



Asian Journal of Management and Commerce

E-ISSN: 2708-4523
P-ISSN: 2708-4515
AJMC 2024; 5(2): 698-701
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www.allcommercejournal.com
Received: 10-10-2024
Accepted: 26-11-2024

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Mobile money as a catalyst for digital financial inclusion

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DOI: <https://doi.org/10.22271/27084515.2024.v5.i2h.417>

Abstract

This research explored how mobile money services can stimulate digital financial inclusion in developing and emerging economies. India's financial landscape has completely changed as a result of mobile money, greatly increasing financial inclusion, particularly in underserved and rural areas. Thanks to the India Stack and other digital infrastructure, millions of people can now access financial services with previously unheard-of ease. Mobile money became essential as a result of the COVID-19 pandemic, which also accelerated the adoption of contactless digital payments. Even with these advancements, problems like institutional weaknesses and low awareness continue. This research delves into the advancements, obstacles, and tactical measures required to utilize mobile money as a driving force behind digital financial inclusion in India.

Keywords: Mobile money, Digital financial inclusion, India stack, COVID-19 pandemic, Awareness barriers, UPI123pay, upi lite

Introduction

The rapid adoption of smartphones in developing nations has accelerated the shift to digital, decreasing unofficial trade and fostering digital inclusion. In the financial industry, mobile money has become a revolutionary force, especially in developing nations. Millions of people in India, especially those living in underserved and rural areas, now have access to financial services thanks to its critical role in closing the financial inclusion gap. This change has been made possible by the extensive digital infrastructure known as India Stack, which allows for simple financial transactions with a few taps on a smartphone screen. The COVID-19 pandemic served as a trigger, quickening the uptake of contactless digital payments and deepening Indians' daily exposure to mobile money. Even with the advancements, there are still a number of issues, such as institutional weaknesses and low awareness, especially in developing nations. This study explores how mobile money affects financial inclusion in India, looks at the obstacles to its widespread use, and suggests tactical changes to increase its potency in promoting digital financial inclusion.

The role of mobile money in digital financial inclusion

- **Accessibility:** People can easily and conveniently access financial services with the help of mobile money services, particularly in rural areas with inadequate physical infrastructure. For the unbanked and underbanked population, mobile money decreases entry barriers by doing down fast with the need for physical bank branches.
- **Affordability:** Compared to traditional banking services, mobile money transactions frequently have lower fees, which makes them more accessible to those with modest incomes. Adoption and usage are encouraged by this affordability, especially for small-scale transactions.
- **Financial Education:** Mobile money services can be integrated with financial education programs, providing users with tools and resources to improve their financial literacy. This can empower individuals to make informed decisions about their finances and manage their money more effectively.
- **Economic Empowerment:** By facilitating transactions and providing access to financial services, mobile money can contribute to economic empowerment, especially for women and marginalized communities. It can enable individuals to participate in the formal economy, start businesses, and improve their livelihoods.

Financial Inclusion: By developing financial services accessible to a wide population, mobile money services are essential in fostering financial inclusion. They can aid in closing the digital divide and give people chances to engage in the world economy.

Impact on financial inclusion through mobile money in India

- 1. Adoption of Mobile Payment Platforms:** The Unified Payments Interface (UPI), which is supported by the government, Paytm, Google Pay, PhonePe, and other mobile payment platforms have become widely used and have revolutionized financial inclusion in India. Peer-to-peer and merchant transactions were made possible by UPI, which was introduced in 2016, without the use of conventional banking infrastructure. Millions of people, including those in underserved and rural areas, had access to financial services thanks to UPI, which was handling over 4 billion transactions every month by 2021.
- 2. Government's Digital India Initiative:** The goal of the government's 2015- launched Digital India initiative was to increase internet access and foster digital literacy in order to create a society that is more digitally literate. This program has made mobile payments more accessible and reliable, which has improved financial inclusion, particularly in rural areas. Additionally, it has aided in the formalization of transactions and decreased reliance on unofficial financial networks, increasing access to finance.
- 3. Pradhan Mantri Jan Dhan Yojana (PMJDY):** The PMJDY scheme, implemented by the government, has made significant progress towards achieving financial inclusion by granting universal access to banking services. This plan is further enhanced by the accessibility of mobile money platforms, which let users, particularly those living in remote locations, manage their accounts and make transactions using mobile devices. Previously unbanked populations now have access to banking facilities to thanks to this integration.
- 4. COVID-19 and Acceleration of Mobile Payments:** The action to digital payments was expedited by the COVID-19 pandemic. For users in both urban and rural areas, mobile payments became increasingly important when lockdowns restricted in-person transactions. By bringing more people into the digital financial ecosystem, mobile payment platforms quickly gained traction due to the demand for contactless payments. This increased financial inclusion.
- 5. Challenges to Full-Scale Adoption:** Moreover, obstacles to financial inclusion do not go away.

Need for the study

- **Financial Exclusion:** Many people in Africa and India are either unbanked or underbanked, meaning they lack access to formal financial services.
- **Mobile Penetration:** Due to the widespread use of mobile phones, there is a unique opportunity to close the financial inclusion gap.
- **Growth of Digital Transactions:** Mobile money became critical during the COVID-19 pandemic, highlighting the necessity of easily accessible digital financial solutions.

- **Obstacles:** Inadequate infrastructure, a lack of digital literacy, and regulatory concerns prevent mobile money from being fully adopted.

Objectives of the study

- **Impact Analysis:** Ascertain the ways in which mobile money can contribute to greater financial inclusion in Africa and India.
- **Assess Empowerment:** Look into the ways that mobile money makes it possible for individuals and small businesses to participate in the economy.
- **Identify Challenges:** Examine the barriers that stand in the way of using mobile money in these places. Examine how mobile money encourages participation and economic growth in order to analyze growth.
- **Recommended Solutions:** Establish regulations and laws to enhance mobile money security and usage.
- **Project Potential:** Project future developments and the ways in which mobile money will support digital financial inclusion.

2. Review of the literature

- **Future Prospects and Innovations:** Emerging technologies, such as 5G and blockchain, are expected to further enhance mobile financial services. Research by Agarwal and Nayak (2022) points to innovations like Aadhaar- based payments in India and biometric authentication methods in Africa as potential game-changers in expanding financial inclusion. As mobile penetration deepens, particularly in rural areas, these technologies hold promise for overcoming current barriers and driving inclusive economic growth.
- **"Role of Mobile Money and Digital Payments in Financial Inclusion for Sustainable Development Goals in Africa" by Bruno Lule Yawe et al. (2022)** ^[2] **4:** This chapter discusses how mobile money and digital payments contribute to financial inclusion and the achievement of Sustainable Development Goals in Africa. It highlights the importance of mobile money in providing financial services to the unbanked population.
- **COVID-19 and Acceleration of Digital Payments:** The global pandemic significantly accelerated the use of digital financial services. Research by the GSMA (2021) emphasized that mobile money became a lifeline for many in Africa and India during lockdowns, as it enabled secure, contactless payments. Studies by Ghosh and Kumar (2020) ^[6] suggest that digital financial inclusion saw a sharp increase during this period, driven by the need for remote and cashless transactions.
- **Mobile Money in India:** According to Sinha (2021), UPI's widespread adoption, with billions of transactions processed monthly, has been key to financial empowerment, especially during the COVID-19 pandemic.
- **"Mobile Money and the Economy: A Review of the Evidence" by Janine Aron (2018)** ^[1]: This article examines the evolution of mobile money and its significant role in widening financial inclusion². It explores the economic influence of mobile money from a micro perspective and critically reviews empirical literature on its economic impact.
- **"Mobile financial services, financial inclusion, and**

development: A systematic review of academic literature" by Minjin Kim *et al.* (2018) [7]: This systematic review explores the impact of mobile financial services on financial inclusion and development. It uses taxonomic, descriptive, and analytical methods to evaluate the state of knowledge in this area.

- **Economic Empowerment through Mobile Money:** Suri and Jack (2016) showed that mobile money, particularly in Kenya, directly contributed to poverty alleviation by allowing users to save more effectively, manage financial risks, and invest in small-scale businesses. Aker *et al.* (2015) found similar results in other African countries, where mobile money increased household savings and financial security. Similarly, in India, research by Sharma (2020) demonstrated how mobile money platforms like Paytm and UPI enabled small vendors and informal sector workers to engage in the formal economy, boosting their income levels and financial stability.
- **Mobile Money in India:** The UPI Revolution: India's Unified Payments Interface (UPI), launched in 2016, revolutionized digital payments by creating an interoperable platform that made digital transactions simple and cost-effective. Gupta and Reddy (2019) observed that UPI contributed significantly to digital financial inclusion by providing users with access to a broad range of financial services without needing formal banking access.
- Mobile money services are now widely considered an integral component of the financial-inclusion program (Dermish *et al.*, 2011) that was initiated in several developing and emerging countries in the last two decades. Considering their importance in reaching the unbanked and even underbanked, these financial-inclusion programs have primarily been supported and promoted by national governments and regulatory bodies across many countries, including Ghana.
- **Barriers to Adoption:** Several studies, including Aker and Mbiti (2010), highlight the barriers to widespread mobile money adoption. In regions like Africa and India, factors such as low digital literacy, inadequate infrastructure, and cybersecurity concerns are significant challenges. Frost (2020) also points out the role of regulatory frameworks in either fostering or hindering the growth of mobile money, with regulatory uncertainty being a recurring challenge in many emerging markets.

Findings of the study

Financial inclusion has greatly expanded thanks to mobile money, especially in India's underprivileged and rural areas. With just a few screen taps, millions of people can now accept payments, settle invoices, and transfer money thanks to the India Stack, a comprehensive digital infrastructure that has completely changed financial access. The COVID-19 pandemic has caused a surge in the use of contactless digital payments for small transactions, which has further accelerated this transformation. The convenience and accessibility of digital payments have increased thanks to innovations like UPI123Pay and UPI Lite. According to India's Economic Survey 2024, the country's financial inclusion strategy has shifted from targeting "every household" to "every adult," with 77% of adults now having

bank accounts. This development emphasizes how important digital innovations and mobile money are to improving financial inclusion. But even with these developments, problems like institutional weaknesses and low awareness in developing nations still exist. Achieving deeper financial inclusion requires addressing these obstacles.

Suggestions for the study

- **Expanded Digital Literacy Initiatives:** Create all-encompassing digital literacy programs, emphasizing impoverished and rural areas. Give people the knowledge and skills they need to use mobile money platforms effectively and safely.
- **Improve Infrastructure:** Invest in developing countries to modernize their digital and financial infrastructure. This means expanding network coverage, improving internet speeds, and ensuring a consistent power supply in order to support mobile money services.
- **Regulatory Support:** Draft and put into effect laws that encourage innovation and competition in the mobile money sector. Ensure that regulations protect consumers and foster an environment that promotes financial inclusion.
- **Work Together with Financial Institutions:** Encourage cooperation between banks, microfinance institutions, and mobile money providers in order to create integrated financial ecosystems. This partnership may make a wider range of financial services and products more accessible to underprivileged communities.
- **Raise Awareness:** Run educational programs to teach the public about the advantages of using mobile money. To increase confidence in digital financial services, showcase case studies and success stories.
- **Address Gender Gaps:** Focus on reducing the gender gap in financial inclusion by designing targeted interventions for women. Ensure that mobile money services are accessible, affordable, and tailored to meet the specific needs of women.
- **Leverage Data Analytics:** Apply data analytics to comprehend user behavior, pinpoint adoption hurdles, and customize services to cater to various demographic needs. The success of mobile money initiatives can be increased with the aid of this data-driven strategy.
- **Offer Incentives:** Give users of mobile money discounts, cashback, or a reduction in transaction costs as a way to encourage their use. More people may adopt and regularly use digital financial services as a result of these incentives.

Conclusion

In India, mobile money has become a game-changing factor for improving financial inclusion. By significantly increasing access to financial services, particularly in rural and underserved areas, and leveraging comprehensive digital infrastructure like the India Stack, millions of individuals can now easily engage in financial transactions. The COVID-19 pandemic has expedited the assimilation of mobile money, resulting in the widespread use of contactless digital transactions. UPI Lite and UPI 123Pay

are two innovations that have increased the accessibility and convenience of these services. Even with these advancements, there are still issues, such as institutional weaknesses and low awareness in some areas. Achieving deeper financial inclusion requires addressing these obstacles. Implementing extensive digital literacy programs, improving financial and digital infrastructure, creating regulatory frameworks that support them, and encouraging partnerships between financial institutions and mobile money providers are all essential to building on the gains that have been made. Other important tactics to promote financial inclusion include utilizing data analytics, addressing gender disparities, promoting the advantages of mobile money, and providing incentives for use. In conclusion, even though mobile money has greatly accelerated India's digital financial inclusion, more work and deliberate interventions are needed to guarantee that everyone can take advantage of these advancements.

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