

## **e-Financial Inclusion**

Towards Accelerating Inclusive Society Goals using ICT  
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The key driver of our vision of an inclusive society and an inclusive economy is Financial Inclusion. Over the years, multiple definitions of Financial Inclusion have been given including the one given by Rangarajan Committee on Financial Inclusion (2008). To define e-Financial Inclusion, one could extrapolate the above and state as “innovative applications of ICT for delivery of financial & payment services and adequate credit where needed, at an affordable cost to the vast section of disadvantaged and low-income groups, who currently are unbanked.”

2. UPA Govt. has given highest priority to the goal of achieving inclusive society as could be seen from President’s address to Parliament on 4<sup>th</sup> June 2009, and also to the nation on the eve of independence day and so also emphasis in Union budget 2009-10 to deepen and broaden the agenda for inclusive development. Govt. has already set up the Unique Identification Authority of India (UIDAI) for improving the delivery of public services. Also, in the agenda for first hundred days” revamp bank and post offices to become outreach units for financial inclusion completed by business correspondents aided by technology”.

3. The key deliverable is Financial Inclusion and therefore to accelerate the process, multiple channels of delivery of variety of financial services are required to be explored. Quite clearly, the task is gigantic and technology is general and ICT in particular is and would be the driving force for achieving this.

4. For any ‘e-’ to proliferate to rural areas, be it be e-learning, e-governance, e-health, e-agriculture and the like, the first thing is connectivity and any low-cost would mean “ to get more deliverables (including financial services) out of the e-infrastructure already in existence or have been planned to be in place in very near future”. Creation of new e-infrastructure cost money and the cost would need to be amortized over a period of time. Moreover, e-Financial Inclusion prima facie should be viewed as “money at the bottom of the pyramid” and business models should be so designed to be profit-making in the long run or at least self-supporting. Furthermore, through ‘killer-applications’ in networked economy, have been the most difficult to predict, nevertheless, if we go by the experience in the last decade, still one could safely say that those applications which have been riding on the existing infrastructure ( with newer technologies) have had more chances of success (and therefore reducing the cost). Examples could be the use of dark fibres, erbium-doped fibre amplifiers in existing fibre infrastructure, moving up from STM-4 to STM-16 to STM-64, dense WDM in trunk network, ADSL and its variants,

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cable modems in the last-miles for broadband accessibility, asynchronous data transfer for satellite communications, optimal utilization of scarce wireless spectrum for successive generation of wireless communications and the like. Internet telephony & VOIP is another excellent example. While e-infrastructure and broadband connections should & would continue to expand to take full advantage of Network Economy, to accelerate financial inclusions, strategies should be so designed that one uses the existing e-infrastructure more cost effectively.

5. In the context of e-Financial inclusion if we now look at the existing e-infrastructure, banks, telecom service providers with enhanced utilization of USO funds, recent IT based modernization of post offices and expansion of e-Gov infrastructure for CSC in rural areas stand-out.

6. The question one needs to ask is “are we fully exploiting all these four existing infrastructure in a complementary/supplementary way to enhance the reach and reduce the cost of financial services (i.e. financial inclusion for unbanked people). Are there some successful models of financial inclusion elsewhere in the world which can be suitably modified to Indian scenario to provide apt answers? How do we quickly respond to now universally known tussle of progression of technologies & compelling applications vis-à-vis regulatory & legal requirements particularly in IT, telecom & media convergence and now in this case, convergence of financial regulations & converged IT, Telecom & media regulations ? The challenges are daunting but if we have to achieve financial inclusion quickly, we need to go e-route all the way, and these issues are to be tackled innovatively head-on.

7. e-infrastructure of the Indian banks is rapidly expanding and the visible benefits of ICT in day-to-day banking are well known. Common man is becoming quite used to ATMs; internet banking etc, are gradually finding its acceptance. RBI has been placing a lot of emphasis on financial inclusion covering, inter alia, no-frill accounts, rural bank branches, BC/BF models etc. Further, many pilot projects have been initiated in various States using smart cards for opening & operating bank accounts with biometric identification at people’s doorsteps. Here, the link to hand held connecting device ensures that the transactions are recorded at the bank’s books on real time basis. Nevertheless, how much these are facilitating financial inclusion for unbanked or rural poor need to be analyzed.

8. e-infrastructure of mobile network operators (MNOs), has seen phenomenal growth in recent times. Total number of mobile phones as on April 30, 2009 was 403 million out of which 187 million (46%) do not have a bank account. Growth rate of acquisition of mobile phones in rural area far exceeds the growth rate of opening of new bank accounts

9. Insofar as Indian post offices (which has very large rural reach) network are concerned, the Instant Money Order (iMO) service is a good example. The smart card enabled facilitating mechanism now available in post offices in every State capital enables money transfer between two resident individuals of India besides saving time

with regard to clearing of outstation cheques. Further, another initiative e-post meant for those who do not have internet and e-mail could get benefits of this (sent online but delivered by mail). Innovative way of tying-up with those having rural PO saving bank account but not having a bank account, iMO and e-post could help facilitate e-Financial Inclusion.

10. Further under NeGP, there is a scheme for establishing 100000 + Common Service Centres (CSCs), primary in rural areas of the country. These Centres would be broadband internet enabled and would provide all government and private services at the doorstep of the citizen. The Scheme is being implemented in public private partnership. CSCs have significant potential to accelerate e-Financial Inclusion.

11. In recent times, since growth of mobile phone has been phenomenal and it has emerged as an ubiquitous convergent device (anybody, anytime, anywhere appliances), mobile banking & m-payment has attracted a lot of attention globally. Realizing its potential for e-Financial inclusion, Department of Information Technology (DIT), Govt of India, in April 2007, prepared a state-of-the-art study on international best practices on mobile payments, thereafter organized a brainstorming session of stake-holders to chalk-out future course of action and then joined hands with another emerging initiative in the form of Mobile Payment Forum of India (<http://www.mpf.org.in>). The MPFI website contains a lot of useful materials on mobile payment.

12. If we quickly analyse the manner in which mobile payment system is evolving in the world, certain attributes stand-out:

12.1 Mobile payment is evolving both through the route of banking channel as well as e-money concept (pre-payment instrument).

12.2 In developed world, m-banking is complimentary to the traditional payment systems. In developing world, because of wider penetration of mobile phones, their affordability & easy reach and more needs of micro-payment & micro-finance, mobile payment is gaining momentum through e-money concept driven by Mobile Network Operators (MNOs).

12.3 As per a recent Mobile Money Market Sizing Study carried out jointly by CGAP & GSMA Association released in Washington DC in June 2009, more than a billion people world wide lack bank accounts but do have mobile phones, providing opportunity to achieve greater financial inclusion. This study, conducted in 147 countries, is not the first m-banking forecast, but it is the first to focus on people without bank accounts. The study also seeks to understand how savings, credit and more can be offered through mobile phones.

12.4 Some of the often quoted success stories of mobile payments in developing countries through e-cash route include Philippines (Smart Money & G-Cash) operated by MNOs, Kenya (M-PESA), South Africa (WIZZIT), Zambia (Celpay) etc.

12.5 For e-Financial Inclusion to succeed with relevant business models, research & innovation would be continuously needed so also the feedback from the field. Amongst other initiatives, a new research institute has been set up by Gate Foundation at University of California, Irvine for Money, Technology and Financial Inclusion to focus on this.

12.6 Looking at the potential of mobile banking, some of the big names like Nokia, Microsoft, Paypal have entered the field. Nokia has named it as Nokia Money, a mobile financial service to be launched in 2010 will be based on Obopay platform.

12.7 The European Parliament in April 2009 adopted two legislative proposals revising the current rules governing cross-boarder payments and the conditions for issuing electronic money in the EU. The new rules will make it easier for electronic money institutions, to develop innovative services into the payment market. Applicability of the EU directives on e-Money for MNOs for mobile payment and by others may need to be followed to understand the way market is developing.

13. In the context of e-Financial Inclusion, based on the spade work as done above, the following output/deliverables are visible in the last ten months:

13.1 RBI in October 2008 issued Operative Guidelines for Banks for Mobile Banking Transactions in India. The Guidelines gave significant importance to quickly achieving inter-operability. This is being pursued through MPFI and likely to be finalized shortly in consultation with RBI.

13.2 To facilitate operationalization of RBI guidelines, DIT initiated developmental project with deliverables of inter-operability standards, conformance test processes and testing tools for mobile payments.

13.3 For e-Financial inclusion, low-cost mobile phone base in the country need to be targeted with innovative business & technology solutions. Another project has been initiated by DIT for development of test platform for mobile banking system using multi-lingual interface and carry-out reliability and efficacy study. Voice-based authentication on existing mobile phones in rural areas may propel e-Financial Inclusion as killer application.

13.4 RBI in April 2009 issued policy guidelines for issuance and operation of pre-paid payment instruments in India. The paragraph 3 related to Eligibility of the Guidelines were amended through another notification of RBI dated August 14, 2009 to permit "Other Persons" to issue mobile phone based semi-closed system pre-paid payment instruments with certain conditions.

13.5 There has been a lot of public forum, intellectual debates and sharing of views & visions in recent months on Inclusion and what further needs to be done to realize the goal. Two such documents/studies, for example, may include Special Issue of Inclusion

magazine(April-June 2009) published by Skoch Media in which key policy makers and leading corporate share their dreams for better India and a study on 'Speeding Financial Inclusion' by Skoch Development Foundation. Feedback from the field implementations, sharing views & knowledge thereof, constitute vital components towards large scale deployment.

13.6 RBI constituted a Working Group to review the Business Correspondent (BC) Model. The Working Group, amongst other things, reviewed the experiences gained in implementing the BC Model and suggested measures to enlarge the category of persons/entities that can act as BCs of banks, after examining the various regulatory and other incidental issues related to the Model (full text on the Report available on RBI website). The WG has opined that BC model supported with ICT solutions could help banks substantially increase their outreach facilitating financial inclusion. As regards Common Service Centres (CSCs), the Working Group has recommended that a few pilots should be run at least a couple of States before deciding on future course of action. (RBI Press release dated August 19, 2009).

13.7 RBI had set-up a High Level Committee on Lead Bank Scheme to improve its effectiveness with a focus on financial inclusion and recent developments in the banking sector; the Committee submitted its report on August 20, 2009 (available on RBI website), which amongst other things, have suggested Roadmap for Access to Banking Facility in Every Village having population of more than 2000 with a banking outlet by 2011 (RBI Press Release dated August 24, 2009).

14. As brought out above, use of technology in general and ICT in particular as the key driver to achieve Financial Inclusion, significant progress has been made; some of the initiatives are very recent whose impact would be known in due course of time. The biggest challenge is how ICT could seamlessly integrate India with Bharat. The feedback from the field on the efficacy of the recent initiatives taken & corrective mechanisms thereof, involvement of all stake-holders in this national mission, analyzing & learning from the rapidly changing & evolving international best practices, getting more out of multiple e-infrastructure already in place, working towards India specific low-cost innovative solutions & support research thereto, large scale deployment of successful pilots using public-private partnership, ensuring participation of bigger IT players etc, would be the key to our success.