

An Overview of Digital Financial Inclusion and Exclusion

Dr. Rakesh Nadig H S¹, Dr. Anusha N²

¹Assistant Professor, St. Joseph's College of Commerce (Autonomous), Bengaluru

²Assistant Professor, PG Dept. of Management, St. Francis College, Bengaluru.

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ABSTRACT

In recent years, digital financial services have been a major driver of financial inclusion. While there is evidence that traditional financial inclusion has a positive impact on economic growth. Any country's economic development is built on the foundation of digital financial services. Mobile banking and mobile money are two new concepts that are transforming bulk services into personalised services. This has resulted in the creation of digital financial inclusion, which fosters efficient interconnection among participants in economic activity. When a poor, previously unbanked consumer begins to transact digitally with his or her family and friends, formal banking and financial institutions, and utility companies, it is called a success. This paper attempts to identify the preliminary concepts of digital financial inclusion, status in India and Tumakuru District and reasons for digital financial exclusions.

Keywords: Financial Inclusion, Digital Financial Inclusion, Digital Financial Exclusion Challenges

INTRODUCTION

A new notion termed digital financial inclusion has emerged because of the digital dimension of financial inclusion. There are two components to digital financial inclusion. The first is to use digital methods to link banked individuals, and the second is to use digital mechanisms to bring banks to people's doorsteps. Digital financial inclusion made it possible for the public to open bank accounts and receive high-quality banking services. Customers like the effectiveness, low cost, and convenience of digital financial services. Banks, on the other hand, are ready to use technology to reach out to their customers. Digital financial inclusion has emerged as a powerful tool for reaching people who lack access to physical infrastructure or live in remote areas. Virtual banking has superseded all other traditional banking channels. Banks were able to give fast and high-quality financial services thanks to digital financial inclusion.

LITERATURE REVIEW

In India, digital financial inclusion is still in its infancy. Digital banking has the potential to remove barriers to financial services accessibility, use, and availability. Digital financing that is both affordable and viable can help to keep the financial inclusion effort going. (Angelin Prema, 2020)¹. financial inclusion and the influence of digital finance Digital finance has evolved into a new tool for financial inclusion. The banking business has been changed by the digital revolution, and banks are eager to reach out to their clients via digital channels. Despite the fact digital money has security and affordability concerns, consumers want to use it to obtain financial services. Usage, convenience, and time have a positive impact on mobile banking, whereas accessibility and safety have a negligible impact on digital finance (Tabitha Durai & Stella, 2019)². Financial inclusion provides critical financial services to the most vulnerable members of society and equips them to access a growing number

¹ Prema, A. (2020). A study on digital finance and its impact on financial inclusion. *Our Heritage*, 68(2), 529-534.

² Durai, T., & Stella, G. (2019). Digital finance and its impact on financial inclusion. *Journal of Emerging Technologies and Innovative Research*, 6(1), 122-127.

of banking services. Digital India is a groundbreaking initiative by the Indian government to deliver services electronically. Digital initiatives can assist reach out to the unbanked (Gurpreet Kaur, 2015)³. Both suppliers and purchasers may benefit from electronic payment. E-payment is a way for avoiding the problems associated with physical cash transactions. E-payments are also associated with security and privacy concerns. Digital payment is apprehensive because of shady transactions and the worry of personal data being stolen. Consumers prefer to utilize a more secure and convenient payment system (Mamta et al., 2016)⁴

Objectives:

- To understand the concept of financial inclusion & digital financial inclusion
- To evaluate status of digital financial inclusion in Tumakuru, Karnataka
- To know the reasons for digital financial exclusion

RESEARCH METHODOLOGY

The study is based on Descriptive research. Descriptive research is a study designed to depict the participants through survey method. 600 respondents of different age group, qualification, occupation, and income level are surveyed. Stratified and Judgemental sampling adopted to collect data from target customers. The Primary data is collected through structured questionnaires and personal interaction with consumers. The Secondary data shall be collected from various books, research papers, journals, websites etc. and annual reports from the Government bodies like Reserve Bank of India. Averages and percentiles are used in the study.

Defining Financial Inclusion:

The term "financial inclusion" is a bit of a misnomer. A number of authors, scholars, and economists have defined financial inclusion. There is no consensus among economists on how to define financial inclusion because of its enormous breadth and unlimited function. There are several ways to look at and define financial inclusion. To better comprehend the concept of financial inclusion, we'll look at the perspectives of many authors, economists, and institutions.

Leeladhar (2006)⁵ "Financial Inclusion is the liberation of banking services at an affordable cost to the vast sections of the disadvantaged and low income groups".

Rangarajan's Committee (2008)⁶ "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost".

Digital Financial Inclusion:

Digital Financial Inclusion refers to ensuring inexpensive, suitable, and convenient digital access to vital financial services, especially for those who are financially disadvantaged. Digital Financial Inclusion relies on three key elements: a digital platform, retail agents, and a device.

Jim Yong Kim, The President of World Bank Group: "Digital Financial Inclusion involves the deployment of the cost-saving digital means to reach currently financially excluded and underserved populations with a range

³ Kaur, G. (2015). Financial inclusion and digital India. *International Journal of Business Management*, 2(2), 1251-1258.

⁴ Mamta., Tyagi, T., & Shukla, A. (2016). The study of electronic payment systems. *International Journal of Advanced Research in Computer Sciences and Software Engineering*, 6(7), 297-300.

⁵ Leeladhar, V. (2016). *Financial Inclusion and Millennium Development Goals*. Reserve Bank of India.

⁶ Vijaybhaskar, P. (2013). *Financial Inclusion in India – An Assesment* [PDF]. Retrieved from https://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=862

of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers”

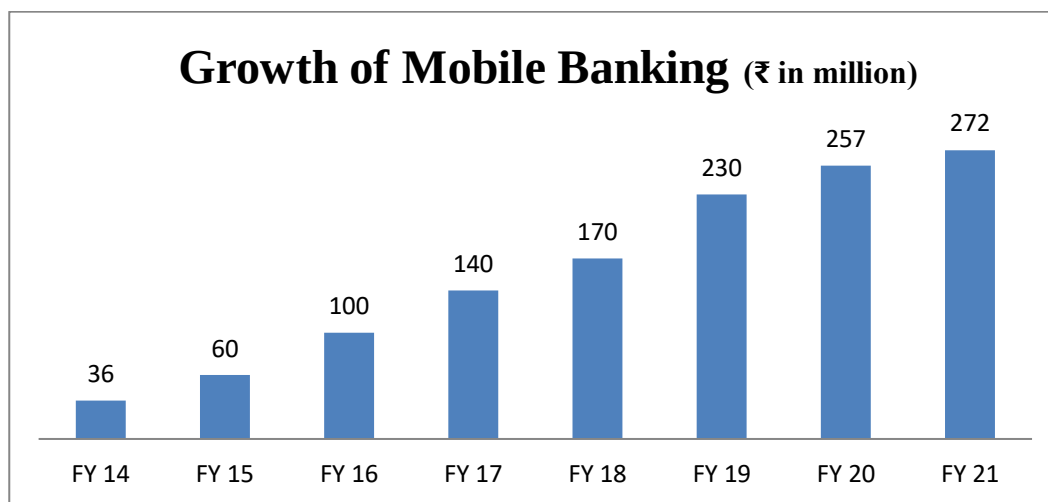
Status of Digital Financial Inclusion in India:

Mobile banking penetration and the volume of digital payments, which are detailed below, can be used to assess the state of digital financial inclusion.

Mobile Banking Forecast

The most common device for digital banking is a mobile phone. It allows financial organisations to reach out to the unbanked population more readily, as well as provide better banking services to existing consumers. Data from mobile phone users represents a country's digital infrastructure. The following figure shows how far mobile banking has progressed.

Figure No 01: Growth of Mobile Banking



Source: Reserve Bank of India

Digital Payments

The Indian economy is heavily reliant on currency. Consumers made about 78 percent of their payments in cash. In India, cash is the most common form of payment. The cash-to-GDP ratio of India is 12.04 percent, which is quite high. Because of these factors, there is a great need for digital payments. Cash trading costs, 21,000 crores in printing currency, currency chest costs, money supply to ATMs costs, and so on. The following are the most important arguments for using digital payments

Status of Digital Financial Inclusion in Tumakuru

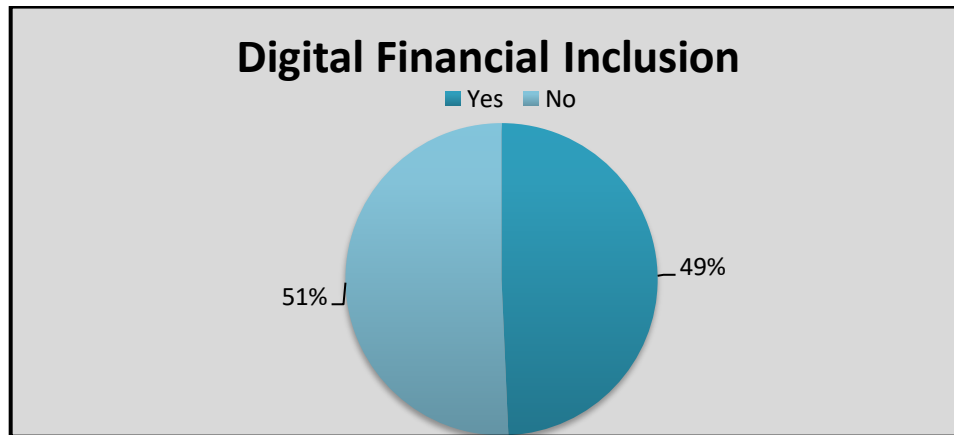
Table No 01 demonstrates that 296 (47.8%) of the 600 responses are in the digital financial inclusion category, while the remaining 304 (50.7%) are not using any digital methods for banking operations.

Table No 01: Status of Digital Financial Inclusion in Tumakuru

Monthly Income	Frequency	Percent	Cumulative Percent
Yes	296	49.3	49.3
No	304	50.7	100
Total	600	100.0	

Source: Primary Data

Figure No 02: Status of Digital Financial Inclusion in Tumakuru



Source: Primary Data

Causes of Digital Financial Exclusion

Digital Financial Exclusion is a status where in financially included population deprived of digital access to basic banking services. The Table No 02 discusses the reasons for digital financial exclusion.

Table 5.9: Opinion on Determinants of Digital Financial Exclusion

Determinants	Opinion on Digital Exclusion					Total
	Strongly Disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree	
I do not want to have a digital bank account	83 27.3%	146 48.0%	0 0.0%	27 8.9%	48 15.8%	304 100%
I am not aware of e-banking services	46 15.1%	53 17.4%	4 1.3%	185 60.9%	16 5.3%	304 100%
No proper security for e-transactions	28 9.2%	18 5.9%	5 1.6%	78 25.7%	175 57.6%	304 100%
Bank charges are high for e-banking services	7 2.3%	36 11.8%	130 42.8%	74 24.3%	57 18.8%	304 100%
Opening digital bank account is lengthy process	28 9.2%	11 3.6%	4 1.3%	224 73.7%	37 12.2%	304 100%
I do not have access to digital banking channels	10 3.3%	161 53.0%	14 4.6%	44 14.5%	75 24.7%	304 100%
I am not techno savvy	27 8.9%	150 49.3%	13 4.3%	49 16.1%	65 21.4%	304 100%
I do not have trust on e-banking channels	4 1.3%	0 0.0%	17 5.6%	226 74.3%	57 18.8%	304 100%
Possibility of misuse of personal information	2 .7%	8 2.6%	0 0.0%	91 29.9%	203 66.8%	304 100%
I do not have smart phones for mobile banking	178 58.6%	10 3.3%	5 1.6%	51 16.8%	60 19.7%	304 100%
No proper banking services in case of emergency	0 0%	10 3.3%	0 0%	224 73.7%	70 23%	304 100%

Cash/offline transactions are secure and convenient	0	5	0	77	222	304
	0%	1.6%	0%	25.3%	73.0%	100%
Total	413	608	192	1350	1085	3648
	11.3%	16.7%	5.3%	37%	29.7%	100%

Source: Primary Data

According to the findings, 48.0 percent of total digital financial excluded respondents want a digital bank account, 60.9 percent of total digital financial excluded respondents are unaware of e-banking services, and 57.6% of total digital financial excluded respondents agree that e-banking services lack proper security. 73.7 percent of total digital financial excluded respondents believe that opening a digital bank account is a time-consuming process, while 53.0 percent of total digital financial excluded respondents have access to digital banking channels and 74.3 percent do not trust e-banking channels. 66.8% of total digital financial excluded respondents are concerned about the prospect of information misuse. 73.7 percent of total digital financial excluded respondents agreed that there is no adequate banking service in the event of an emergency, and 73.0 percent strongly agreed that cash transactions are more secure and convenient.

Limitation of the Study:

- The Study is geographically limited to Tumakuru District of Karnataka.
- The study is completely relies on the opinion of respondents.
- A detailed study could not be undertaken as a result of time constraint

Scope for Further Research:

The study confined to Tumakuru District of Karnataka. The study can be conducted in other parts of India, as socio-economic profile of respondents is very much similar. The study is open for identifying new variables and factors that influences the digital financial inclusion and exclusion. An extensive research more respondents can be undertaken to get gain more concrete results which helps the stakeholders in redesigning policies.

CONCLUSION

Digital financial inclusion has given a different momentum to the aim of financial inclusion. Financial exclusion becomes common due to geographical and infrastructural issues. Timing of the services was also became a reason for financial exclusion. Digital financial inclusion has provided a timely and easily accessible platform to provide the better banking services. Financial inclusion emerged in a electronic way to reach the unreached. Digital financial inclusion is playing a significant role in achieving the goal of financial inclusion. Due to infrastructure, financial literacy, ignorance, security issues or prejudices of the customers preventing them from opting digital means of financial inclusion. The Government and Central Bank of the country must consider this as a priority and shall take steps to resolves the challenges of digital financial inclusion for comprehensive financial inclusion.

To enhance the robustness and applicability of the present study, several improvements can be considered for future research. Firstly, the geographical scope of the study may be expanded to include multiple regions or states, thereby enabling comparative analysis and improving the generalizability of findings across diverse socio-economic contexts.

Secondly, the adoption of advanced statistical techniques such as regression analysis and factor analysis would provide deeper insights into the key determinants influencing digital financial inclusion and exclusion. Such methods can help establish causal relationships and identify significant predictors more effectively.

Further, a detailed analysis of demographic variables—such as age, gender, education level, income, and occupation—should be undertaken to understand variations in digital financial behavior among different population groups. This would facilitate more targeted and inclusive policy recommendations.

In addition, there is a need to strengthen financial literacy and awareness programs to address challenges such as lack of knowledge, digital illiteracy, and low levels of trust in digital banking systems. Enhancing user confidence is essential for increasing adoption rates.

From a policy perspective, greater emphasis should be placed on improving digital infrastructure, particularly in rural and underserved areas. Ensuring reliable internet connectivity, access to digital devices, and secure, user-friendly platforms is critical for inclusive growth.

Finally, effective collaboration among banks, government agencies, and technology providers is essential to create an enabling ecosystem that promotes accessibility, affordability, and widespread adoption of digital financial services.

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