The “M” factor in Financial Inclusion

Siddhartha Dash ★

Abstract

Financial Inclusion (FI) has been a high priority area for successive governments over the last five decades and several initiatives have been taken to include 100% of the population, especially the marginalized, into the economic mainstream. However, on both Financial Inclusion (defined as the spread of financial institutions and financial services across the country) and Financial Depth (defined as the percentage of credit to GDP at various levels of the economy) the overall situation remains very poor and, on a regional and sectorial basis, very uneven. It assumes additional significance in a country like India which has immense diversity in almost all aspects of economic, health, education and social parameters, within its population. Advent of technology has significantly helped in these initiatives and of them, “mobile banking” is being seen as a game changer to boost financial inclusion. This article would collate various studies in the area of mobile banking and financial inclusion, till date to come up with an assessment of the ground situation as it exists today.

Keywords: *Financial Inclusion, Mobile Banking*

Introduction

Financial inclusion has for long been a high priority area for governments, especially of developing countries such as India. This is because it is an important step for ensuring that the benefits of a developing economy are reaching the economically weaker sections of society and to also ensure accessibility of capital and financial services to the marginalized and exploited. A joint study conducted by industry body CII and consultancy firm Delloite released in July 2016, states that the Jan Dhan, Aadhaar, Mobile Number (JAM) Trinity, is a “game changing” reform, which would become the basis for fundamental socio – economic reforms in India. One of the most significant area where JAM is expected to be a “game changer’ is in the area of direct benefit transfers (DBT) which currently is plagued by huge inefficiencies ranging from identification issues to actual pilferage and leaks.

★ Siddhartha Dash
Executive Vice President, UTI Mutual Fund, India

Financial Inclusion initiatives in India can be broken down into the following phases: (Shastri, 2014):

Phase 1 – 1960 – 1980: Several banking reforms, changes were initiated such as:

Bank Nationalisation (1969)

Issuance of Priority Sector lending guidelines by RBI (1972)

Setting up of Regional Rural Banks (1975).

Phase 2 – 1980 – 2005:

Launching of Integrated Rural Development Programme by Government of India.

Setting up Microfinance program

Setting up of NABARD.

Phase 3 – 2005 onwards

Setting up of Microfinance institutions.

Apart from these, several other initiatives such as setting up of Payment Banks, Small Finance Banks and may changes in banking guidelines aimed at making banking more accessible to the general population have also been implemented the last decade.

Potential and Role of Mobile Banking

Mobile Banking is being looked upon by most researchers, policy makers and banking and mobile corporations to be the main driver in promoting Financial Inclusion amongst the masses. In his address delivered at the FICCI-IBA Conference (FIBAC, 2012), Shri Harun R. Khan, Deputy Governor, Reserve Bank of India, recognized the fact that mobile banking has become an important channel of delivery of financial services. He also opined that this method of delivery has the potential to become an important delivery platform to provide banking services to the unbanked masses. He further stated that by leveraging technology, mobile banking is being seen as a “giant leap for the banking industry – to assist in financial inclusion initiatives of the government and promote anytime and anywhere banking. In his address, Dr K. C. Chakraborty, Deputy Governor, RBI, (2011) reiterates the potential of the Mobile phone to facilitate financial services and thereby, promote Financial Inclusion. As per TRAI data (2018), the total wireless subscriber base is 1152 million, with 652 million urban users and 499 million rural users. However, it is the difference in the wireless tele-density (% age of wireless users vs population) between the urban (159.39%) and rural (56.25%), which lends itself to discussion on the possibilities available for leveraging this technology for Financial Inclusion. Currently, India is the 2nd largest telecom market in the world with 1.17 billion subscribers out of which 1.15 billion use wireless means to communicate. There is an exponential rise in terms of internet users as well as smart phone users in the country. The unprecedented penetration of mobile phones especially smart phones, coupled with rapid decrease in subscriber costs, provides a great opportunity for the last mile delivery. Table 1 gives details of growth of mobile internet users in India.

Table 1: Growth of mobile internet users in India

	Dec-17	Growth over Dec 16	% age of mobile internet users
Mobile internet users in India	456 Million	17.20%	31%
Mobile internet users in urban India	291 Million	18.64%	59%
Mobile Internet users in rural India	187 Million	15.05%	18%

Source: Internet & mobile Association of India and KANTAR IMRB report, March, 2018

In the last decade there has been rapid development of mobile technology especially 4 G and of mobile hardware like smartphones in almost all segments of the socio-economic spectrum and this present’s mobile banking a significant opportunity for it to play a role in promoting financial inclusion initiatives of the government. Towards the same, the government has also come out with several guidelines facilitating mobile banking, the first of which was issued by the RBI in 2008 which detailed security and transaction limits for banks and customers. These have undergone significant changes over the last 12 years and the RBI has come up with regular updates to the guidelines aimed at making mobile banking easier and more secure. Various payment applications such as BHIM, RUPAY, have also been released by the government which adds to the trust of the customer while conducting transactions. This has led to a huge increase in digital transactions over the last decade.

Types of Mobile Banking

Various studies have been done on the operational aspects of mobile banking i.e HOW banks will provide various products and services through mobiles. According to Srivastava A. (2013), mobile banking operations can be categorized into the following methods:-

1. Alternative banking model – It is limited to providing non financial transactions such as balance enquiry, cheque book requests etc.

2. Virtual Banking Model – The mobile service provider operates as a virtual bank and provides all banking transactions to the customer. This scenario needs modifications to the banking act to allow for mobile operators to act as banks. An example is the M–Pesa model in Kenya which allows the mobile operator Vodafone, to operate as a "payments bank", in which its role is limited to allow for remittance of funds only and not any investments or credit function.

3. Bank on the Mobile Model – In this model, the banks provide all banking facilities to its customers by having mobile apps which allow the mobile to be used as a hardware to conduct banking operations by the customer. This has become a popular model as it provides users the convenience of "anytime" and "anywhere" banking.

It is also well accepted by researchers and economists that rural India is where the focus of financial inclusion initiatives should be as well as the fact that mobile banking would play a significant role in achieving the same given the sheer volume of potential subscriber base. Digital Wallets, Payment Banks, UPI is expanding in a big way. India is witnessing an exponential growth in the area of digital payment in recent times. With ever-increasing internet and mobile penetration, the country is all set to witness a massive surge in the adoption of digital payments in the coming years. This assessment is significant as financial inclusion initiatives need to be greatly propagated in semi urban and rural areas where subscription to formal financial services is limited.

Advantages of Mobile Banking

Mobile banking offers a variety of advantages for both banks as well as customers. From the banks perspective, they reduce the burden of setting up brick and mortar branches which further require manpower and other infrastructure costs. They also reduce the cost of providing banking services of different products significantly. Customers on the other hand benefit from the convenience that mobile banking offers of being able to conduct a transaction anytime and anywhere. The presence of the mobile handset especially smart phones, as a hardware and the rapid development of mobile technology, gives an added advantage to policy makers to design policies for providing banking access to a larger segment of the population.

A report by BCG, (2011) states that new channels of distribution especially mobile banking services help enhance bank productivity in four major ways:

1. Decreases overall cost of operations: Cost of transaction in new channels especially online channels is much lower as compared to transactions at a brick and mortar branch. By encouraging customers to use new channels, banks can reduce the total cost to serve them. Minimum viable ticket size of business can be reduced and more customers can be profitably served.

2. Helps increase customer retention: It has been found that once customers get used to the multichannel transaction experience, chances of churn are substantially reduced.

3. Helps banks to increase acquisition of new clients: The ease of use and reach of these new channels would help acquire new clients. Social media is also expected to be an important channel for brand building and referral.

Goyal V. (2012) in his study argue that for mobile banking to be a successful model of delivery of banking products and services, it has to meet the following conditions:

1. Simplicity and Usability: The mobile banking application must be easy to use and user friendly. Customer must be able to navigate the application easily and personalize it to suit his or her convenience.

2. Universal: Mobile based payments needs to allow universal transactions between customer to customer, business to customer and between businesses and it should cover domestic, regional and global ecosystems.

3. Interoperable: The development of mobile banking applications should be such that it allows for seamless interaction between different technology platforms and systems.

4. Security, Privacy and Trust: Perhaps the most important factor for a customer is that they must be able to trust a mobile payment application provider that their account and other financial details or personal information may not be misused. The system should also be foolproof, resistant to attacks from hackers and terrorists.

5. Reduce Cost: Mobile banking should help reduce costs for both the service provider as well as customer.

6. Speed: The speed of transactions initiated through mobile banking must be such that is solves the purpose of customers and merchants. For example, payments by customers at merchant locations should be instant.

7. Cross border payments: For better acceptance, m-payment applications must be available globally and transactions must also be facilitated worldwide.

Goyal V. et al (2012) also detail the various regulatory practices and challenges that are guide mobile banking industry in India some which are :-

1. Restricted to Financial Institutions: Mobile banking guidelines restrict the facility to only existing financial institutions and banks.

2. Rupee Transactions: Mobile banking transactions necessarily needs to be done in Indian currency.

3. Existing Account Holders: Mobile banking guidelines require that only customers having a valid bank account be given the facility of mobile banking. This is a major limitation to the full potential of mobile banking to be able to bring banking to the large number of unbanked customers in India.

4. Demographic Challenges: A large number of regional languages in India along with the fact that two-thirds of the population in India is illiterate, creats difficulties in deployment of mobile banking solutions.

Case of "M – Pesa" - The "M-Pesa" mobile banking service is an example of an extremely successful model of delivering financial services to the unbanked, through mobile network. Launched in Kenya in 2007, it quickly became the most successful mobile phone based financial service in the developing world. By 2012 there were almost 12 million users of this service which is essentially a branchless banking service wherein customers can deposit or withdraw money from a network of agents which includes airtime recharge agents as well as retail outlets acting as banking agents. While it is limited to only deposit and withdrawal of cash, it provides the first basic step towards financial integration to the unbanked masses.

Challenges faced by Mobile Banking

Despite having huge potential, various initiatives by banks and non banks as well as encouragement from the Reserve Bank of India, through regulations, guidelines, penetration of mobile banking services in India is still limited. A July 2017 Oracle J D Power study on retail banking in India states that only 9% of retail banking customers in India use mobile banking for every day transactions.

Various studies have been conducted on determining the possible reasons for low adoption rates. Sharma A, et al. 2012 use the Roger's Diffusion model, developed in the 1960's to determine factors affecting adoption of new technology. The model essentially evaluates innovation using five constructs – relative advantage, compatibility, complexity, trialibility and observability. The study found that the top 5 perceptions / factors hindering adoption of mobile technology were:

1. It would be a riskier method of banking.

2. Would it really help manage finances more efficiently?

3. It would be complex to use.

4. Would it enhance the status of the user?

5. It would require a lot of mental effort.

One of the biggest concerns for mobile banking users is that of security issues like financial frauds, account misuse and user friendliness issue - difficulty in remembering the different codes for different types of transaction, application software installation & updating due to lack of standardization. Another major issue is that of revenue sharing agreements especially for mobile service providers for them to look at this as a viable business model and further increase the base.

Financial inclusion initiatives will also require transactions to be processed through non smartphone hardware, such as feature phones as these are generally more prevalent in the section of population requiring access to formal financials services. Towards, the same the "BHIM" app launched by the government facilitates transactions through feature phones.

Conclusion

Financial inclusion is important economic agenda of governance, especially in developing nations such as India, since it enables equitable distribution of the country's resources, results in social uplift, provides access to health care and education and also helps create jobs, thus generating a self-sustaining cycle of economic growth. Most studies agree that mobile banking offers a tremendous opportunity to promote financial inclusion over other alternate means such as ATM's microfinance, rural banks, cooperative banks etc, due to its features of being accessible 24*7, low cost, scalable, with improved technology and security features and already present as a device with a large chunk of the population. However, a number of challenges have to be overcome to ensure significant adoptability of this medium of banking by especially by the unbanked population. Apart several stated issues such as triability, security, technical, gender, and an important issue of technological literacy which would be the hardest to overcome especially for the segment of population who are being targeted for financial inclusion need to be addressed. It is therefore important that continuous efforts be made by all stakeholders – governments, mobile operators, banks and other agencies, given the fact that mobile banking clearly has immense potential for promoting the extremely important initiative of financial inclusion especially in a developing country like India.

References

Chakrabarty K. C. (2012), Mobile banking in India – Regulations and Rationale at the International Banking Summit on “Regulation of cross-border mobile payments and regional financial integration”, Mumbai, 29 March 2012.

Delloite and CII (2016), Digital: A revolution in the making in India, https://www2.deloitte.com/content/dam/Deloitte/in/Documents/technology-media-telecommuni

Goyal, V., Pandey, U. S., Batra, S. (2012), Mobile Banking in India: Practices, Challenges and Security Issues. International Journal of Advanced Trends in Computer Science and Engineering, 1(.2). Available Online at www.warse.org/ijatcse/info.html

Khan Harun R. (2012), financial inclusion in Indian Economy, in Conference on-“Sustainable excellence through customer engagement, employee engagement and right use of technology” on September 5, 2012 at Mumbai.

Mannan, L. (2018), Report on Internet & mobile Association of India and KANTAR IMRB, https://yourstory.com/2018/03/mobile-internet-users-india-reach-478-million-june-2018-iamai-report

Nayak, N., Nath, V. & Goel, N. (2014). “A study of adoption of mobile banking services by Indian consumers,” International Journal of Research in Engineering & Technology, 2(3). 209-222.

Sharma, A. and Kansal, V. (2012), “Mobile Banking as Technology Adoption and Challenges: A Case of M-Banking in India” International Journal of Scientific and Research Publications, 2(2).1-3 at www.ijsrp.org.

Shastri A (2014), Financial Inclusion in Madhya Pradesh, a Study with Reference to Rural Population. Journal of Business Management and Social Sciences Research, 3(12)

Srivastava, A. (2013), Mobile Banking and Sustainable Growth, American Journal of Economics and Business Administration. 5 (3). 89-94.

Telecom Regulatory Authority of India (Press Release No.35/2018) New Delhi, 23rd March, 2018 at (www.trai.gov.in)

Tripathi, S. and Poddar, B.(2011), Being Five Star in Productivity Roadmap for Excellence in Indian Banking- BCG FICCI IBA Joint Stud, Indian Banking Association. http://ficci.in/spdocument/20203/Being-Five-Star-in-Productivity.pdf