



CAG

Citizen consumer and civic Action Group



FAIR-DIGITAL FINANCES

A case study on digital financial services

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About CAG

CAG is a 38-year-old non-profit and non-political organisation that works towards protecting citizens' rights in consumer, civic and environmental issues and promoting good governance processes including transparency, accountability and participatory decision-making.

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Terminology

Digital Financial Services (DFS) : DFS are financial services which rely on digital technologies for their delivery and use by consumers.

Fintech: refers to digital technologies that have the potential to transform the provision of financial services spurring the development of new – or modify existing – business models, applications, processes, and products. In practice, the term “fintech” is also broadly used to denote the ongoing wave of new DFS. Examples of these technologies include web, mobile, cloud services, machine learning, digital ID, and Application Programming Interfaces (APIs).

Executive summary

Digital financial services include the provision of traditional banking services in digital/technological form. This form of using technology to access financial services is also known as FinTech. Bank's application, net banking, bank cards, digital wallets, UPI etc are some of the common forms of digital financial services available. Out of this UPI (Unified Platform Interface), which includes GooglePay, PhonePay, Paytm etc, is the most commonly used form of digital financial services. It is hailed as possessing the potential to revolutionise the financial sector and even assist in transition to a low-carbon economy. In the developing economies, the digital revolution of the financial sector succeeded in giving access to people who had no prior access to financial services. The Indian government has made several efforts in the past years to promote digital and financial inclusion as well as digital financial inclusion in the country. The 'Digital India' initiative is one such initiative by the government of India to ensure that its services reach electronically to even the most rural areas. Aadhar, CSC-s, My Gov and Digilocker are some of the successful initiatives under the Digital India scheme. The Pradhan Mantri Jan Dhan Yojana is another initiative by the Government of India that aims to ensure country wide access to financial services at a low cost, especially for the rural and marginalised members of the society.

However the transition to digital finance comes with its own set of challenges, especially in emerging markets. The challenges pertinent to emerging markets compared to advanced economies include low penetration of formal financial services, low income and financial literacy levels, underdeveloped technology ecosystems and weak infrastructure. As a result of these challenges the prevalence of scams and scamsters are also high in the environment. Duping people under the pretext of being bank representatives, scholarship and game authorities are often reported. To better understand the challenges faced by members of low-income communities CAG conducted a survey among 2000 people which included college-going students, women from self-help

groups, farmers and cottage/small industry owners. The [survey](#) had 46 questions and was administered in the districts of Madurai, Dindigul, Tiruchirapalli, Coimbatore and Tiruppur.

Some interesting findings from the study include that across the respondents there is a high usage of digital finances even if the majority of the respondents, across categories, are new users (ie, have been using digital finances for under two years). Among college students there is 100% usage while women self help groups had 95.6% usage and cottage industries had 99.8% along with farmers who had 97% usage rate. Out of the four categories surveyed, the women's group had the lowest usage. Some of the reported reasons behind not using digital financial services were restrictions from male members of the family, and dependency on others to use these. 54.5% of the women respondents responded positively when asked if they faced restriction from male family members when it comes to engaging with digital financial services. With cottage industry users it was found that most of them follow a hybrid cash and digital modes of payment and that using digital services makes their transactions easier as well as provides greater sales opportunities. Among farmers, 84.1% use digital financial services for agriculture related activities while among college youth 66.1% use digital financial services for education related activities and 61.6% make use of the services for shopping and entertainment activities.

Finally, out of the 2000 people surveyed, it was found that 98.1% used digital financial services while 1.9% did not use it. For the 1.9% non-users, the top reasons for not using digital finance are a lack of knowledge regarding its functioning and unavailability of smartphones. In addition to this, a lack of trust and perceived insecurity of these services also contribute to their hesitancy. We also found out that out of the various options available for online transactions such as the Bank's own application, net banking, bank cards, digital platforms and UPI platforms, the most commonly used are Unified Payments Interface (UPI) platforms with more than 95% users in each category of the respondents surveyed. The most commonly used UPI platform is GPay. Ease of usage

and saving money are the two most common reasons for people's preference for digital financial services. However, it has also been noted that while 87% of our respondents engaged in digital transactions on their own, roughly 10% depended on their family members to carry out the transactions. This again points to the lack of digital literacy among the rural communities. It was also found that while 74.3% required partial help in transactions, 25% required complete help. For several, help took the form of having to share details such as the OTP with others, raising serious questions over the security of these transactions. For digital financial services to reach further, with the convenience and security it is meant to have, the government needs to work further on fixing connectivity issues and improving digital literacy. It is however heartening that the upcoming generation of young people are already digital literate - and in the years to come, the use of digital financial services is likely to be 100%.

1 Introduction

The European Commission defines digital finance as “the impact of new technologies on the financial services industry. It includes a variety of products, applications, processes and business models that have transformed the traditional way of providing banking and financial services”. Simply put, digital finance is the use of digital facilities in the financial sector. According to the [2022 World Bank report](#): (i) Access to affordable financial services is critical for poverty reduction and economic growth and (ii) Digital Financial Services (DFS), enabled by fintech, has the potential to lower costs, increase speed, security and transparency and allow for more tailored financial services that serve the poor at scale.

Examples of DFS models that have advanced financial inclusion for the poor include:

Mobile Technology: The usage of mobile phones and its permeance in rural areas helped in the advent of mobile bases financial transactions. One of the examples of mobile technology enabling digital finance in rural areas is that of M-Pesa in Kenya wherein people without bank accounts could store, access and transact money in a digital capacity.

Platform Ecosystems: E-commerce, social media and ride hailing platforms by virtue of their large customer base were able to ensure the introduction of e-payment systems as well. The Chinese e-commerce giant Alibaba launched the e-payment system Alipay which caters to around 1.2 billion users. Similarly, ride hailing service Gojek in Indonesia paved the way for e-commerce platform Gopay which was originally intended to support its customer base in paying the drivers.

Open Application Programming Interfaces: APIs allow different systems to exchange consumer data and instructions. Being underpinned by a digital ID makes it even more powerful. India's AADHAR card is one such example of an API connecting over 1 billion people and provides the foundation of an integrated set of APIs which helps in remote authentication and biometric identification.

Digital financial inclusion: The Caveats/Challenges

Despite the rapid advent of digital finance and its significant presence in the developed world, within the developing countries, its presence is still meagre. Many of the people are still financially underserved or unserved. The relatively expensive nature of financial services also prevents the world's poor from accessing them. About one-third of the world's adults still lack access to a basic transaction account and only about a fifth from the developing world are saving through a formal financial institution while more than half are doing so in high-income OECD countries ([European Commission official website](#)). Some of the reasons that hinder the participation of people from lower-income countries in digital finance are: volatile and small incomes, geographical barriers, informality and lack of documentation of livelihoods, poor literacy and distrust of new technologies, high operating costs, legacy business models and limited competition and innovation among banking firms.

Digital Financial Services- The Way Forward

Some of the areas identified by policy makers as needing intervention to enable access to DFS by the poor include 1) Conducive legal and regulatory frameworks; 2) Enabling financial and digital infrastructure (payment systems, credit infrastructure, and digital connectivity infrastructure); and 3) Ancillary government support systems (data platforms, digital ID and financial management platforms).

2.STUDY METHODOLOGY

The study was done by deploying a [questionnaire](#) targeting consumers in the Madurai, Dindigul, Tiruchirapally, Coimbatore and Tiruppur districts of Tamil Nadu. The first step in the process was the sending out of a questionnaire to understand attitudes towards digital finance and also the challenges faced by the respondents.

2.1 Sampling Information

A. DEMOGRAPHIC INFORMATION

The survey began with basic demographic information of the respondents, which included age, gender and district distribution of the respondents.

2.1.1 Age of the respondents

The respondents were as young as 18 years old and went above the age of 48 years. This was due to the fact that we have respondents ranging from college students to aged farmers and cottage industry workers.

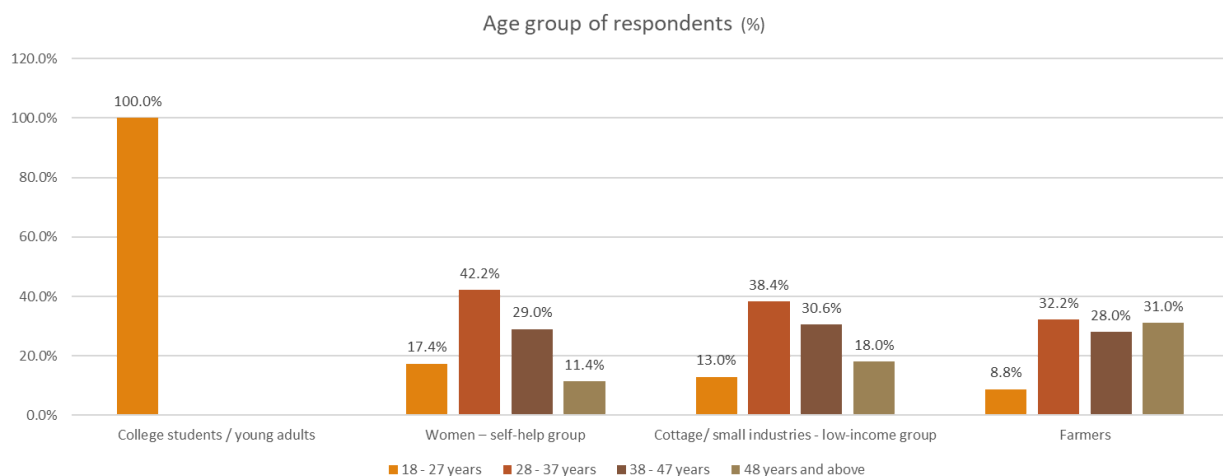


Figure 1 - Age of the respondents

2.1.2 Gender of the respondents

The gender constitution of the survey had more female respondents compared to males. The respondents included 56.5% females while 43.6% were males.

Gender of respondents (%)

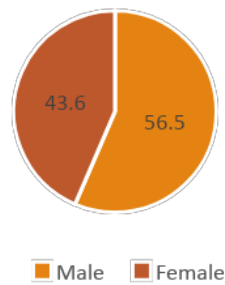


Figure 2 Gender of the respondents

2.1.3 Categorisation of respondents by type of location

The respondents were divided into three different categories based on their location, namely semi-urban, urban and rural. It was found that the majority of respondents (61.1%) were from the rural areas and closely followed by the urban area of location (21.4%).

Type of location (%)

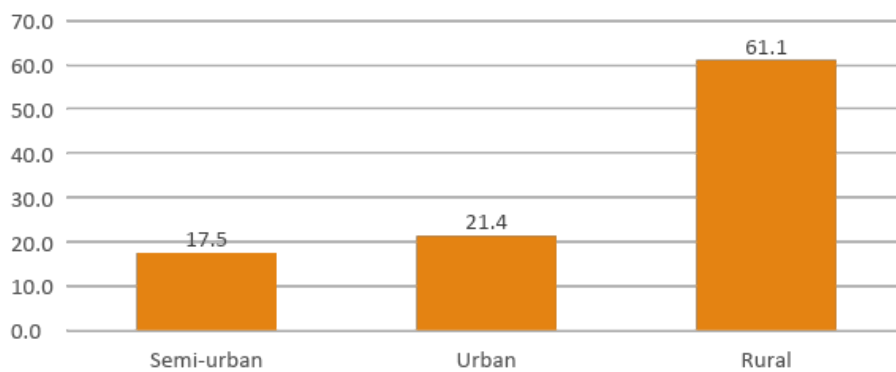


Figure 3 -Type of location

2.2 Survey Findings

A. ACCESS TO AND AWARENESS OF DIGITAL FINANCE

2.2.1 Access to digital finance

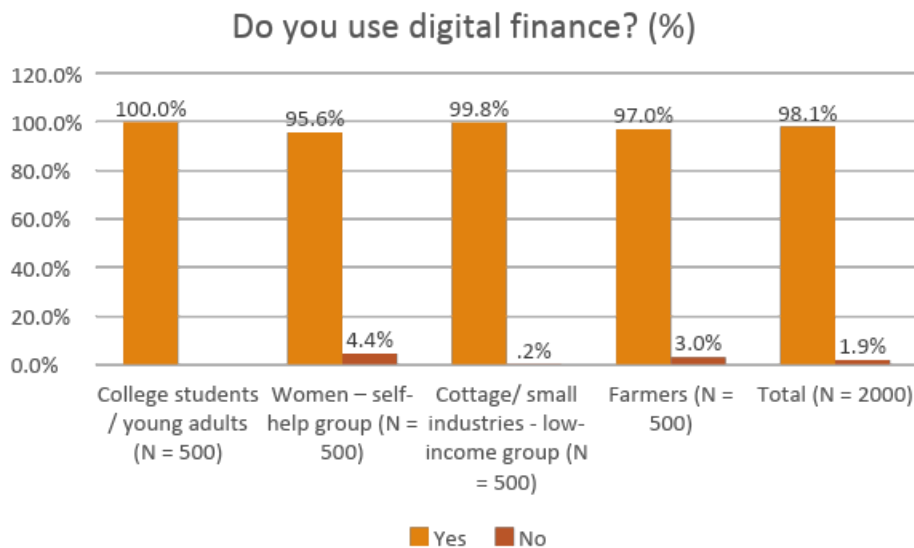


Figure 4- Access to digital finance

This particular question aims to understand the prevalence of digital finance usage among our respondents. We found that across our respondent groups, use of digital finance is 95%, with 100% of college students using DFS

2.2.2 Length of DFS use

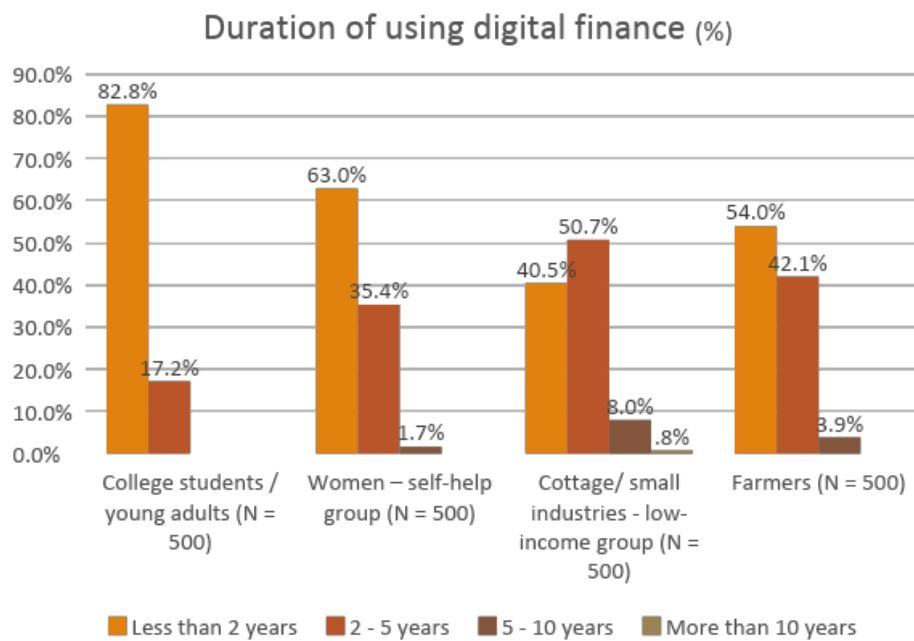


Figure 5- Duration of using digital finance

Most of the respondents across all groups (except cottage industries - LIG) have been using it for less than 2 years.

2.2.3 Reasons for not using digital finance

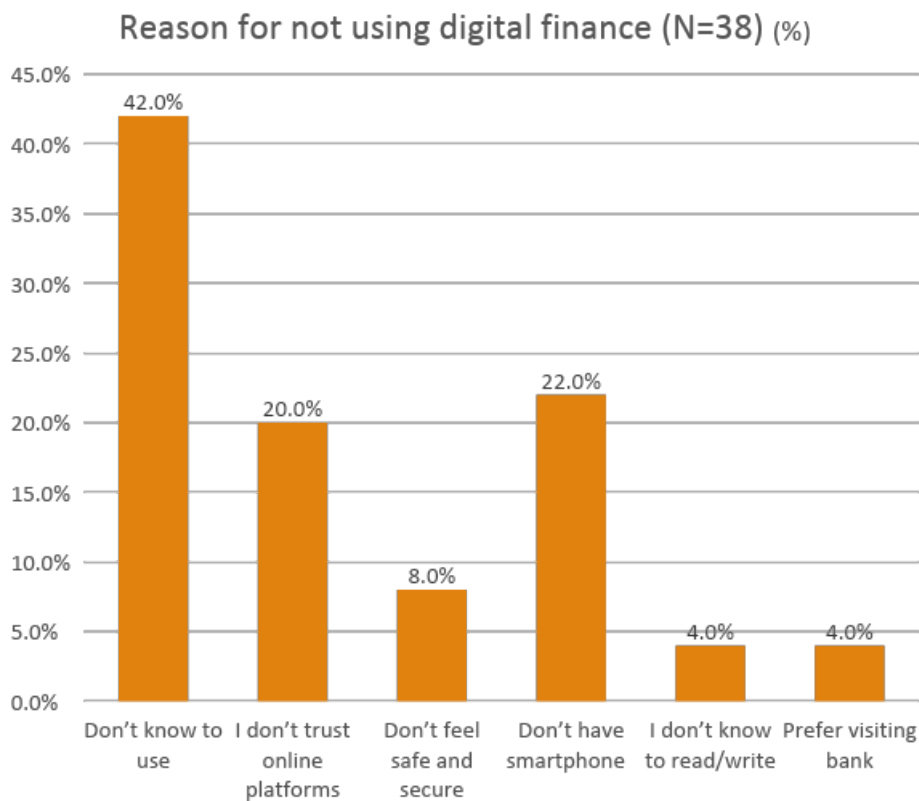


Figure 6- Reasons for not using digital finance

This particular question aims to understand the various reasons behind why respondents did not use digital financial services. Answers ranged from ‘do not know how to use DFS’ to lack of trust and a perceived lack of security (second and third most common reasons). Illiteracy, even though reported by only 4%, is an important and complex factor that needs to be addressed.

2.2.4 Digital platforms used for online transactions

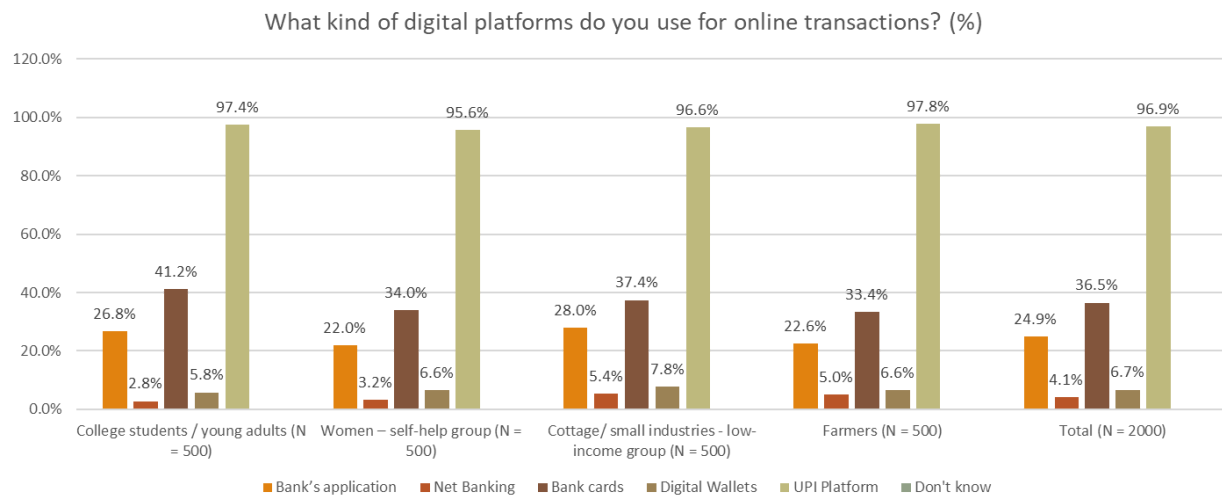


Figure 7- Kind of Digital Platforms for Online Transactions

Out of the various options available for online transactions, use of UPI platforms was the most reported with more than 95% users in each category using UPI for payments.

2.2.5 Most used UPI platform

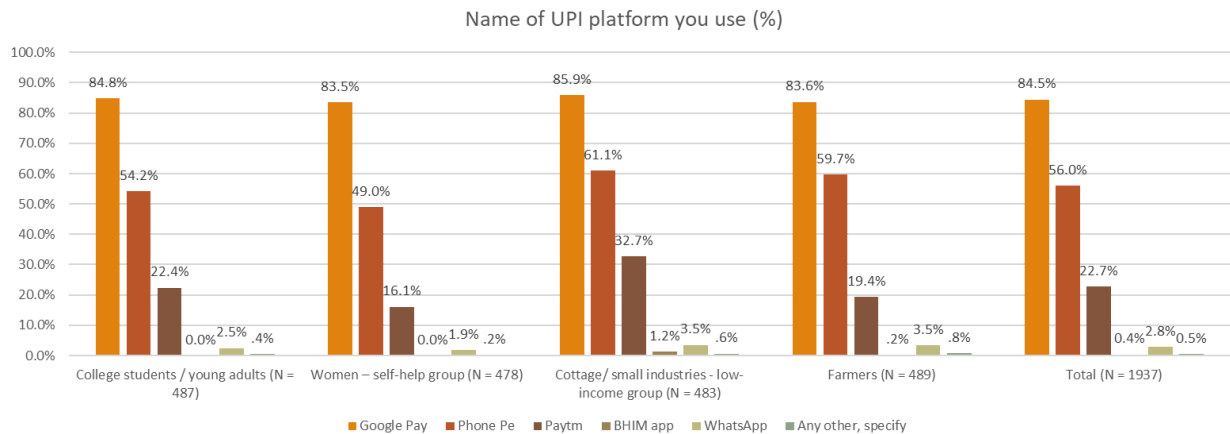


Figure 8- Most used UPI platform

Out of the various UPI platforms available the most commonly used one is Google Pay (GPay).

2.2.6 Reasons for using digital platforms

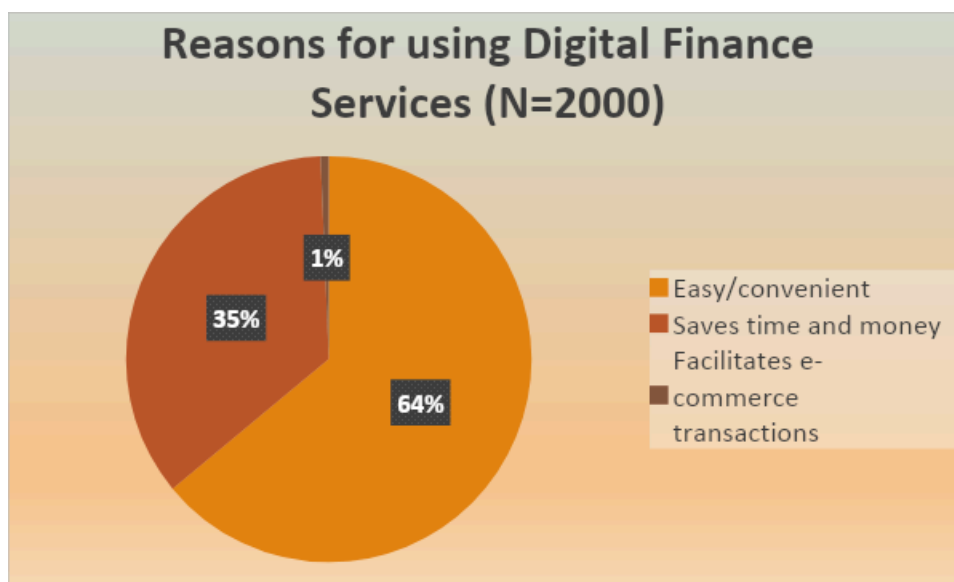
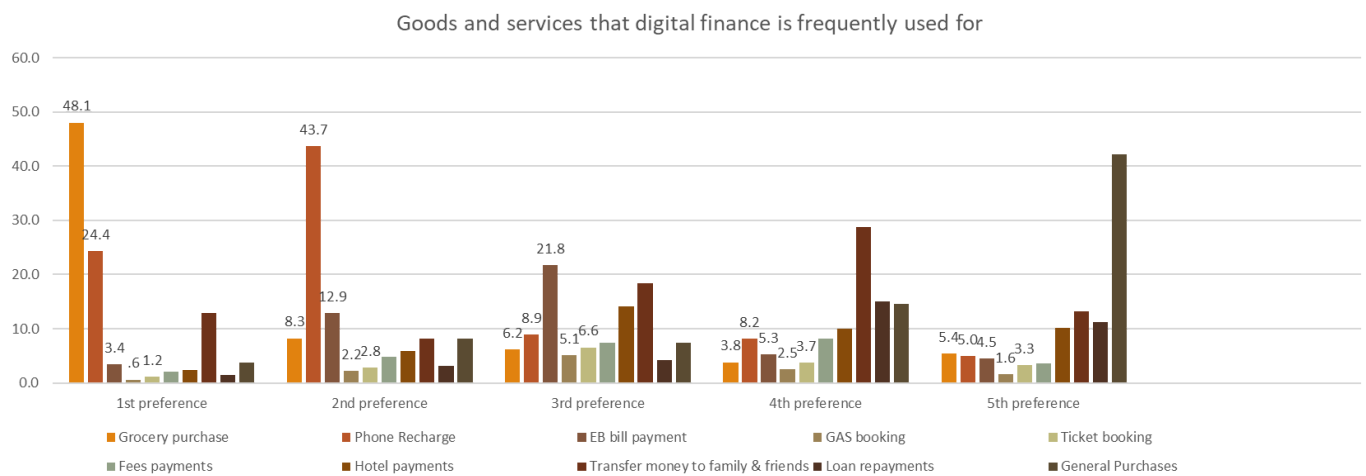


Figure9- Reasons for using Digital Financial Services

Ease/convenience was the most common reason why people preferred DFS, followed by the fact that it saves time as well as money.

2.2.7 Goods and services paid for by DFS



* Multiple response table; results don't add up to 100%

Figure 10- Top 5 preferences for using digital finance

Grocery purchase, followed by phone recharge and transfer of money to family and friends were the top reasons why DFS was used. Using DFS for grocery purchase indicates consistent and frequent use for possibly even small purchases.

B. HOW USERS INTERACT WITH DIGITAL FINANCE SERVICES

2.2.8 Independent use of DFS

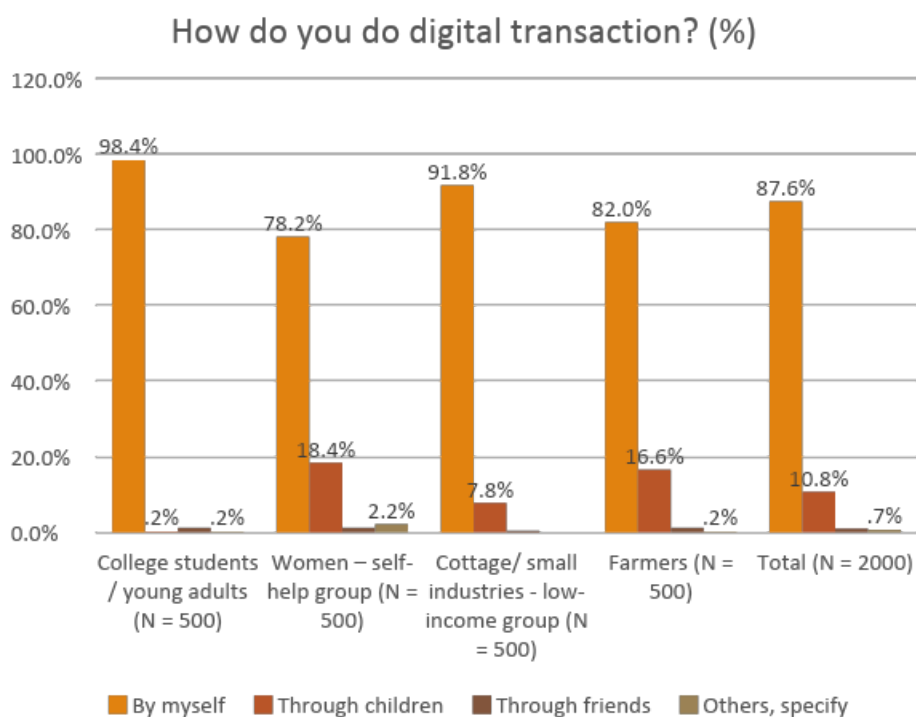


Figure 11- Independent use of DFS

While more than 98% of college students can carry out digital transactions by themselves, only 78.2% of women respondents engaged in transactions by themselves, with 18.4% needing help from their children. Similarly among farmers 82% of the respondents engaged in transactions by themselves while 16.6% needed the help of children. That a younger, more digitally able generation is rising is positive.

2.2.9 Engagement of agents in digital transactions

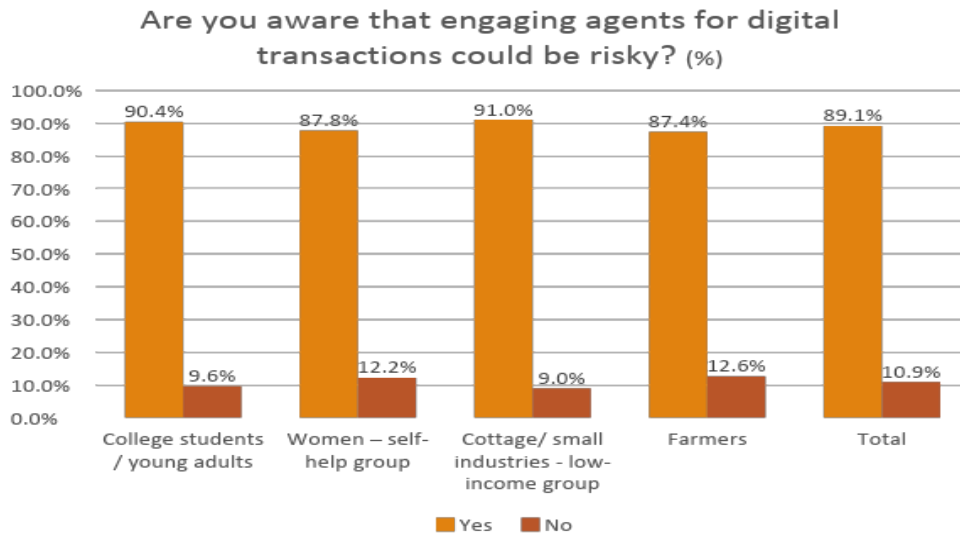


Figure 12- Engagement of agents in digital transactions

More than 85% of the respondents across categories are aware of the risks associated with engaging agents in digital transactions while 9% to 12.6% of the respondents, across categories, were unaware of this.

2.2.10 Difficulties with with digital transactions

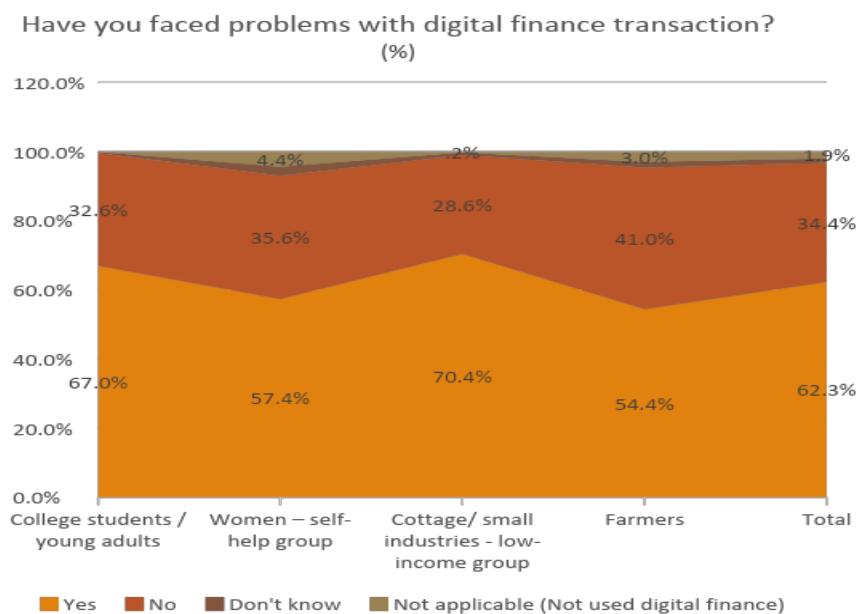


Figure 13- Difficulties with digital transactions

Between 54% to 70% of respondents across all groups had faced issues while accessing DFS, pointing to the glitches, poor connectivity etc. These are important concerns and with more than half of the respondents, reporting this, these concerns need to be analysed and addressed by service providers.

2.2.11 Problems faced while engaging in digital transactions

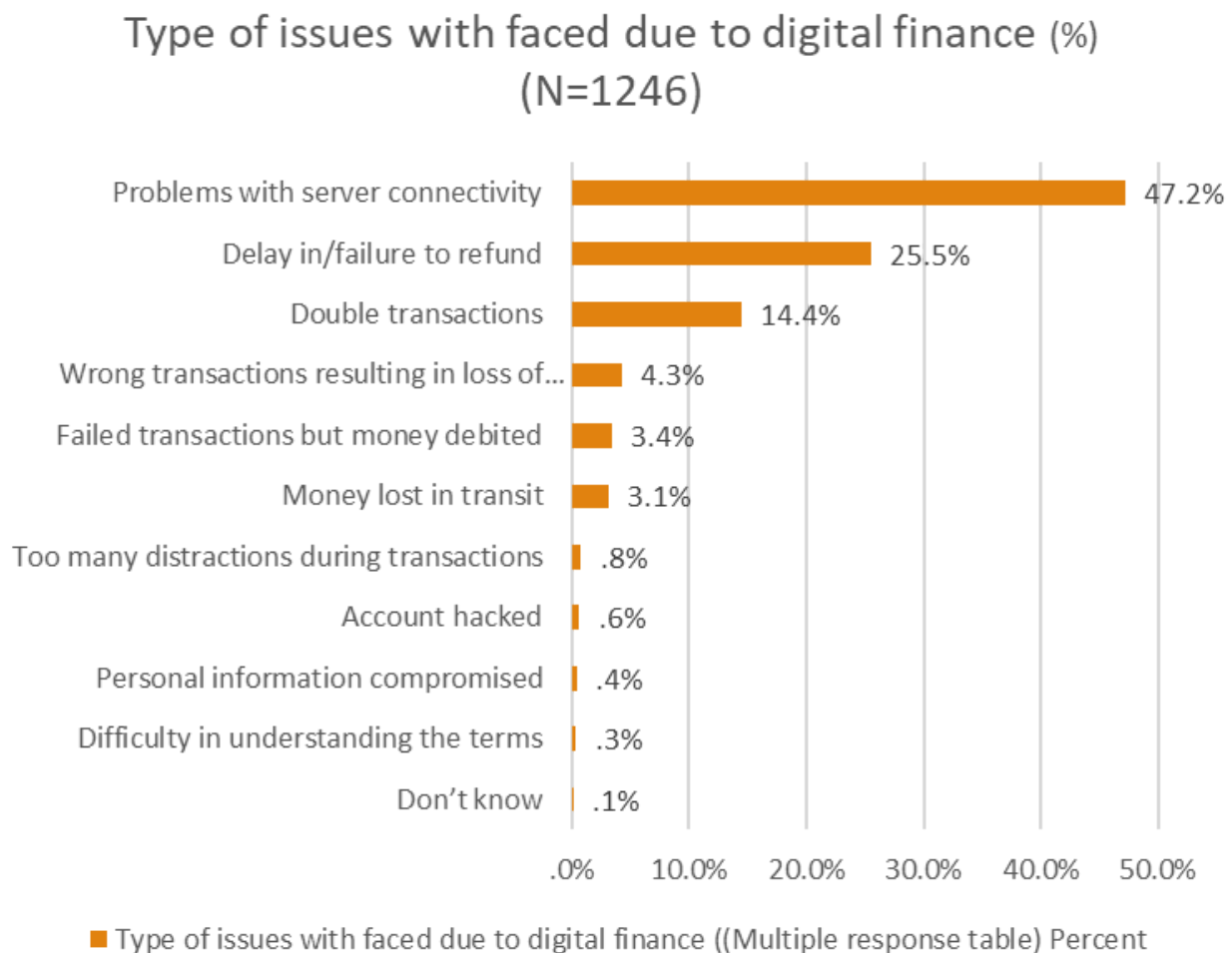


Figure 14- Problems faced while engaging in digital transactions

Connectivity issues and delay in/failure to refund were the most common issues that were encountered by respondents across categories.

2.2.12 Customer care for grievance redressal

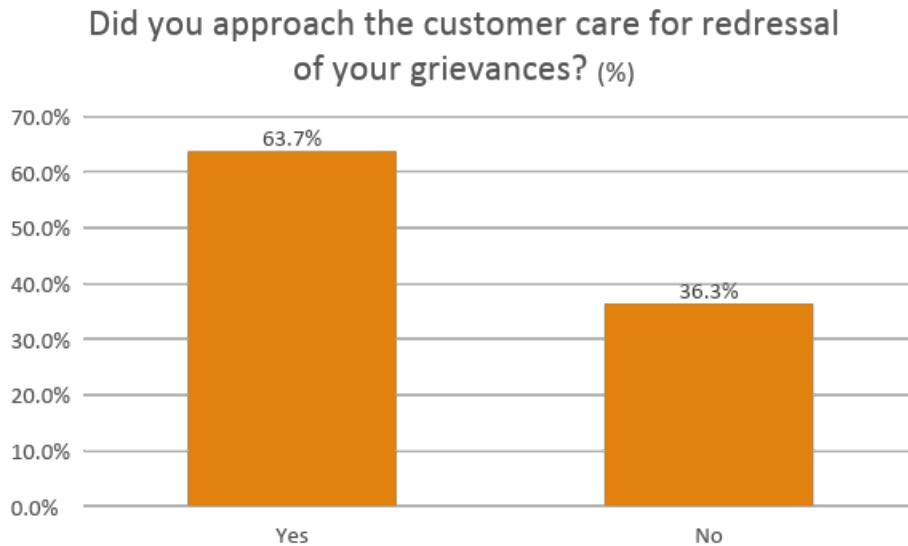


Figure 15 -Customer care for grievance redressal

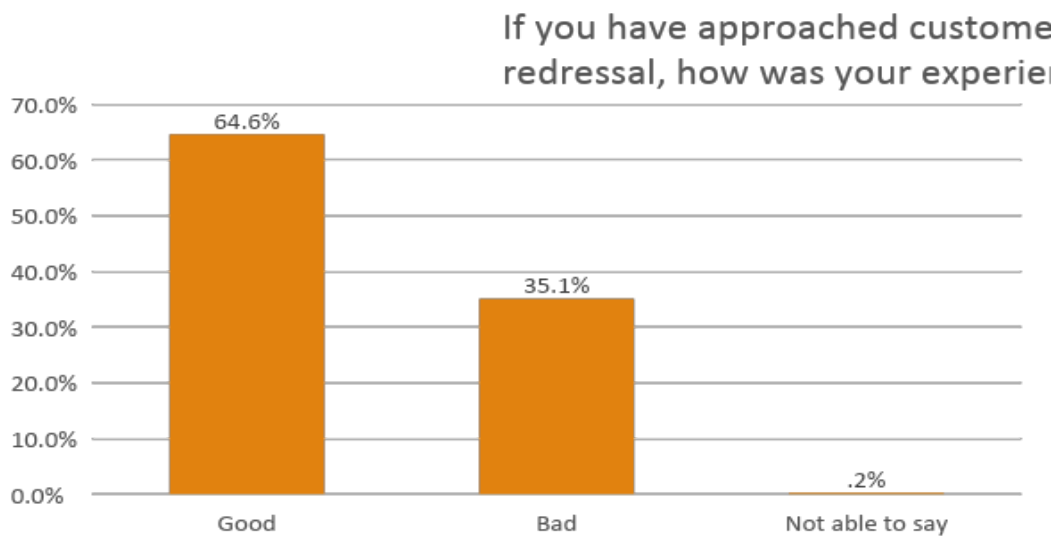


Figure 16- Customer care for grievance redressal

Close to 64% of the respondents have approached the customer care for grievance redressal while 36.3% hadn't done so. Out of the 64% that approached grievance redressal agencies, 65% found the experience good or comfortable while 35% reported it as being bad or uncomfortable. This points to a need for improving such services which will in turn improve public trust in DFS.

2.2.13 Frequency of digital finance usage

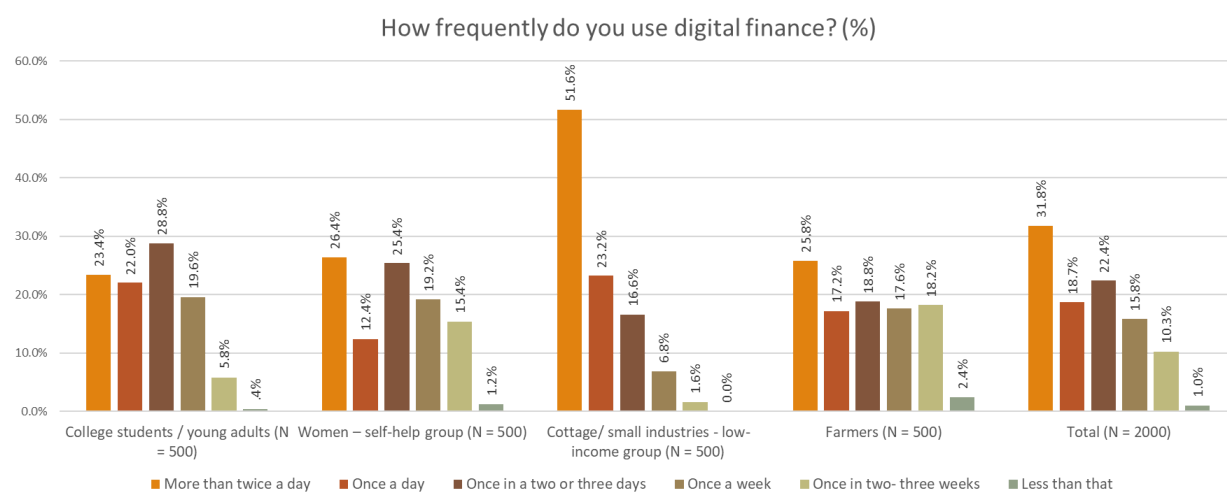


Figure 17- Frequency of digital finance usage

Across categories, the proportion of usage of digital finance varies from more than twice a day to once in two or three weeks with ‘more than twice a day’ being the most common.

C. FINDINGS FROM COLLEGE YOUTH

2.2.14 Source of income for college students

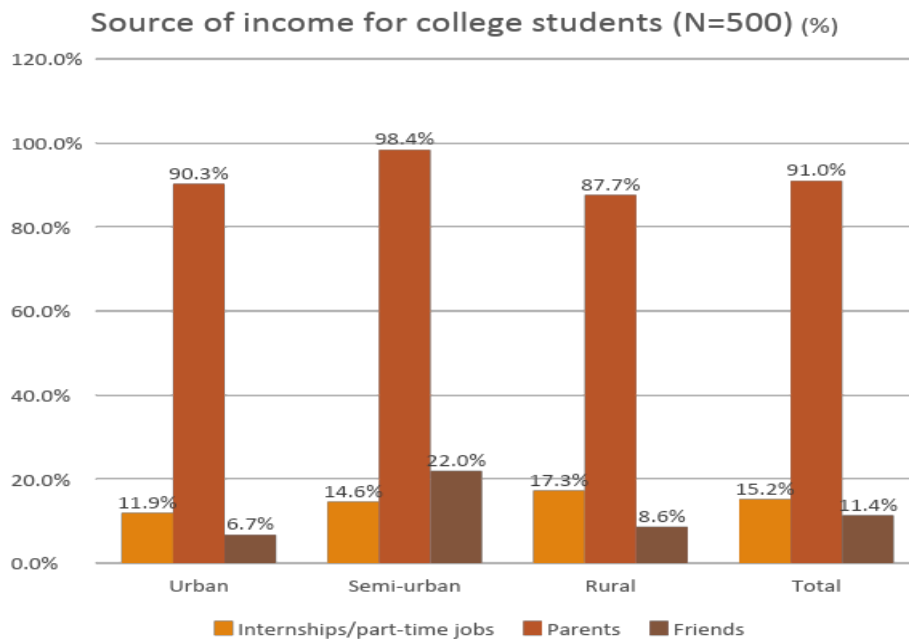


Figure 18- Source of income for college students

This question aims to understand the source of income for college students and it was found that parents formed the main source of income for students by a huge margin (87%-98%) irrespective of their urban or rural or semi-urban backgrounds.

2.2.15 Reason for using DFS by college students

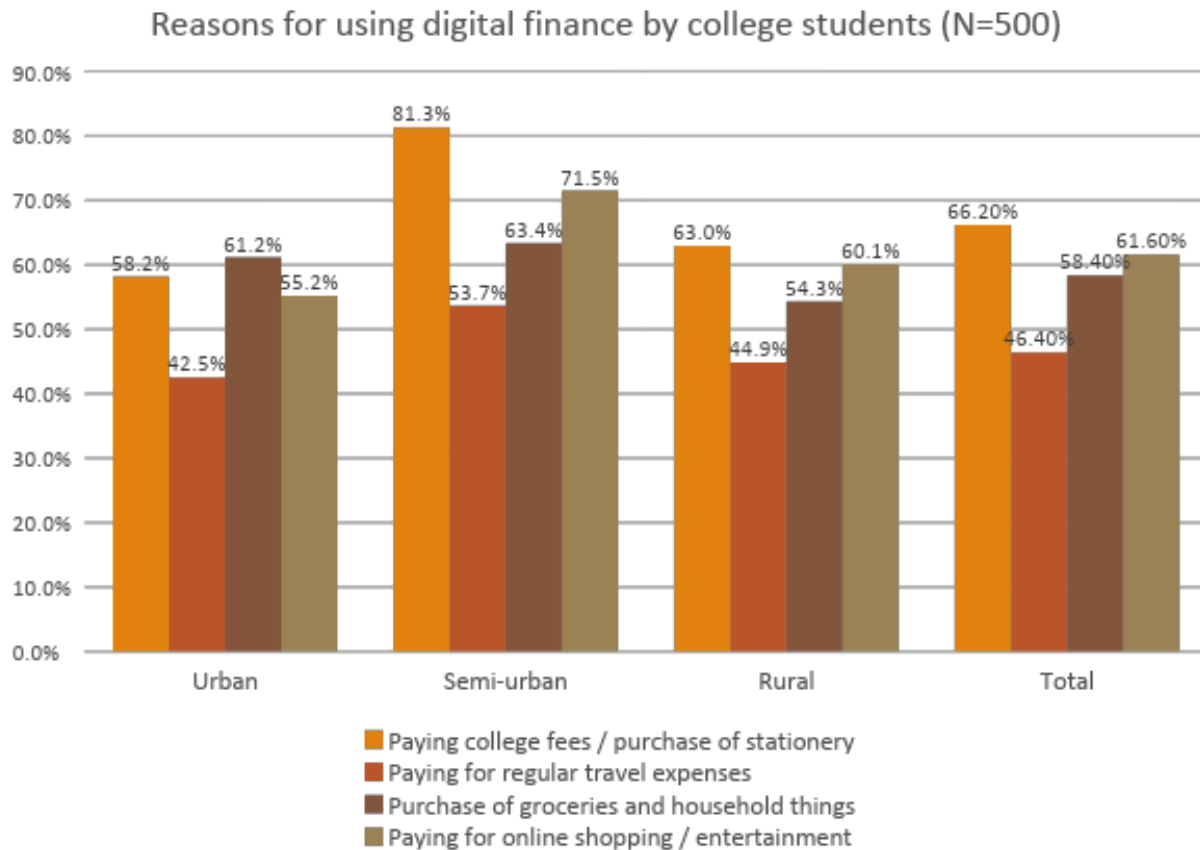


Figure 19- Reasons for using DFS by college students

The purposes for which digital finance is used by college students varies with a more or less even spread between studies, travel, household related activities and to pay for shopping/entertainment activities.

2.2.16 How digital finance makes things easier for students

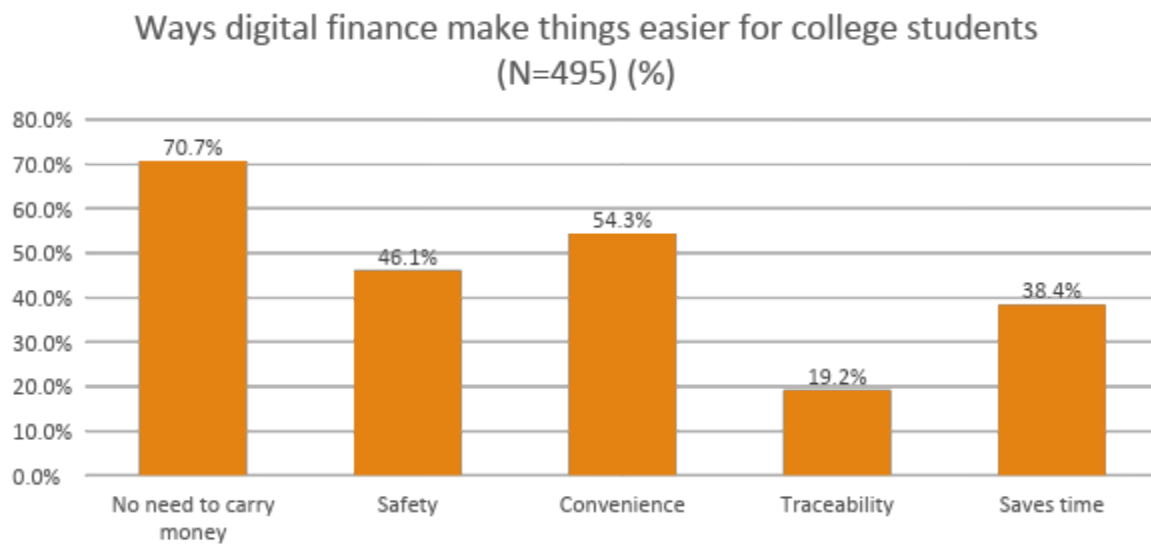


Figure 20- How DFS make things easier for students

Freedom from carrying money and additionally, convenience are the major reasons why students prefer digital finance.

D. FINDINGS FROM FARMERS

2.2.17 Digital Finance and its influence in day to day activities

Does digital finance facilities help with your day to day activities? (%)

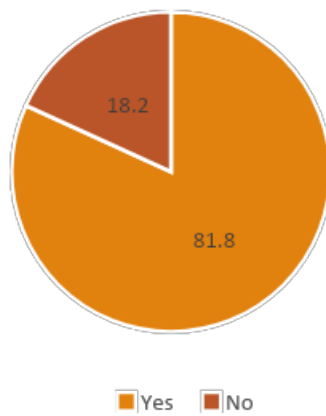


Figure 21- Digital Finance and its influence in day to day activities

Roughly 82% of farmer respondents find that digital finance helps in their day-to- day activities while 18.2% find it not that helpful .

2.2.18 How does it help ?

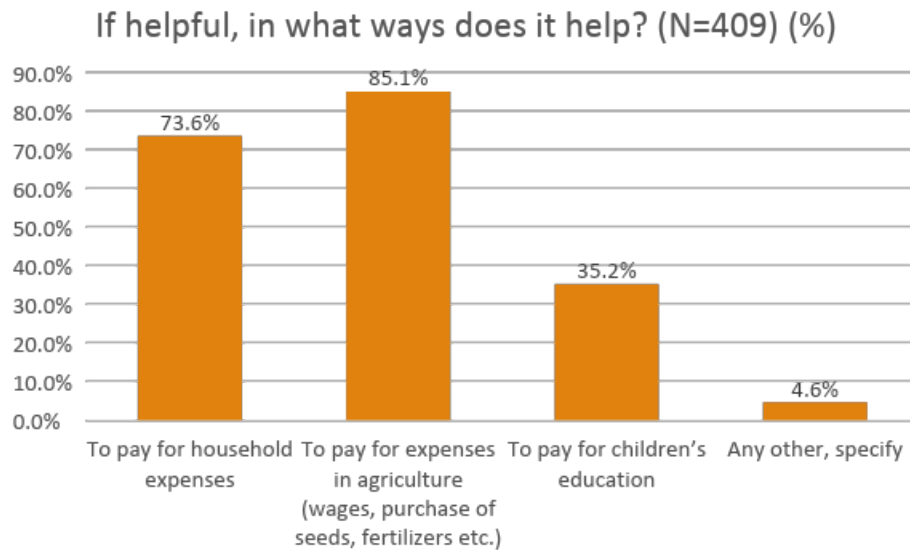


Figure 22- How does DFS help?

Farmers use digital finances while paying for livelihood (agricultural) and household expenses.

2.2.19 Requiring other people's help

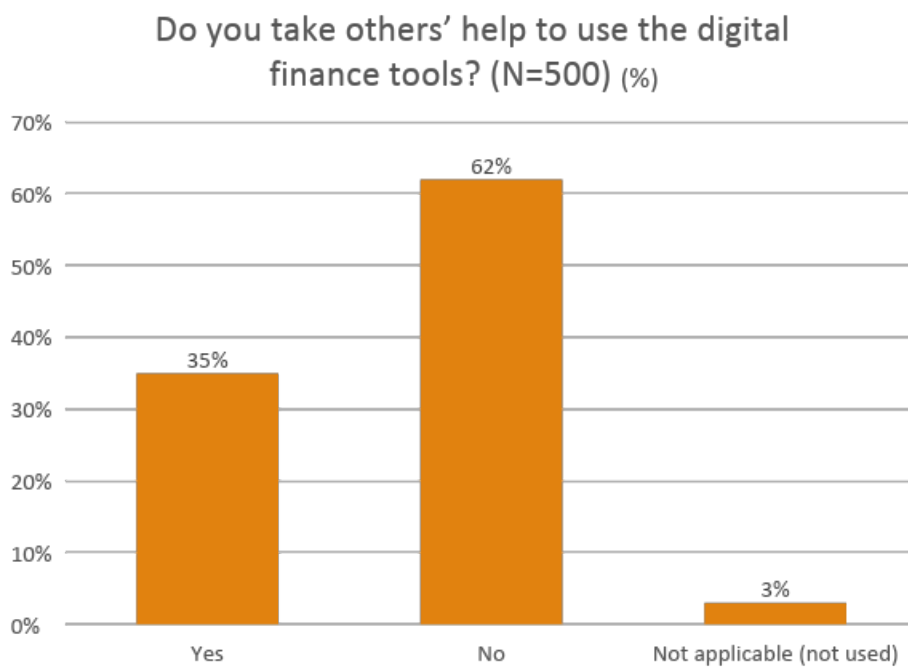


Figure 23 - Requiring others' help

This aims to measure the self-sufficiency of farmers when it comes to using the digital finances and it has been found that more than 60% of the respondents are capable of accessing digital finances on their own while a substantial percentage, 35%, are unable to do so on their own.

2.2.20 In what aspects are help taken?

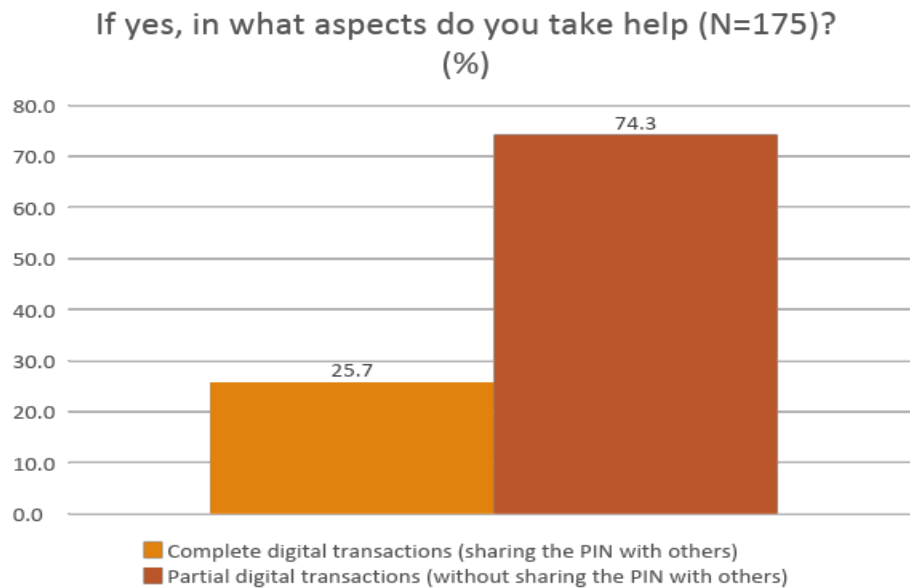


Figure 24- In what aspects are help taken?

When it comes to taking help while engaging in digital transactions, 74.3% of the respondents need partial help, that is where they don't share the PIN number, while 25.7% are in need of complete help i.e they share the PIN number as well.

2.2.21 Connectivity issues

Do you face connectivity issues while using digital finance services? (%)

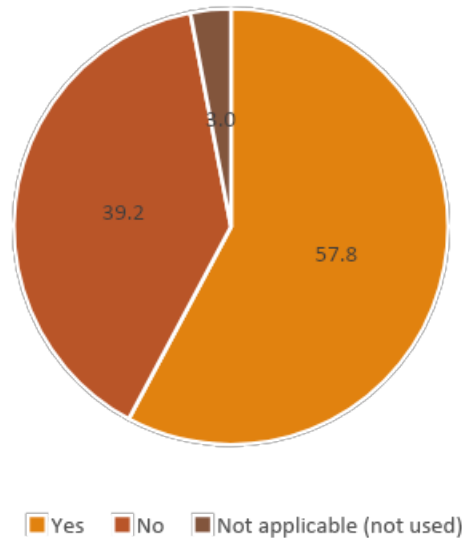


Figure 25- Connectivity Issues

More than half the respondents, 57.8%, face connectivity issues while accessing DFS.

2.2.22 Digital India Programme

The ‘Digital India’ programme is an initiative by the government of India to ensure that its services reach electronically to even the most rural areas. Aadhar, CSC-s, My Gov and Digilocker are some of the successful initiatives under the Digital India scheme.

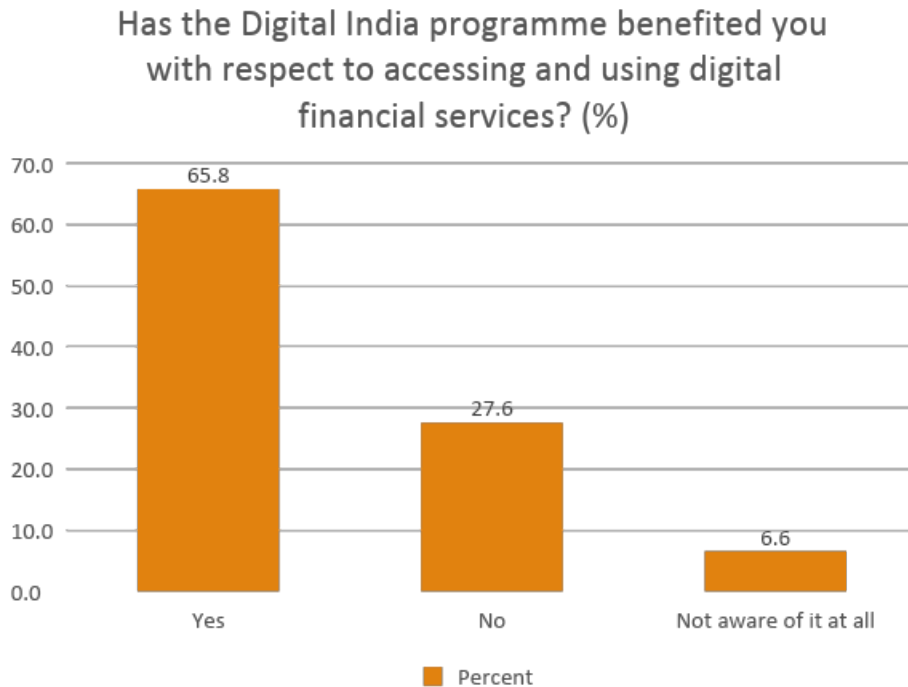


Figure 26- Digital India Programme

Roughly 66 % of the respondents say that the program benefitted them positively highlighting the success of the programme.

2.2.23 Digital India-Positive responses

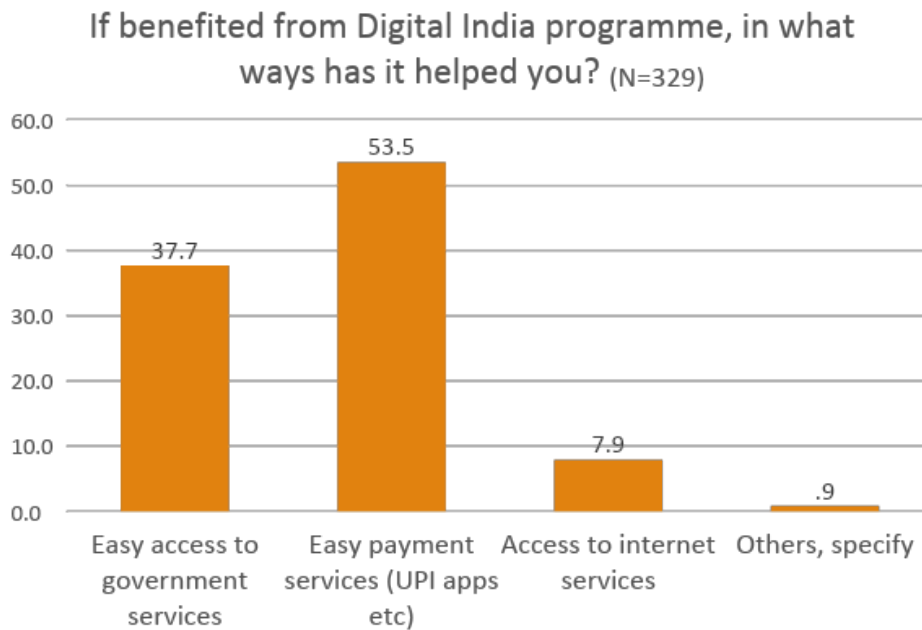


Figure 27- Digital India - Positive responses

The Digital India programme has helped people in the easy access of payment services such as UPI and other apps while also ensuring easy access to government services.

2.2.24 No perceptible benefits from Digital India

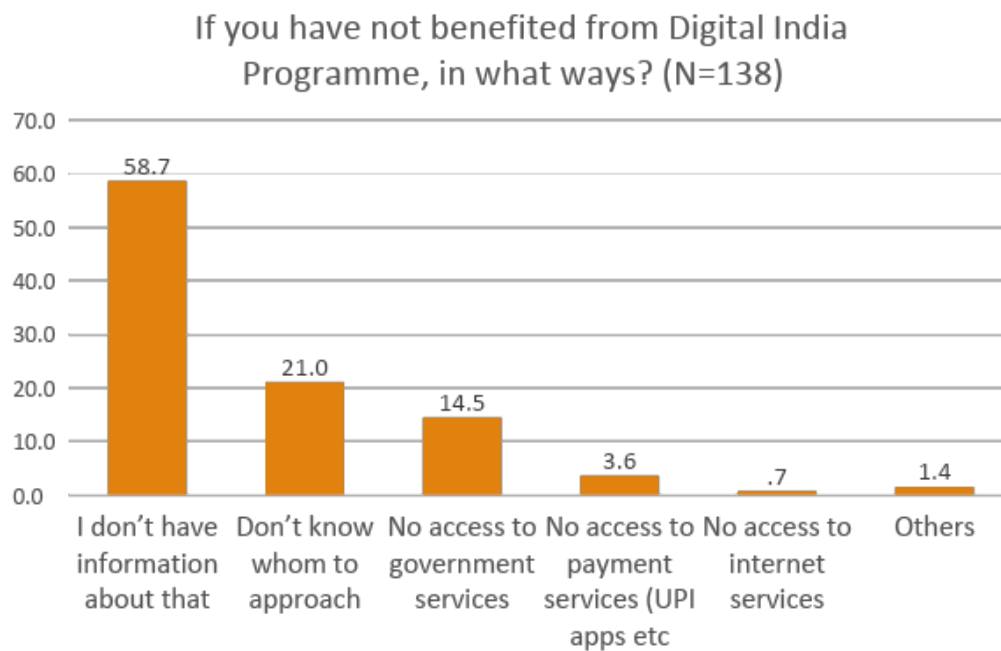


Figure 28- No perceptible benefits from Digital India Initiative

The majority of the people who report not benefitting from the Digital India program seem to have been unable to do so because of a lack of information on the program or because of a lack of knowledge on who to approach .

2.2.25– Pradhan Mantri Jan Dhan Yojana

The scheme is one of the largest financial inclusion schemes in the world and was introduced by Prime Minister Narendra Modi. It aims to foster inclusivity in the areas of basic savings bank account, access to need based credit, remittances facility, insurance and pension.

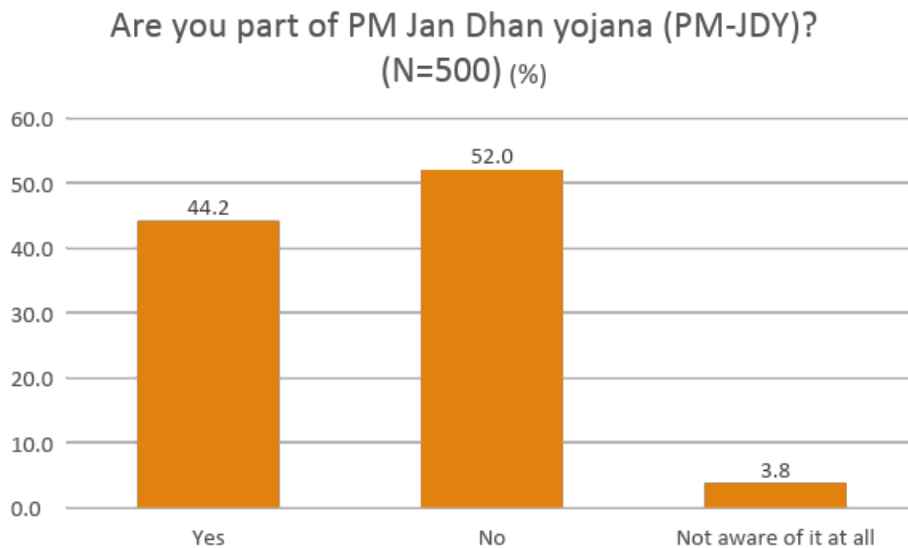


Figure 29- Pradhan Mantri Jan Dhan Yojana

Despite the noble aims of the government to increase access to digital spaces for the rural and low-income communities, it seems there's a lag in creating awareness about it as 52% of the population is unaware of the existence of the program while only 44.2% (less than half) is aware of the program.

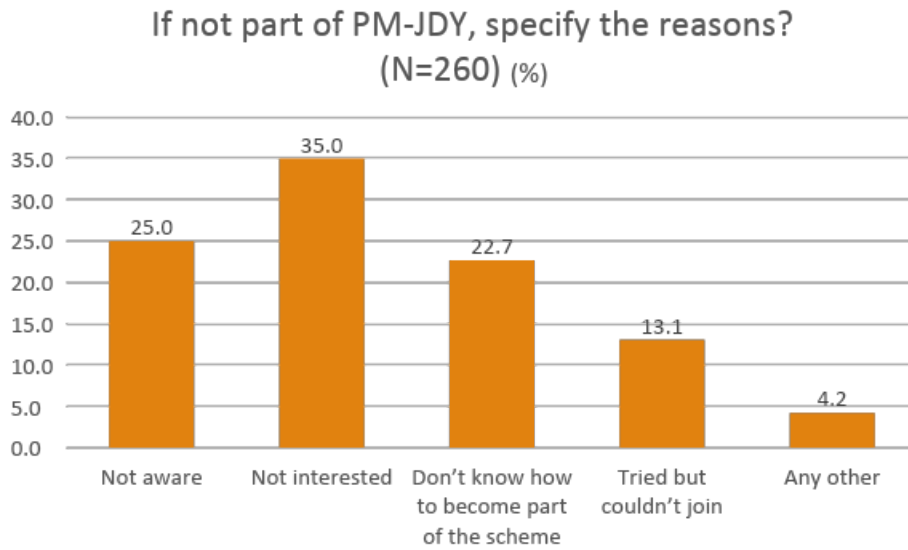


Figure 30- Reasons for not being part of PM-JDY

The most common reason for not being part of the program is a lack of interest followed by a lack of awareness.

E- FINDINGS FROM WOMEN IN SELF-HELP GROUPS

2.2.26 – Barriers to Digital Finance

Do you face barriers when accessing digital finance tools? (N=500) (%)

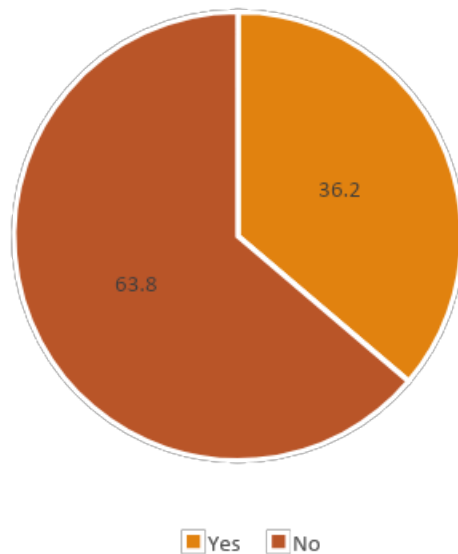


Figure 31- Barriers to digital Finance

Out of the 500 women interviewed, roughly 64% face barriers while accessing digital finance tools.

2.2.27- The kind of barriers

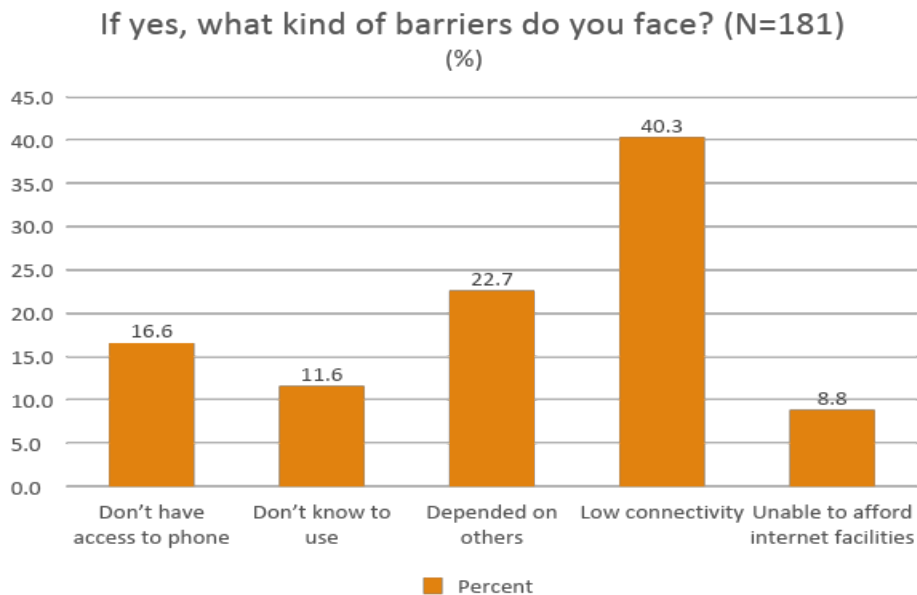


Figure 32-Types of barriers

With respect to barriers, low connectivity is the most common barrier that women face (in fact a universal barrier). Women also reported that being dependent on others to access financial services, along with a lack of access to smartphones; or not being able to work a phone or the app were barriers they faced.

2.2.28 Restriction from men

Do you face restrictions from men in your family when trying to access digital finance tools?
(%)

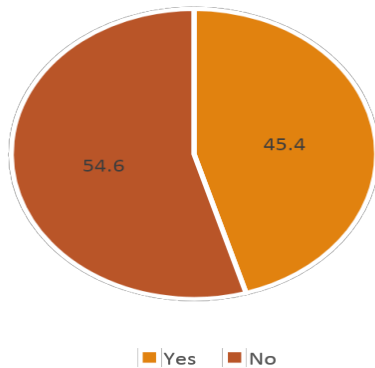


Figure 33- Restriction from men

Close to half the women face restriction from men in their families which highlights the societal restriction that women still face when it comes to usage of electronic gadgets.

2.2.29 - Easing chores using digital tools

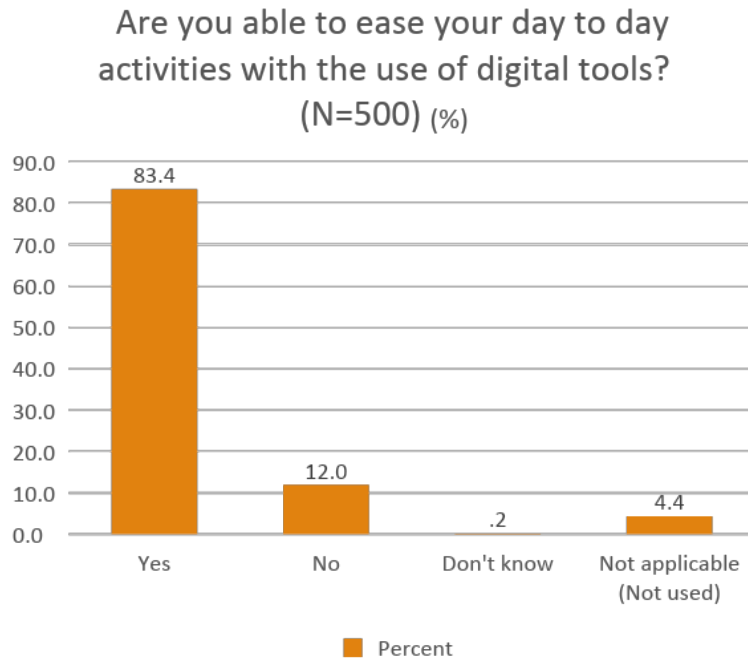


Figure 34- Use of digital tools

About 83.4% of the women respondents find that they are able to ease their day-to-day activities with the use of digital services.

2.2.30 How digital tools ease chores

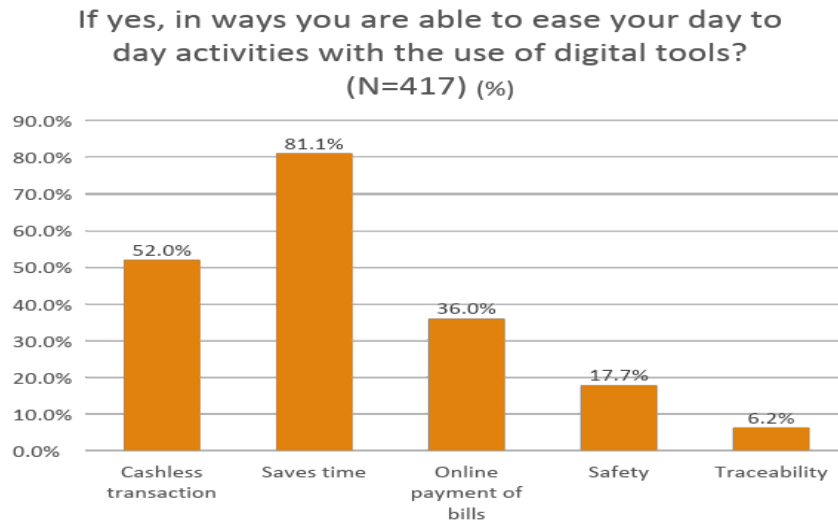


Figure 35- Ease of digital tools

Roughly 81% of the respondents claim that digital tools help in saving time. Women feel that cashless transactions and the online payment of bills also ease their day to day activities.

2.2.31 Digital Financial tools- activities

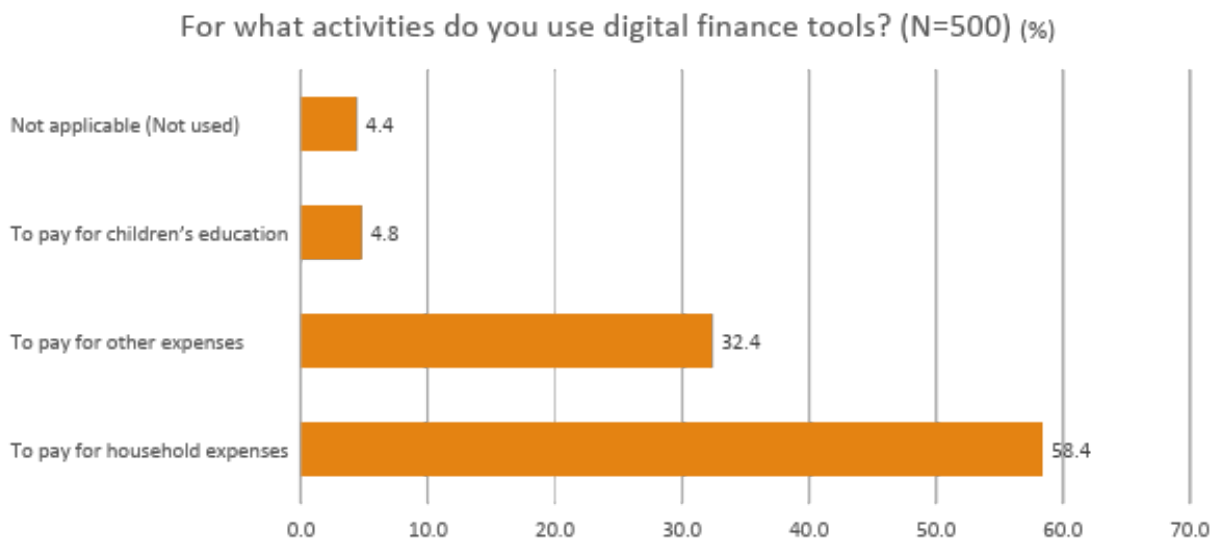


Figure 36- Digital Financial tools- Activities

This question shows that digital financial tools are mostly used by women to pay for household activities.

F- FINDINGS FROM EMPLOYEES OF COTTAGE INDUSTRIES

2.2.32 - Modes of Payment

What are the modes of payment transactions you are generally following? (%)

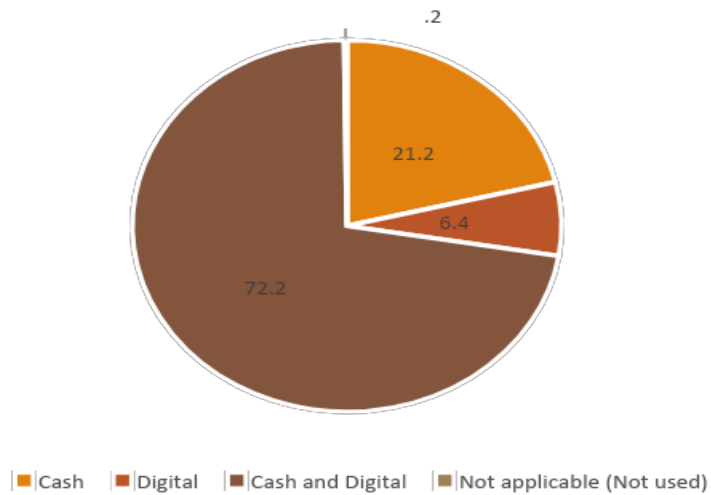


Figure 37- Modes of payment

Among cottage industry workers or small business owners, both cash and digital modes of payment are popular with digital payments having more popularity as the below graph shows:

If you are using both cash and digital modes of transactions, which one you feel is more convenient to use? (%)

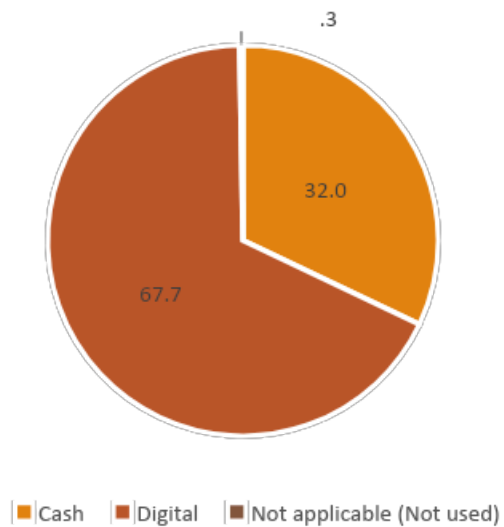


Figure 38- Usage of both cash and digital payments

According to cottage industry users of digital finance who also use cash, there is a preference for digital finance as these are more convenient.

2.2.33- Type of digital payment

How do you use digital finance tools? (%)

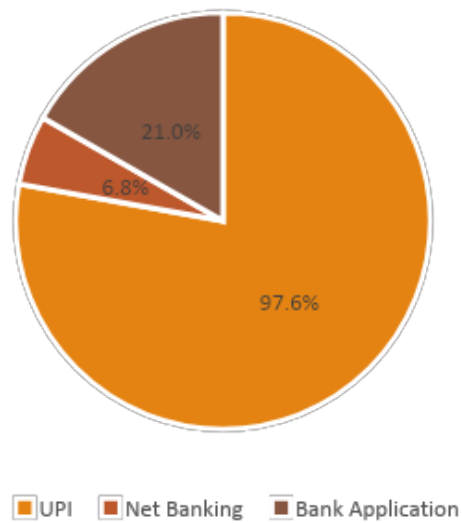


Figure 39- Types of digital payment

Among all the digital payment modes, UPI seems to be the most popular one.

2.2.34 Digital tools and sales opportunities

Does using digital tools make your transactions easier? (%)

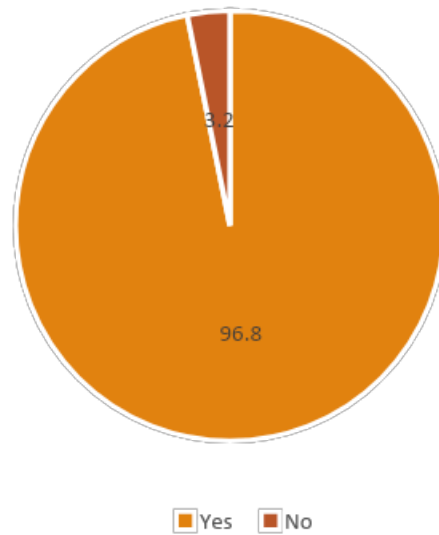


Figure 40- Digital tools and sales opportunities

If yes, does it result in better sales opportunities?
(N=484) (%)

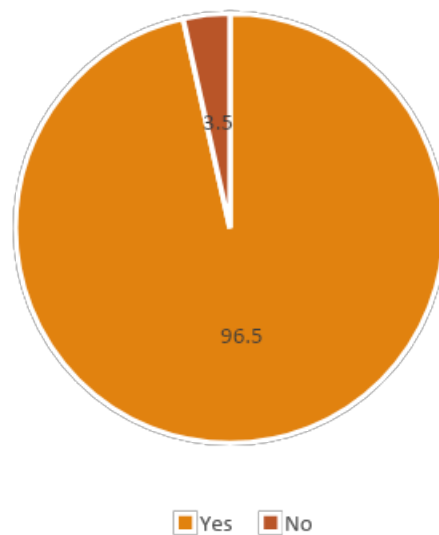


Figure 41 - Digital tools and sales opportunities

As per the above graphs it can be delineated that digital tools do result in making transactions easier and in creating better sales opportunities also.

RECOMMENDATIONS PERTAINING TO DIGITAL PAYMENTS

Here-below are some of the recommendations based on the study findings:

1. From the study it is observed that consumers, facing problems, are not able to get their issues resolved easily. Many times there are no avenues available where consumers can call and register a complaint. Thus, there is a dire need to strengthen the existing redress mechanism, at the branch / internal ombudsman level, where consumers can reach and speak to someone and register a complaint, get a docket number and are able to seek time bound resolution. Where avenues are available, there is also a problem with limited awareness on how to access these.
2. As mobile network and data coverage issues appear to be common in rural areas, there is a requirement in terms of improvement in network connectivity, especially in remote locations. While this may come under the purview of the Telecom Regulator, it is necessary that the Reserve Bank of India coordinates with TRAI to ensure seamless connectivity.
3. If there is a case of money loss/ double or failed transactions, there should be a dedicated phone/mobile number and email id provided by the banks/ service providers where people can complain in order to get the money back. Money should be reimbursed within 2 days from the date of the complaint.
4. Debit cards of the elderly and the uneducated are often used by kith and kin at ATMs, for the sake of convenience and necessity. In such cases, when there is a problem, it is recommended that they should get the appropriate remedy, instead of the issue being considered as “misuse of the card”.
5. It is recommended that the directions/guidance given, especially in UPI apps, should be in both, vernacular and English languages, for easy understanding by the rural population.
6. We further observed a need for extensive awareness IEC materials/ sessions for different categories of consumers like farmers, youth, women, small

businesses, senior citizens, rural consumers, etc. on various topics related to digital financial services: proper usage of different payment options; importance of keeping PINs confidential and safe, and having strong passwords; details of customer care for any queries/ clarifications; available grievance redress mechanism; awareness about phishing, vishing and other scams; deleting unwanted messages and links without clicking on them, etc.

7. In the current offline transaction mechanism of UPI (dialling *99#) launched by NPCI, the upper limit of transaction is set at Rs 5000. We recommend that this ceiling of Rs 5000 be raised so that people in rural areas, where net connectivity is often an issue, can continue benefiting from digital services.
8. A dire need to sensitise service providers to be more consumer friendly was also observed and we recommend appropriate measures be taken to ensure the same.

CONCLUSION

In conclusion it can be said that digital financial services have in the past two years made significant inroads in the urban and rural landscape of India, especially, the rural areas. The high percentage of digital financial services usage highlights this fact. It has also been noticed that a lack of digital literacy and accessibility to smartphones plays a major role in hindering people's engagement with digital financial services. Unified Payments Interface (UPI), especially GooglePay continues to be the most commonly used digital payment platform. Ease and convenience of use and the need to not carry money are the primary reasons people prefer digital payments over traditional ones. It can be said that digital financial transactions have become an integral part of people's lives in India and will continue to remain so. While a younger generation of confident digital service users is rising, the current generation of older users need to be empowered with more

awareness exercises, better redressal mechanisms and better services overall. These will serve to make access to the financial sector truly inclusive.



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