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Bank or Non – Bank: a lesson or two for India from Kenya and Tanzania

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Abstract

Objectives/Methods: This study argues superiority of non – bank led bottom up incremental financial inclusion (FI) over bank led approach and presents a unique model from Kenya having high public receptivity given the social and economic constraints, unlike the bank led model followed in India. Financial exclusion in Kenya is down to 17.4% (2016) and has more than halved since 2006. Kenya shows remarkable achievement of 50% rise in financially included population in the last 10 years. Tanzania on the other hand religiously implemented its First National Financial Inclusion Framework (NFIF 2014 – 16) which increased its financial inclusion to 65% in 2017. Tanzania has launched its Second National Financial Inclusion Framework (NFIF 2018 – 22) with a target of achieving 75% of financial inclusion by 2022. Contrast this with financial inclusion of 62.2% in India in 2016.
Findings/Application: Though size and demography between the two countries are incomparable, the sheer scale and tremendous social acceptability of mobile payment revolution in Kenya is heartening, envious and worth emulating. Horizontal approach to economic inclusion through mobile payments/mobile banks in every pocket is somehow more appealing than vertical top down approach to financial inclusion led by concrete bank led structure which looks more intimidating to innocent and illiterate unbanked people in rural areas, the very target of financial inclusion. India has a lesson or two to learn from Kenya's mobile payment revolution in order to close the FI gap.
Keywords: Financial inclusion, mobile payments, banks.

1. Introduction

India enjoys the tagline of "fastest growing economy" in the world but majority of the population remain unbanked with fruits of economic growth concentrated in few hands. Financial exclusion deprives large population from participating in economic activity, thus contributing to rising economic inequality. Such concentrated economic growth cannot be sustainable, neither socially or politically. Growth has to be inclusive, equitable and fair. Inclusive growth has various dimension, financial inclusion (FI) being one of the most important aspect which acts as a lubricant in the engine of overall economic growth. It economizes upon scarce resource, enables fence – sitters and economic agents to actively engage in the economy and Empowers the marginalized section in general and women in particular. Formal financial services, one of the most important features of financial inclusion, should be Available, Affordable and Accessible to all user groups, segments of population and sub – regions irrespective of social – economic status. It is erroneous to assume that by simply providing enough access points to financial products will ensure FI. Broad characterization of framework upon which FI should be built without being too restrictive [1-3].

Accessibility: 1. Availability of formal, regulated financial service, 2. its physical proximity and affordability

Usability: 1. Actual usage of financial services and products, 2. Regularity, frequency and duration of time used

Quality: 1. Products well-tailored to client needs, 2. Appropriate segmentation to develop products for all income levels. This broad framework should be adopted as a guiding principle to develop and design data driven robust financial products within the supply – demand constraints that reflects the multidimensional nature of FI feeding further refinement of the framework itself.

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Supply and demand data assessing all the three parameters hold key to designing tailor – made financial product that meets the requirement of all user groups and population segments.

2. Social and Economic indicators: a snapshot from India, Kenya and Tanzania

Gender Gap Index deteriorated mainly due to less participation of women in the economy. As per the report, "On average, 66% of women's work in India is unpaid, compared to 12% of men's" [4-5].

Table 1. Social and Economic indicators

Indicator/Index	India's score/Rank	Kenya's Score/Rank	Tanzania Score/Rank	Source (Year)
Ease of Doing Business	60.76/100	65.15/80	54.05/137	World Bank (2018)
Gender Gap Index*	0.669/108	0.720/76	0.700/68	WEF (2017)
Human Capital Index score	55.29	59.48	53.58	WEF (2017)
Human Development Index	0.624/131	0.555/146	0.531/151	HDR (2016)
Income Inequality G – Coeff.	35.1	48.5	37.8	HDR (2016)
Corruption Perception Index	40/81	28/143	36/103	Transparency International (2017)

India's greatest challenges are increasing the economic participation and opportunities for women, where the country is ranked 139. Kenya on the other hand fares better at 44 with regard to economic participation and opportunities for women. India's Human Development Index score falls 27 % due to regional disparities in education, health parameters and living standards within the country if the HDI score is adjusted for inequality [6]. Women participation in the economy can be increased by financial empowerment which comes from financial inclusion of all sections of the society. Social strengthening in general and women empowerment in particular will continue to be deceptive until and unless they are brought into the mainstream of economic activity enabled by financial inclusion as shown in Table 1.

It must be noted that Kenya and Tanzania have achieved higher financial inclusion despite low HDI, high income inequality and higher corruption compared to India and this is really an achievement which reflects in its better ease of doing business index, healthy gender gap index and better human capital index score. Financial inclusion propels financial sector development, categorically attacks poverty by directly benefitting poor using financial services and unambiguously impacts economic growth by increasing cash flows [7].

3. Role of mobile payment in financial inclusion

In Kenya, M – Pesa has brought a mobile revolution by reducing costs associated with cash handling and has become a general platform for money transfer. This has resulted in lowering of interest rates [8]. Mobile agents who help common public in crediting and withdrawing money have become a household name. Safaricom has led to safety, portability and confidence building tool among public when it comes to trusting with their money. Electronic transfer of money allows people to save their energy, time and resources which could be used in more productive activity.

Tanzania has witnessed similar mobile revolution. Mobile money was first launched in Tanzania in 2008. This has increased financial services access to almost half the population. 48% of the population have been reported of having used mobile money-making Tanzania the country with the highest usage of mobile money in the world [9]. Those without a bank account can transfer and receive funds instantly by using mobile money transfer like sending a text message. It has also enabled secure and confident way of paying wages to the thousands of small one or two cow milk producers which is majorly dominated by women. Low level of financial inclusion is a major obstacle to socio – economic development and may be one of the reasons of high cash to GDP ratio in India. High cash to GDP ratio promotes black money creation and loss of revenue to the government.

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4. Conclusion: Lesson for India

India's bank – led model has not shown the desired result pertaining to financial inclusion vis – a – vis African countries like Kenya and Tanzania where mobile payment system has increased financial inclusion many a times. Research has shown that awareness alone does not necessarily result in mobile services uptake.

India's policy maker must create an ecosystem that encourages marginal people to trust the financial sector with their hard – earned money. For this a consumer protection mechanism needs to be developed. Policy and regulatory environment on the lines of Tanzania's National Financial Inclusion Framework (NFIF) should be devised dedicated to the cause. Identifying barriers to financial inclusion and priority areas central to removing these barriers must be worked upon. Supply side focus of financial products should switch to demand side consumer – focused products to increase their acceptability among public. Aadhar based KYC would add to national identification system, which in turn reduce the cost of determining creditworthiness of potential customers. This would drastically reduce intimidating paper works which is a major obstacle in rural areas.

Addressing supply side issue involves providing competitive and level playing field to mobile payment service providers. Ensuring reliable network along with safety and protection of loss money mechanism would encourage People – to People (P2P) transfers, provide necessary liquidity in the economy and stimulate productive participation of labor force by freeing up natural and economic resources. India specific framework need to be devised which need further research and brain – storming.

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