money lenders on illogical interest rates. Financial inclusion and financial literacy are two essential ingredients of an efficient economy. Thus financial literacy is what also needs the attention of the masses and with all the latest advances happening around, it is becoming a matter of prime concern. Financial education is “the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.”

The financial literacy level majorly depends upon the education and income of the individuals; the social factors such like family size, family background, age, regions nature of employment have a little impact on this. With the digitalization there is an ease of access to the money as the banking system has evolved with the time and provides the customer with different facilities like online payment of their monthly expenses such as electricity bills, payment of premiums etc. With all this growth and development people need to aware about the problems associated with digitalization of finances.

Financial literacy:

According to a survey conducted by Standard & Poor's, over 76% Indian adults lack basic financial literacy and they don't understand the most basic and key financial concepts.

Another survey of “Financial Literacy among Students, Young Employees and the Retired in India” conducted by IIM-A supported by CITI Foundation

reveals that high financial literacy is not widespread among Indians where only less than a quarter population have adequate knowledge on financial matters. There is lack of understanding among Indians about the basic principles of money and household finance, such as compound interest, impact of inflation on rates of return and prices, and the role of diversification in investments."In some studies it is revealed that financial literacy affects the financial behaviour of the people and thus through proper education they will be motivated to take the right financial decisions, get to know about the financial products and services available to them and also inculcates a habit of saving and protecting their money.

Digitalization has revolutionized the way we used the banking services and with the technological advancement and interconnectivity of the various services with the services provided by the banking sector there is need to speed up our country's literacy rate, digital literacy rate and financial literacy rates as they all together have an impact on the proper utilization of the Digitalization.

Financial literacy along with computer literacy is a must to mobilize the savings in the economy and put forth the growth of the economy and puts the society's development on fast track. Many initiatives have started but their reach is narrowed or hampered by various factors. But to keep our pace of Digital transition with the world we also need to speed the pace of digitalization along with these basic requirements or basic knowledge or skills which can obstruct the overall transformation or held us back to achieve this goal.

Obstacles in the process of Digitalization:

1. The resistance to change people show during emergence of new technology.
2. Building trust among the people for change is difficult.
3. Lack of knowledge about its use and benefits.
4. Infrastructure requirements and their unavailability also hamper the reaching of these basic facilities to the people.
5. The basic hindrance is the lack of literacy and literacy is not just to be able to write ones name and do the signature but to have an understanding of the changes going in the technology, society and the country for their own betterment.

RECOMMENDATIONS

1. The initiatives took by the government can only be successful if people get involved in the transformation. The Schools and Colleges can create awareness among the people of their locality about the initiatives and imparting knowledge to the people.
2. For doing so they also need to have the knowledge about the program and how to use the facilities provided by the government.
3. Community centres can be formed were people who are more literate about the issues can help the other people and experts can visit them to give the guidance from time to time.
4. Organizations can guide their employees and make them literate regarding the financial aspects.
5. RBI and SEBI have already taken many steps to create awareness among the people about the importance of financial literacy and also provided the online modules for financial literacy on their websites.
6. People should be imparted with the knowledge of factors which affect their savings and how they can maximise their saving or the facilities available for them to help them to do so.
7. People should also be made aware about the security of their personal information regarding their accounts and online frauds.
8. The banking system must also be made robust as people need to trust the system before they go with the technological advancement.

CONCLUSION:

The digitalization brings innovation, ease of working, new job opportunities and growth in the economy. It helps to bring transparency in the system and more transparent are the flow of funds in the economy less is the problem of tax evasion, parallel economy etc. But with all these benefits available it also makes it necessary for the people to have basic financial knowledge and a push towards the importance of the financial literacy. With the help of which they can protect their money in situations like inflation, depression, and know about different financial products and services to save it for their better future. Digitalisation can also play an important role in achievement this goal as it can have a greater reach to the people. By this we can reach on a conclusion that the new technology needs to harnessed well and for

this it is not only the availability but also the knowledge to use it and get benefits from it. Questions arose on the readiness of the workforce to embrace digitalization. The financial services industry has many legacy systems which have to be compatible to the new digital technologies. Some of these systems are so complex that any integration to the legacy is almost not feasible. Hence, the workaround to ensure the integration is made possible. In worst cases, it is almost not possible to do anything other than to change the legacy systems. New technology means new skill sets' to be acquired. At times, it is rather difficult to change certain mindsets to adopt new skill sets. With so many changes happening on the technology side, it is not surprising to see resistance from all levels in the organization. There are new responsibilities resulting from the digital transformation affecting the whole organizations.

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