Mobile for Financial Inclusion

(Granule 01)

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Hello Every One, I am Naveen Kumar; I am with National Institute of Bank Management, India. In this course on Mobile for Development, we have a short module on “Mobiles for Learning and Financial Services”. This module is sub grouped into six units, (slide)

Unit 1 – Introduction

Unit 2 – Strategic Opportunities for Financial Services - Mobile Banking; Mobile Commerce; Mobile Money Transfer

Unit 3– Mobile for Financial Inclusion - Technology solutions for Financial Inclusion

Unit 4 – Regulatory Framework for Mobile Financial Services

Unit 5 – Case Studies - Mobile Banking and Mobile Payments & Swabhiman: ICT based Financial Inclusion Implementation

Introduction

Access to financial products is constrained by several factors which include: lack of awareness about the financial products, unaffordable products, high transaction costs, and products which are not convenient, inflexible, not customized and of low quality. Financial Inclusion promotes thrift and develops culture of saving and also enables efficient payment mechanism strengthening the resource base of the financial institution which benefits the economy, as resources become available for efficient payment mechanism and allocation. The empirical evidence shows that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality. If we are talking of financial stability, economic stability and inclusive growth with stability, it is not possible without achieving Financial

Inclusion. In my view, financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players.

Global Financial Inclusion

Worldwide, 50 percent of adults report having an individual or joint account at a formal financial institution. But while account penetration is nearly universal in high-income economies, with 89 percent of adults reporting that they have an account at a formal financial institution, it is only 41 percent in developing economies. Globally, more than 2.5 billion adults do not have a formal account, most of them in developing economies.

(AsliDemirguc-Kunt and LeoraKlapper (2012)Measuring Financial Inclusion, The Global Findex Database, Policy Research Working Paper, The World Bank)

Financial Inclusion in India

In India, significantly large regions and populations are still unbanked/ underbanked. Despite the expansion of the banking network over the past four decades and more, only 35 percent of adults in the country have an account at a formal financial institution. Still, account penetration in India is just below that in the rest of the developing world. Further, only 26 per cent female adults are having the accounts as against 44 per cent of adult men. According to the World Bank Study (2013) only 8 percent of Indian adults borrowed from a formal financial institution in the past year.

Indian Initiatives for Financial Inclusion

The Reserve Bank of India (RBI-the central bank), in its Annual Policy Statement of April 2005,urged banks to review their existing practices to align them with the objective of financial inclusion. With a view to achieving greater financial inclusion all banks were advised to make available a basic banking 'no frills' account that could be operated with a nil (or very low) balance at a charge that would make such accounts accessible to vast sections of the population. In subsequent years, the Government of India and RBI have taken various initiatives to extend the reach of banking to those outside the formal banking system. To mention a few initiatives like –

(i) Opening of bank branches

(ii) Expansion of the ATM network

(iii) Using the Business Correspondent Model to increase the outreach of the banking sector; setting up Ultra Small Branches (USBs) through Business Correspondent Agents (BCAs)

(iv) Each household to have at least one bank account; Direct Benefit Transfer (DBT) through bank accounts

However, there is still a long way to go before the goals of financial inclusion are realised. The poor in the bottom of the pyramid has several exceptions on banking services - low transaction costs, quick and easy operability, minimum paper work, security and safety of their money, the possibility of making frequent deposits and remittances and having access to credit and other products as and when required. The biggest barriers to financial inclusion in India are: (a) the poor accessibility of banking services and (b) when accessible, the high costs incurred by households to access such services. The rural-urban divide is also glaring. According to the 2011 Census data rural population is 833 million there are only 37,953 branches of scheduled commercial banks functional in these rural areas as on31.03.2013 – a bank branch in rural India serves about 22,000 persons. On the other hand, the urban population of 377 million is served by 64,390 branches – there is a branch for every 6000 persons in urban India.

While, looking at the supply side, the banks find it uneconomic or/and impractical to operate a large number of tiny accounts and micro transactions. Opening even a small branch entails costs, and commercial banks may simply find this economically non-viable. The solution could lie in *technology-driven service delivery models*. Technology, however, has to be suitable from the point of view of *affordability, accessibility, security and privacy*.

Mobile telephony could be the answer to the problem. There are 873.4 million (as on 30.06.2013) mobile connections in the country of which more than 40 per cent (351.1 million) connections are in the rural areas. The fact that a large number of mobile subscribers in rural areas do not have access to banking facilities presents an opportunity for leveraging the mobile telephone to achieve the goal of financial inclusion. The overall mobile tele-density of the country is 71.08, whereas the rural areas accounts for 41.14. The increased telecom penetration in India is the major driver for mobile banking and finance.

Mobile Technology

Mobile technology offers the dual opportunity of filling financial gaps and improving the economic lives of customers. Mobile technology for banking transactions has been gaining popularity world over. With the rapid growth in users and expansion in coverage of mobile phone networks in India, this platform has been recognized as an increasingly important medium to reach the unbanked. While e-commerce has skipped the majority of the population due to the cost of setting up such channels, mobile commerce has the capability to be inclusive due to the widespread use of mobile phones.

Mobile phones, as a medium for extending banking services, have of-late attained greater significance because of their ubiquitous nature. The rapid growth of mobile users in India, through wider coverage of mobile phone networks, have made this medium an important platform for extending banking services to every segment of banking clientele in general and the unbanked segment in particular.

Mobile Financial Services fall into one of three categories: mobile payments (P2P, P2M, orM2M), mobile microfinance (loan disbursement and payments), or mobile banking (bill pay or account information, e.g. balances or alerts). The nature and breadth of the services varies, depending on the consumer segment and needs, mobile technology infrastructure, maturity of financial services, and regulatory environment in a given market.

Mobile Banking Services for Financial Inclusion

Mobile banking involves the use of a mobile phone or other mobile devices to conduct banking transactions. As per the extant guidelines of RBI, banks that are licensed, supervised and have physical presence in India, are permitted to offer mobile banking services. Mobile banking policies in India aim to enable funds transfer from an account in any bank to any other account in the same or any other bank (inter-operability) on a real time basis irrespective of the mobile network the customer has subscribed to. It is imperative that the method used for mobile banking should be secure and should ensure confidentiality, integrity, authenticity and non-reputability.

The provision of mobile banking to the unbanked/ under-banked population could be the quickest way to achieve the goal of financial inclusion. On the demand side, mobile banking will make banking products and services affordable and immediately accessible. On the supply side, mobile banking would be cost effective; it would save costs of providing physical access (bricks and mortar) and become a viable economic proposition for banks to handle small value transactions made by low-income citizens.

Stakeholders in Mobile Banking

Stakeholders who have an important role to play in mobile banking for financial inclusion are the following:

(i) RBI: RBI has been pursuing the goal of financial inclusion as a necessary condition for sustaining equitable growth. RBI has introduced several measures such as ‘no-frills’ accounts with simplified KYC norms, 100% financial inclusion drive, the Business Correspondent (BC) model etc.

(ii) Banks: Banks provide different types of financial services to customers. These institutions are important stakeholders as they are currently responsible for opening and maintaining ‘no-frills’ accounts.

(iii) Telecom Service Providers (TSPs): The TSPs have a crucial role as the wireless telephony infrastructure created by them can provide the communication channel for mobile banking.

(iv) Customers: The customers are the most important stakeholder in the entire system. Today, a citizen having a mobile phone and a bank account can access various banking services (including inter-bank fund transfer) if his bank has mobile banking infrastructure and his TSP allows him to access the bank’s infrastructure through the TSP’s network resources. Mobile banking would help to draw more and more of the presently unbanked / under-banked populations into the banking fold. Citizens would be facilitated in depositing, transferring and withdrawing money to and from remote locations in the country at a vastly lower cost.

Mobile Banking and Value Creation

Mobile banking has the potential to create value on multiple fronts and improve the entire financial and societal ecosystem. The move to create value will come from two directions but has to be centered on the citizen, customer to achieve success. Tie-ups between commodity exchanges and mobile service providers for the dissemination of crop information through calls or text messages are expected to increase demand for mobile services among the rural farm community. This is in turn is expected to increase demand for a bouquet of related value added services which will help deepen the overall base of Mobile service providers in rural India.

Branchless banking allows banks to extend its reach to unreached areas, in particular, the rural areas, and the cost of serving new territories is significantly lower. Moreover, it cuts costs of dealing in small quantities which is the case for micro loans. The ICT enabled mobile banking will help in lowering the cost for the lenders as well as borrowers. As per one of the RBI estimates, it costs close to Indian Rupees (INR) 50 per transaction if conducted in a branch, an ATM transaction costs about INR 15 and a net based transaction costs the bank only around INR 4, primarily due to savings in real estate and personnel costs. Mobile banking transaction cost is expected to be of the same order as internet banking transaction cost. A major promise of Mobile Banking is that it can help expand operations in remote or sparsely populated rural areas due to high penetration of cell phones. Mobile banking holds the potential to create financial products that better fit with the needs of poor customers such as paying utility bills, education, medical expenses, etc; as well as to create more flexible loan products for farmers and small scale entrepreneurs.

Similarly, in the eco system, the telecom players can gain from the Mobile banking in myriad ways. For instance, they can provide their retailers a value added revenue stream by offering Mobile banking merchant status. The Mobile banking ecosystem can open up innovative mobile services including SMS payment reminders and location based financial services such as price information from nearest rural/agri markets (like

ITC e-chaupal platform), salary receipt and withdrawal facility, bill payment, remittances, cashless transactions, etc. By offering these value added services; the operators may also sustain their business along with new innovations in the market.

To conclude

- Conventional banking and financial services were very capital and labour intensive along with very few high values - low volume transactions carried out by high net-worth customers.

- In the current environment, technology for banking has rapidly evolved and scaled, allowing remote anytime, anywhere availability of secure financial services to become commercially viable with wider and deeper outreach.

- The benefits however still remain accessible to a limited segment of urban literate technology-savvy customers and banks are yet to adopt to the low-value, high volume transactional needs of the poor to be served in low density, remote environments.

- The interplay of banking technologies with mobile technologies, that have much wider penetration, hold new promise of financial inclusion for the masses.