



Impact Of Digital Financial Services On Firm Profitability And Financial Inclusion In Developing Economies

Pooja Tyagi

CA -final

Institute of chartered accountant of India

Email ID- pooja0306tyagi@gmail.com

CA Ravi shanker

chartered accountant

Institute of chartered accountant of India, Finance

ABSTRACT

Financial industry has been greatly affected by the fast integration of digital technology. This is especially so in the emerging economies where the traditional banking services have had a narrow scope. Digital financial services (DFS) such as mobile banking, online payments, and online financial service provision are significant in increasing the accessibility of capital to the population and enhancing the efficiency of companies. The paper under analysis explores the effects of digital financial services on corporate profitability and financial inclusion with a particular focus on the companies located in Bangalore. It studies the relationship among digital financial service take-up, company profitability, and financial inclusion based on a descriptive and analytical methodology. The findings have depicted that services such as mobile payments and digital banking are heavily applied across the firms and have aided in enhanced transactions at low operating and finance management costs. The research also established that the accessibility of credit and other financial services was increased as more individuals could access digital financial services, and this increased financial inclusion. There remain, however, difficulties in implementing the technology regarding cybersecurity related problems, deficiency in technical capabilities and overcharged implementation costs. The findings demonstrate that digital financial services play a significant role in enhancing the profitability of the company and financial inclusion in emerging markets.

Keywords: Digital Financial Services; Firm Profitability; Financial Inclusion; Developing Economies; Financial Technology (FinTech)

INTRODUCTION

In developing economies, where conventional banking and financial services has not been universally available, the accelerated technical advancement in the digital sector has significantly influenced the world financial landscape. Advancement of digital financial services (DFS) such as electronic wallets, online lending platforms, online payments and mobile banking have transformed how individuals access and utilize money. Such technologies can assist companies and individuals to send money over a short period of time, inexpensively and securely as compared to the conventional banking systems. As a result of this, companies are now embracing the use of digital financial services to automate their financial processes, enhance methods of money payment and other generic financial management.

In the past years, the growth of online banking and other online financial services has significantly increased business efficiency and revenue. DFS make firms to work with a higher

efficiency because of a reduced cost of transactions, swirling superior management of cash flows, and a quicker access to financial resources to compete in the dynamic markets. It is true that digital financial platforms are particular to the interest of small and medium-sized enterprises (SMEs) as it provides them with alternative opportunities to access credit, pay and locate a broader customer base. The use of digital financial technologies in business, in turn, can result in a higher financial performance and higher profits.

Additionally, digital financial services have become an essential tool for developing nations to expand access to formal financial services. The large number of people and organizations in these areas has not always been part of the formal financial system because there were few banking facilities, expensive costs and geographical restrictions. Because digital platforms enable the supply of financial services through the use of mobile devices and internet access, they have the ability to alleviate these challenges. Digital financial services help to promote inclusive economic growth and encourage the creation of more robust financial systems by increasing access to financial products, including savings, payment systems, and credit. It is due to this fact that investigating the impact of digital financial services on business profitability and financial inclusion is critical to understanding how the variables influence the long-term economic success of emerging economies.

1. LITERATURE REVIEW

Abbasi and Weigand (2017) explored the effect of digital financial services on business performances through a thorough literature review. Their research was based on the analysis of the pertinent scholarly and business literature on the subject of the influence of digital financial technology on business performance. The authors were able to establish that digital financial services increased efficiency of transactions, reduced the cost of operation and improved processes of financial management in firms. The other observation that the researches aroused was that, with the integration of digital financial platforms, businesses could use the financial services more easily and the resulting effect was improved financial performance and competitiveness within the modern markets.

Ahmad et al. (2021) examined the relationship between the increase in access to digital financial services and Chinese provincial data of economic development. The two outcomes of the study in examining the effect of the expansion of digital financial services were better financial accessibility and economic development. The results indicated that the digital financial inclusion significantly increased access to financial services both by the consumers and by companies, especially in low developed regions. The researchers reached the conclusion that the presence of the financial platforms in digital shapes were material to promote economic development due to the ability to engage in financial activities and enhance the distribution of financial resources.

Alshehadeh and Al-Khawaja (2022) examined the effect of financial technology on the bottom line of commercial banks and as a tool of financial inclusiveness. The impact of the online payment structures and online banking services on the performance of the financial accessibility and banking was analyzed according to the effects of fintech innovations. The results indicated that the incorporation of the financial technologies enhanced efficiency of the

banking operations and delivery of the financial services to the underserved groups. Other results of the research revealed that financial inclusion through fintech had a positive influence on the profitability of commercial banks and their performance.

Asif et al. (2023) explored the relationship between fintech and digital financial services and financial inclusion in India. The authors examined how the expansion of digital banking platforms and mobile payment services has increased the growth of financial services to individuals and businesses due to the speed at which they have developed. The researchers noted that the digital financial services had become a significant stimulus to financial participation by reducing the barriers that were linked to costs, space and documentation services. The results revealed that the formulation of fintech solutions was of great priority to the economic growth of the emerging economies and encouraging financial inclusion.

2. RESEARCH METHODOLOGY

The main objective of this study was to examine how digital financial services impact profitability and financial inclusion of companies in developing countries. Researchers came up with a methodology of collecting and analyzing relevant data in order to learn how digital financial services influence the performance of companies and their access to capital. The study largely relied on the secondary data sources, which were obtained as the published academic texts, financial statements, institutional publications, and on the internet databases. The processed data were tested with an association between the utilization of digital financial services and corporate profitability and financial inclusion. Quantitative research method was applied to ensure that it was being analyzed objectively, and the results could be relied on.

2.1. Research Design

The study design was descriptive and analytical study to explore the relationship between digital financial services, financial inclusion, and firm profitability. The descriptive research study helped to gain knowledge on the existing trends and changes with respect to the digital financial services in developing economies. The analytical design also helped the researcher to assess the relationship between the selected variables using the previously available data and statistics. This methodology was more effective to find trends and make significant conclusions because it was supported by the impact of digital financial services on the performance of the company and access to capital.

2.2. Sample Size and Study Area

The case study is a major Indian financial and technical center, Bangalore, due to the dramatic rise in the adoption of online banking and other online financial services over the past few years. In order to carry out analysis, 100 observations of secondary data that were taken into consideration during the research were based on published data sets, research reports and financial records that related to companies operating in the region. The data concerning the use of the digital financial services, the performance indicators of the firm, and the access to the financial services were the data of these observations. The data that was chosen in this research was beneficial because it contributed to the understanding of the relationship between the use of digital financial services and the success of local companies.

2.3. Data Collection Method

The study simply relied on the secondary data collection. The reputable sources that were used to collect data were academic journals, official publications, financial reports, databases of international organisations, as well as past empirical studies on the topic of digital financial services and financial inclusion. Online databases such as Google Scholar, Scopus and other financial research tools were also used to retrieve the relevant literature and statistical information. The collected data was a holistic concept on the impact of digital financial services on the firm profitability and financial inclusion.

2.4. Variables and Measurement

The study had independent and dependent variables. The independent variable was the proliferation of digital financial services which covered such entities as online banking, mobile payments, fintech services and online platforms of financial transactions. The dependent variables were profitability of the firm and financial inclusion. The profitability of the firm was quantified with respect to such indicators as improved financial performance, efficiency of operations, reduction in transaction costs, and higher revenue potential as it is captured in the available sources of study and financial data. The indicators used to measure financial inclusion included access to financial services, access to the digital payment and participation in the formal financial systems. The information to be analyzed was found in the already published works of research and financial reports.

2.5. Data Analysis

The collected secondary data were explained through the descriptive and analytical analysis to describe a relationship between the variables. The changes and tendencies related to the process of adoption of digital financial services and their outcomes in the developing economies have been summarized by way of the descriptive analysis. The connection between digital financial services, profitability of the company, and financial inclusion was also examined employing qualitative and quantitative research. The results of the multiple studies and reports were thoroughly examined and analyzed to make the conclusions that were relevant towards the role digital financial technologies play in enhancing business performance and financial accessibility. The results were presented in a straightforward and orderly manner, providing valuable information about the impact of digital financial services in developing nations.

3. RESULT AND DISCUSSION

The data collected from 100 respondents, all of whom were representatives of Bangalore-based businesses, is analyzed and interpreted in the part that follows. The impact of digital financial service adoption on business profitability and financial inclusion could be better understood with the use of descriptive statistics. The results are presented in a straightforward and organized way using tables to demonstrate the links and patterns found in the data.

Table 1 displays the demographic breakdown of the study's participants. Based on their roles inside their companies, the respondents will be divided into three groups: business owners, managers, and finance officers. The table shows the number and the percentage of respondents in every category. Also, a graphical representation of the demographic distribution of the

respondents is included in Figure 1.1 to visually depict the number of people who were included in each category.

Table 1: Demographic Profile of Respondents

Category	Frequency	Percentage (%)
Business Owners	38	38%
Managers	34	34%
Financial Officers	28	28%
Total	100	100%

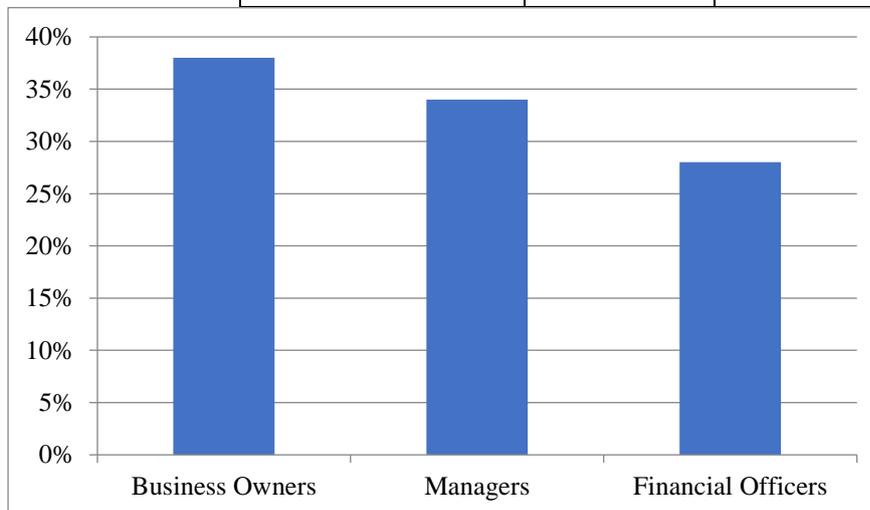


Figure 1.1: Graphical Representation of Demographic Profile of Respondents

The findings indicate that out of the total respondents, who were 100, 38% of them were business owners, 34% were managers and 28 percent of the respondents were financial officers. That most interviewees are involved in decision-making and financial management at their respective institutions means that their insights will be useful for studying how digital financial services affect businesses' bottom lines and their ability to reach underserved populations.

Table 2 shows adoption of the various types of digital financial services by firms that were used in the study. The table segregates the services as mobile payments, digital banking, online financial platforms, and FinTech services. It displays the frequency and percentage of distribution of firms utilizing each form of digital financial service. Figure 1.2 provides a visual picture of the adoption trend across enterprises of digital financial services by displaying this distribution.

Table 2: Adoption of Digital Financial Services by Firms

Digital Financial Service	Frequency	Percentage (%)
Mobile Payments	30	30%
Digital Banking	28	28%
Online Financial Platforms	22	22%

FinTech Services	20	20%
Total	100	100%

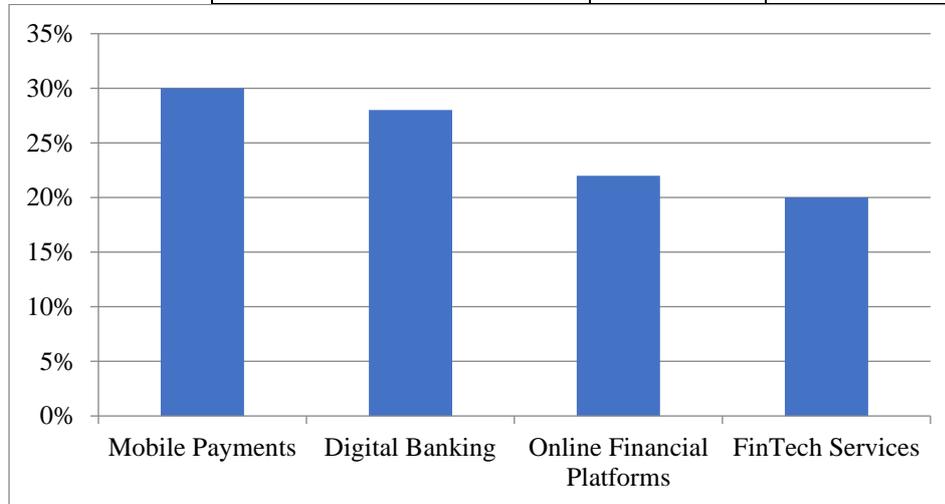


Figure 1.2: Graphical Representation of Adoption of Digital Financial Services by Firms

The findings show that mobile payments have been the most used digital financial service with 30% of the respondents stating that they use it, followed by digital banking at 28 percent. There were 22% online financial platforms and 20% of the firms used FinTech services. This implies that companies are shifting towards the use of digital payment and banking systems to facilitate financial transactions and business activities.

The perceived benefits of digital financial services on enterprises are shown in Table 3. The benefits that are classified in the table include accelerated financial transactions, lower cost of operation, enhanced financial management, enhanced customer payment systems and expanded business opportunities. It demonstrates how often and at what percentage the respondents have identified each benefit. The respondents' views on the usefulness of digital financial services for company operations are graphically depicted in Figure 1.3.

Table 3: Benefits of Digital Financial Services for Firms

Benefits	Frequency	Percentage (%)
Faster Financial Transactions	26	26%
Reduced Operational Costs	22	22%
Improved Financial Management	21	21%
Better Customer Payment Systems	18	18%
Increased Business Opportunities	13	13%
Total	100	100%

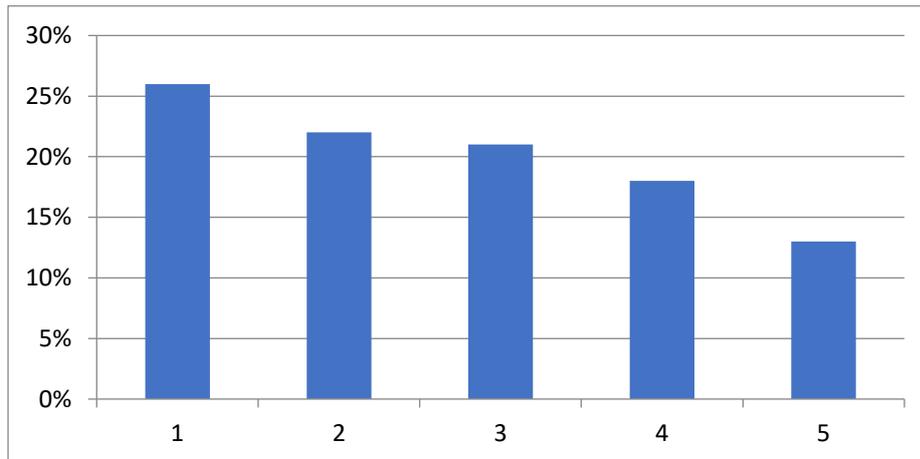


Figure 1.3: Graphical Representation of Benefits of Digital Financial Services for Firms

The findings indicate that 26% of respondents had pointed at the accelerated financial transactions as the most considerable advantage of digital financial services. This was preceded by lower costs of operation (22%), and better financial management (21%). Also, 18% of the respondents reported improved customer payment systems and 13 percent reported an increased business. According to these findings, digital financial services primarily aim at increasing the speed of transactions, decreasing costs, and financial management in firms.

Table 4 shows the biggest obstacles encountered by companies in adopting digital financial services. The table identifies various barriers including the problem of cybersecurity, the issue of unawareness, the cost of implementation is high, issues with internet connection, and the problem of regulations. It indicates the percentage and frequency with which each of the challenges was identified by the respondents. Figure 1.4 shows the difficulties that firms face in terms of adopting digital financial services as a means of the graphical representation.

Table 4: Challenges in Adoption of Digital Financial Services

Challenges	Frequency	Percentage (%)
Cybersecurity Concerns	27	27%
Lack of Technical Knowledge	23	23%
High Implementation Cost	20	20%
Internet Connectivity Issues	18	18%
Regulatory Issues	12	12%
Total	100	100%

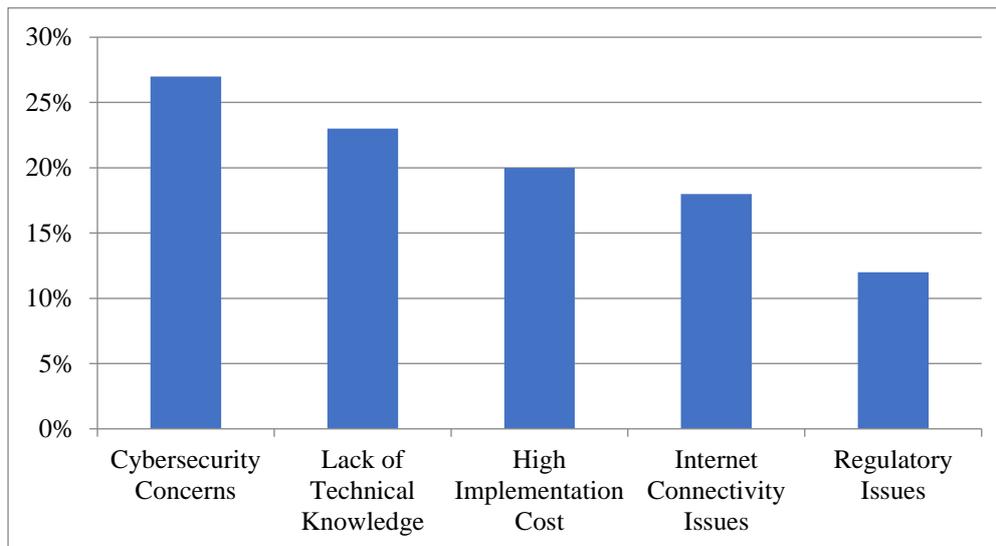


Figure 1.4: Graphical Representation of Challenges in Adoption of Digital Financial Services
The findings reveal that cybersecurity issues were the greatest challenge as 27% of the respondents indicated this. This was then succeeded by deficiency of technical knowledge (23%) and high implementation cost (20%). Internet connectivity problems had the highest number of 18 and 12% of the respondents had regulatory problems. According to these findings, business adoption of digital financial services is hindered by security concerns, a lack of technological competence, and the financial ramifications.

Table 5 shows the answers of the respondents to the question concerning the connection between digital financial services and credit access. Strongly agree, agree, neutral, disagree, and strongly disagree are the five categories into which the replies are sorted. It displays the percentage and frequency distribution of the respondent under each category of response. Figure 5.1 provides a visual depiction of the responses received from the survey, allowing viewers to understand the respondents' perspectives on the importance of digital financial services in improving credit accessibility.

Table 5: Digital Financial Services and Access to Credit

Response	Frequency	Percentage (%)
Strongly Agree	34	34%
Agree	31	31%
Neutral	18	18%
Disagree	11	11%
Strongly Disagree	6	6%
Total	100	100%

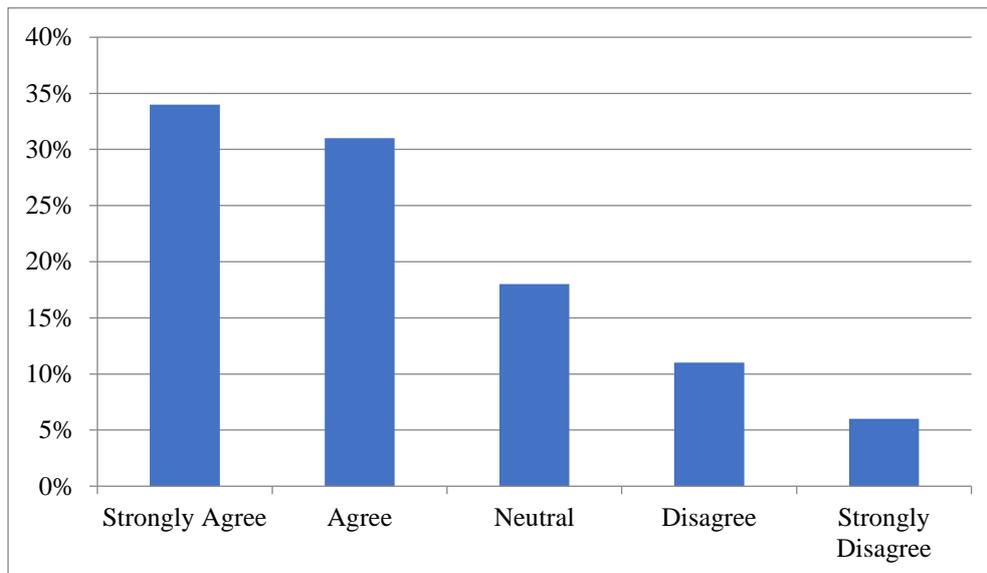


Figure 5.1: Graphical Representation of Digital Financial Services and Access to Credit
Table 5 displays the interviewees' responses regarding the relationship between digital financial services and the availability of credit. The comments will be categorized in the table according to five levels of agreement: strongly agree, agree, neutral, disagree, and fiercely disagree. It presents the frequency and percentage distribution of the respondents under each response category. Figure 5.1 is a graphical representation of the responses to these questions that shows how respondents see digital financial services to improve access to credit.

4. CONCLUSION

This article has looked at the impact of digital financial services on the profitability and financial inclusion of businesses in developing nations, specifically focusing on Bangalore-based businesses.. The results reveal that online financial services like mobile payments, online banking, online financial platforms and fintech services are becoming more widely used by companies in an attempt to enhance financial operations and efficiency. Such services help in accelerated financial transactions, lowering of operation costs and enhancing financial management, which in the end leads to increased profitability of the firm. Additionally, the study highlights the importance of digital financial services in expanding access to credit and other financial services for businesses, which contributes to financial inclusion. Nevertheless, the adoption is still hindered by challenges like cyber security concerns, technical lack of knowledge, high implementation cost and poor internet connectivity among others. Altogether, the findings indicate that the scale and successful implementation of the digital financial services can be quite instrumental in firm performance and financial inclusion in emerging economies.

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