

P E R S P E C T I V E

Taking the Financial Inclusion
Agenda Forward



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Financial Inclusion: A Pressing Need

In her Independence Day address last year, President Pratibha Patil reaffirmed the government's commitment to financial inclusion, saying that banks and post offices would be re-equipped to expand outreach, supplementing the efforts of business correspondents and technology providers. In recent years, 'financial inclusion', a previously unknown term, has gained currency, thanks to scaled-down KYC norms and technology solutions that enabled banks to reach out to the under and unbanked masses.

Although there has been some progress on this front, it isn't nearly enough. While estimates differ, most put down India's bank account penetration somewhere between 40 and 50 percent. Coverage of other financial products such as insurance and mutual funds is abysmal, in single digits.

Moreover, banks have maintained a narrow focus, seeking to enable only the most basic transactions such as account or deposit creation among the unbanked community. But the true goal of financial inclusion is to encourage greater participation of the people in the country's progress, such that they derive real benefit from it. Therefore, any inclusion initiative must not only make the mass banking experience more simple, complete, efficient and transparent, but also serve as a medium of financial education and identity management for those at the bottom of the pyramid. Specifically, it must recognize the needs of this segment, including ease of access to services, flexibility in repayment schedules and simplicity of use.

Evolution of Financial Inclusion

The move towards financial inclusion started out with simple goals. The idea behind no-frills accounts was to encourage small savings and enable customers to perform basic cash transactions without imposing conditions of minimum balance maintenance. It was apparent that Indian banks did not have large-scale outreach infrastructure; hence, they were permitted to use the services of community service organizations and NGOs that were already active in far flung areas, to promote their offerings. While the advent of high-tech

channels improved reach on one hand, equally, it highlighted the need for a specialized solution to serve those regions that had no communication links. The smart card emerged as a viable option – data could be stored offline and a customer simply brought it along whenever there was a need to transact. In this way, it could also be used as an identification document by someone who had none. Another technology to find application in financial inclusion was biometric authentication, which circumvented the illiteracy problem by enabling customers to identify themselves through a fingerprint rather than a signature or Personal Identification Number (PIN).

In time, financial institutions expanded their microfinance offerings, issuing loans, insurance and micro mutual funds, albeit with varying degree of success. Inadequately trained business correspondents and regulatory constraints posed some of the biggest challenges.

The Role of Service Providers

Today, the 'business of financial inclusion' can be depicted as a hub and spoke model, with the bank at the centre of the ecosystem surrounded by customers, business correspondents, partners, regulators, vendors and service providers. The latter have a key role to play in widening the services available to customers beyond basic banking, be it payment of tax, procurement of supplies or subscription to insurance cover. The launch of micro mutual funds in the slums and impoverished localities of Indian cities is a case in point, where financial institutions have succeeded in collecting contributions towards a systematic investment plan from customers who did not evince interest in recurring deposits. However, they readily admit that it is an onerous task to collect money at the grassroots level.

In the long term, personalized servicing of customers through the bank's own or business correspondent network is neither workable nor viable. While technical service providers have helped bridge the distribution gap with various media ranging from mobile phones and laptops to POS terminals and VSAT, they can do a lot more by way of developing a range of hardware and software solutions that

are low priced, robust and tailored for use in rural and far flung locations. The same goes for vendors of smart cards and biometric authentication devices.

Future Trends

New microfinance opportunities are opening up as a result of socio-economic shifts. Sending money back home to the family is possibly the most important financial need of migrant workers – this trend is also playing out in India where an increasing number of people from villages and small towns are moving to large cities or going overseas in search of livelihood, thereby creating demand for person to person remittances. Interestingly, non-financial players have also tapped into this opportunity. M-PESA is a well-known mobile-based money transfer service operating in several African countries, which also enables users to deposit and withdraw money, pay bills and purchase airtime.

Indian mobile operators recognize that they are well placed to participate in the growth of microfinance in the country. One, their distribution is unrivalled; two, since they already offer value added services against prepaid credit, it's not much of a stretch to bring other simple commerce transactions including remittances within their fold. Closed loop transactions could be completed over agents' and customers' phones, with biometric authentication coming into play only for cash transactions. Although discussions with regulatory bodies and other authorities are still in an exploratory stage, they are a harbinger of things to come.

Since assisted channels are hampered by constraints of reach and viability, there is a need to press forward with limited self-service options. Despite not knowing how to read or write, the rural population in India is reasonably mobile-literate. A phone-in vernacular banking service, which incorporates voice recognition technology and therefore understands instructions spoken in everyday language, could potentially become a strong outreach self-service channel. The success of such alternate options hinges on their simplicity, ease of use and low expectations of customer action.

Indian Banks' Association (IBA) and Institute for Development and Research in Banking Technology

(IDRBT) have constituted a technical committee on open standards for financial inclusion, with representation from select public sector banks and institutions. Their goal is to usher in common technical standards in technology and communication solutions and render them provider-agnostic to bring about interoperability. If that materializes, in future, a single smart card will work at all outlets of a bank or multiple banks and at most commercial establishments. In time to come, the card must be the holders' single window to the world, allowing them to fulfil several needs right from securing NREGA payments to receiving cashless medical treatment, besides proving their identity. Already, there is some progress in this direction. Rashtriya Swasthya Bima Yojana, an initiative of the Ministry of Labour and Employment, Government of India aims to provide health insurance to families below the poverty line. It stipulates that the beneficiaries will be issued smart cards that will prove their identity.

Summary

For financial inclusion to live up to its promise, the benefits of the country's economic process must be shared with its unbanked masses. Inclusion must go the way of Internet and mobile banking to encompass a full gamut of financial and non-financial services including, but not limited to, crop loans, health insurance, welfare programs, investment products and more. Importantly, any inclusion initiative must pay heed to the specific needs of the audience, such as easy accessibility, simplicity, flexibility in terms of use and identity management. Although banks have relied on their own infrastructure and the services of business correspondents from community organizations that are in touch with the end customers on a daily basis, it is clear that a personalized medium is neither viable nor scalable to meet the country's outreach needs. Even as technology by way of mobile communication, laptops or VSAT helps to bridge this gap, customers must be trained in the use of simple self-service options.

All participants in the inclusion eco-system, including banks, technology service providers, vendors and regulators have a shared responsibility to take the agenda forward. Should they succeed, unlimited opportunity awaits them.

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