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DIGITAL FINANCE: A CATALYST TO FINANCIAL SERVICES

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ABSTRACT

Financial services are the backbone of an economy, which caters the basic needs of its citizen i.e.to save, to invest and to protect. Digital finance is a financial service that covers financial services delivered through digital network/ infrastructure including mobile and internet. The present study is conducted to explore the growth potential of digital finance and major problems faced in emerging economies. Digital finance has a great potential to boost the GDP of emerging economies. Digital infrastructure, financial service markets and financial products are three building blocks of digital finance. The major hurdle in the growth of digital finance is the problem of financial exclusion, which is actually spread beyond the poor section of the society. It is further concluded that 93 percent of all transactions in emerging countries are executed in cash as compared to 50 percent in developed nation.

KEYWORDS

financial services, digital finance and digitalization.

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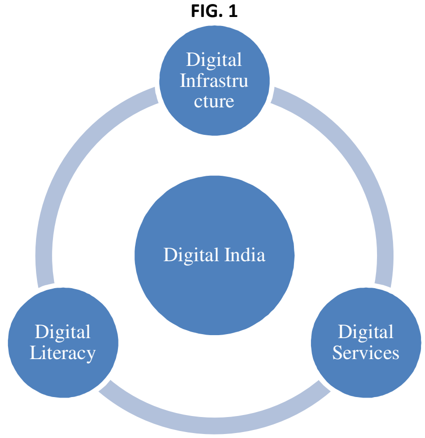
E49

1.1 INTRODUCTION

Financial services are the backbone of an economy, which caters the basic needs of its citizen i.e. to save, to invest and to protect. In recent years financial digitalization emerged as a new concept in Indian economy. Digitalization is to make services available by an improved online infrastructure and internet connectivity or by making technology empowered country. Financial digitalization or digital finance covers financial services delivered through digital net-work/ infrastructure including mobile and internet. Digital finance covers a) financial services such as payments, savings accounts, credit, insurance, b) users include individuals, businesses and government, c) service providers includes banks, financial institutions telecom companies and financial technology.

In India, in order to enhance greater internet connectivity, increased financial inclusion and inclusive growth- Digital India campaign launched by Government of India in the year 2015. Digital infrastructure, digital services (includes digital finance) and digital literacy are its three core components.

FIG. 1



1.2 LITERATURE REVIEW

Smith et al (2001) conducted a study on digital finance and discuss the four dimensions of internet market. They concluded that the internet markets are more effective than the conventional market with respect to price level, price elasticity and menu cost. The study also finds that there is significant price dispersion in internet market.

Barbesino et al (2005) conducted a study on digital finance in Europe. They analysed Competitive dynamics and online behavior in the economy. They describe the online banking in Europe, by observing behavioural of internet user accessing bank websites and managing their finances online.

Liu (2005) investigate the reading behavior in digital environment. He analyzed that if people spend more time on reading electronic documents then a screen based reading behavior is emerged. He also discusses the printing behavior, annotating and highlighting while reading is considered as printing behavior.

Radcliffe and Voorhies (2012) conducted a study on digital financial inclusion. They describes that the process of financial inclusion includes physical, digital, and psychological clouds. They also describe the stages of digital financial inclusion that at starting the basic connectivity is needed and then there must be a full range of digital financial services.

Winiecki and Kumar (2014) highlight the overview of the digitally financed energy access sector, advancements in business models and product that are offered. Their main focus is on businesses deploying PAYG solar photovoltaic products using digitized payments and providing unique hardware to control the use of energy services. They describe the experiences that combine digital finance with a wide range of energy technologies.

1.3 METHODOLOGY

People in emerging economies do not have full facilities or they do not completely participate in financial system therefore they have access to credit facilities within their informal/personal network and this cost high too. As a result major chunk of wealth circulate outside the formal financial network resulting scarce and expensive credit. Therefore, the solution of this problem lies with the digital finance.

The present study is descriptive study primarily based on secondary data. Secondary data collected from Mckinsy Report, 2016 on digital finance for all.

1.4 OBJECTIVES

The objectives of the present study are as per following:

1. To explore the growth and benefits of digital finance in emerging economies
2. To identify the problems faced in executing digital finance among emerging economies.

1.5 ESSENTIALS OF DIGITAL FINANCE

Digital infrastructure, sustainable financial market and financial products are three building blocks essential to capture potential value of digital finance.

A) DIGITAL INFRASTRUCTURE

Infrastructure needed for digital finance can be implemented at less time, at low cost as compare to other type of infrastructure. Mobile handset and internet connectivity is the vital component of digital infrastructure. Smart phone ownership, network coverage and access to affordable data plan is high in developing countries indicating vibrant future of digital finance.

B) SUSTAINABLE FINANCIAL MARKET

Digital infrastructure needs to be supported by a sustainable and dynamic financial market, including banks, financial institutions, mobile operators and telecom companies. Financial market also require financial service regulator to strike balance between service providers and investors. Financial market should ensure check on cyber risk or other information technology failure. Besides this, countries need to create a competitive environment and encourage innovative, wider range of financial products and services among new entrants.

C) FINANCIAL PRODUCTS/SERVICES

Smart and range of financial products needs to offer under digital finance to attract people for digitalization. Affordable, user friendly and convenient products should be encouraged to promote digitalization

1.6 BENEFITS OF DIGITAL FINANCE

FOR INDIVIDUALS

Digital finance would improve availability of wider range of financial products, convenience, save time and reduce the cost of financial services. Digital finance improves access to education, health care, improve gender equality, and reduce poverty.

FOR BUSINESSES

Digital payment enables business to monitor electronic sales records, improve cash flow, monitor productivity, raise profitability, supply management, receivable management and enhance customer understanding. Digital records of businesses transaction help businesses to predict the credit quality.

FOR FINANCIAL-SERVICES PROVIDERS

Digital finance offers huge opportunity to financial service providers by shifting cash payments to digital payments which annually save about $400 billion in direct cost. Digital finance benefited telecom companies,microfinance institutions (MFIs), financial technology startups, even handset manufacturers.

FOR GOVERNMENTS

Digital finance enables government spending on infrastructure, education and health care. Digital payment reduces leakage in government expenditure. Digital payment foster annual tax collection by approximately $40 billion also it has reduced the size of informal financial system. Digital finance improved cost efficiency by shifting cash to digital transaction.

1.7 PROBLEMS FACED IN EXECUTING DIGITAL FINANCE AMONG EMERGING ECONOMIES

A significant part of the population of developing countries is not a part of financial system. In emerging countries, people do not have the access to financial services as enjoyed by the people in developed nations. About forty-five adult population of developing nation do not have bank account. The problem of financial exclusion among poor or middle class also underserved financial services.

Ninety three percent of the transactions are executed in cash across developing countries compared to fifty percent in developed nations.

Less than twenty percent women in emerging economies have formal account. This hinders the growth of digital finance.

1.8 CONCLUSION

In the long term, beyond expanding financial access digital finance reduce cost of transactions, increase prompt and convenient financial transaction among individuals, businesses, government and other players of financial market. Digital finance ensures financial inclusion and introduces more transparent financial system. Digital payments so called micro payments permit people to transact in small amounts. It is concluded that economic development is a long journey but digital finance certainly act as a catalyst to this.

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