FINANCIAL INCLUSION THROUGH TECHNOLOGY

Dr. Manjula Wadhwa

RBI has been actively involved in harnessing technology for bringing more and more people in the ambit of formal banking sector of commercial banks. As far as rural India is concerned, the task has been assigned to the apex agriculture and rural development bank (NABARD), which has been working towards bringing the excluded population into the formal banking system by addressing both demand and supply side constraints, appropriately realising the fact that instead of opening bank branches in rural areas, new players such as Business Correspondents, Business Facilitators, Mobile Operators and fintech companies need to be roped in.

Nowadays, in 'State Level Bankers' Committee' (SLBC)meeting of all states, the regular agenda item has been fixing and achieving targets for bringing financial Inclusion and financial literacy among Indian masses, through a targeted approach in a time bound manner and ofcourse, through latest modes of technology. So the most important concepts to deliberate upon here are **Financial Inclusion, Financial literacy and the role of technology** in it. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players. Actually, it is one of the critical determinants of national inclusive growth and it's significance increases manifold in a country like India, where, despite the passage of 70 years of Independence, the unbanked population is approximately 19 per cent of the total. There are few, if any, instances of an economy transiting from an agrarian system to a post-industrial modern society without broad-based financial inclusion.

Let us look at the ground reality in our nation -of the underprivileged sections of the rural India –approx. 51.4% of farmer households are financially excluded. Of the total farmer households, only 27% access formal sources of credit. One third of this group also borrow from non-formal sources. 73% of farmer households have no access to formal sources of credit. Apart from the fact that exclusion itself is large, it also varies widely across regions, social groups and assets holdings. The poorer the group, the greater is the exclusion. There is clear evidence that farm debts are increasing much faster than farm incomes, leading to the most drastic step of commiting suicides by farmers in all parts of the country. In comparison, while casting a glance at very small countries like Kenya, we observe that nearly two-thirds of all adults are active customers of a mobile phone-based money transfer and payments service, and 50 per cent of mobile phone owners in Tanzania actively use mobile money systems.

Virtually, one of the biggest components of financial inclusion is **financial literacy**. No matter how many banks our government opens and how many boots are there on the ground, if a person does not know about the financial options that are open to him, policies/schemes and financial instruments will mean little. So it is more than obvious that apart from other measures, **technology** can be strongly leveraged to achieve the objective of financial inclusion and literacy.

Financial literacy has to be based on three principles:

- Effective use of mediums like computer, mobile and internet to enable people to have the skills, knowledge or information about financial instruments.

- We must ensure, people have the ability to critically understand the content they have received through digital means.
- They should apply it to the best of their knowledge and capacity.

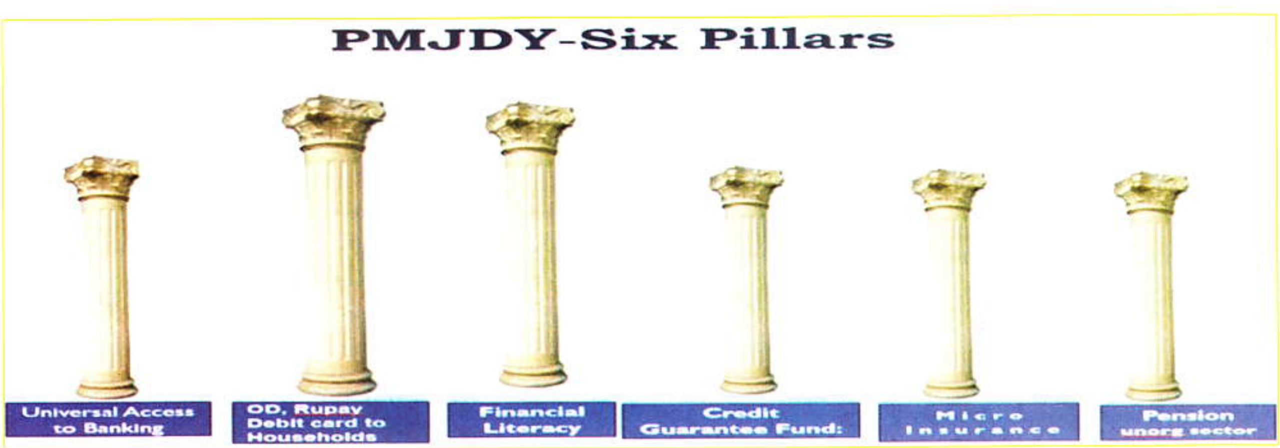
Delving deep into the issue, RBI realised that for achieving the gigantic objective of financial inclusion and financial literacy, the conventional banking modes are not feasible, especially for low ticket size of transactions, deposits, loans, etc.,in semi-urban and rural areas. And so, the Central Bank of our country has been actively involved in harnessing technology for bringing more and more people in the ambit of formal banking sector of commercial banks. As far as, rural India is concerned, the task has been assigned to the apex agriculture and rural development bank (NABARD), which has been working towards bringing the excluded population into the formal banking system by addressing both demand and supply side constraints, appropriately realising the fact that instead of opening bank branches in rural areas, new players such as Business Correspondents, Business Facilitators, Mobile Operators and fintech companies need to be roped in.

As an effective alternative credit delivery mechanism, **SHG-bank Linkage programme,** run country-wide by two major organisations/ departments, has proved to be the biggest milestone for achieving financial inclusion. In line with Hon'ble Prime Minister's mission to **"transform India into digitally-empowered society and knowledge-economy" digitization of SHGs project** is running in 100 districts of the country, Under this project,first the mapping of the existing SHGs in each district (bank wise, branch wise) is done, then the volunteers are trained to collect SHG wise/member-wise data. The data is fed through a customized software in central server. After this, the data is hosted on the web under a dedicated website and also updated regularly. Thus finally, MIS is generated for various users.

As far as it's implementation is concerned, there are many challenges ahead of us like sourcing of information from poor database and records, large scale capacity building needs, cooperation from banks, GPRS connectivity and ofcourse funding requirements for scaling this pilot from the present level to 86 lakh SHGs across the country.

Then in 2014 came, **PMJDY**- a National Mission on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country in two phases, with clear understanding that **this deep penetration at an affordable cost is possible only with effective use of technology**, by way of Every Bank A/c to be on-line with RuPay Card & Mobile Banking Facility, use of e-KYC to ease the account opening process, use of Aadhaar Enabled Payment System (AEPS) for interoperability, support for setting up FLCs, support for demonstrating banking technology (Mobile Van fitted with ATM), on-line Monitoring through system generated MIS and facility of Call Centre & Toll free number. The 6 pillars of financial inclusion under PMJDY, as per Hon'ble PM's vision are as under:-

Towards achieving this goal, no doubt, we are facing many challenges like Telecom connectivity,

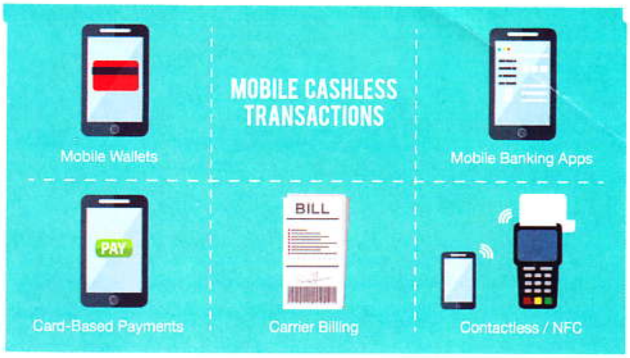


Keeping a/c live, success, reach and effectiveness of Bank Mitr, OD repayments, Direct Benefit Transfer cost, Coverage of difficult areas ,like HP, NE, J&K, Uttarakhand, LwE distts.

As a part of its financial inclusion plan, RBI started the **Business Correspondent model** in 2006. Business Correspondents (BCs) are representatives appointed by banks to act as their agents, who provide banking services in remote locations, where the bank may not have presence, at the doorsteps of the poorest. The two major technological components involved are the hand-held offline device through which financial services are offered to the customers and the smart card (32k/64k memory chip) provided to each customer for recording of transactions. Along with these, the BC uses an Account Opening Form (AOF) and a laptop for feeding customer data, a digital/web camera for capturing customer's photograph and a biometric device for recording his fingerprints. No doubt, the BCs and BFs are providing banking services in far-flung places but they can not be expected to provide their services for free. Especially in NER, given the lower number of transactions, BC model viability has been a major issue. In order to circumvent the problem, a part of the monthly commission subject to a cap of Rs.3000/- per BC per month is reimbursed from the fund in case of RRBs.

Undoubtedly, Financial Inclusion has been high on the Govt. as well as RBI agenda during the last decade and is likely to remain even in the next decade. Now let us look at the various initiatives, the Govt. of India has progressively launched over the last several years.**The Digital India initiative,** coupled with a payment infrastructure, is laying the cornerstone for a digital economy, keeping in mind the increasing willingness of people to use the internet and the rising data traffic in the country, an investment of $18.4 billion has been made to provide last mile internet connectivity, better access to government services, and development of IT skills, provision of broadband internet access to 250,000 village-clusters by 2019 at a cost of about $5.9 billion.

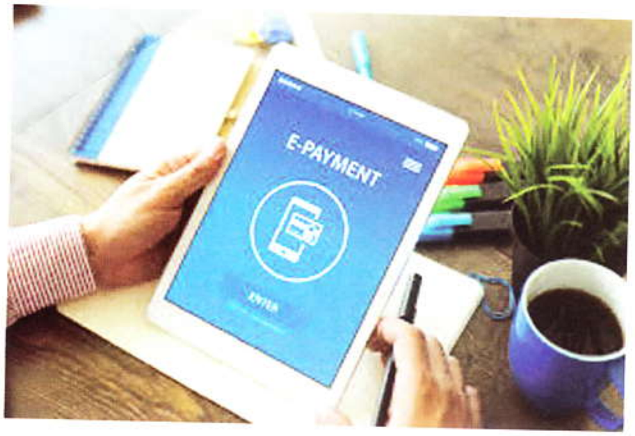
In addition, all the **cooperative banks and Regional Rural Banks have been brought on CBS**



platform for providing anytime and anywhere banking to the rural populace. **RuPAY Kisan Cards** have been providing impetus to cashless transactions among the farming community. NABARD has extended support to Coop. banks and RRBs in procuring EMV chip-based RuPAY Kisan Cards. The impetus to Financial Inclusion given by Pradhan Mantri Jan-Dhan Yojana (PMJDY) has made it possible to flood the hinterlands with Ru-PAY cards. However, with hardly any of the 1.50 million POS terminals deployed beyond Tier 1 and Tier 2 centres, these PMJDY–related RuPAY cards were generally used for cash withdrawals. Given the prevailing situation where we are moving towards digital payments, it was necessary to create an ecosystem in rural India where the populace could use its cards to carry out digital transactions and not just use it on cash-dispensing machines. Hence, the apex Agri and rural Development Bank has extended support for deployment of 2 lakh POS terminals in 1 lakh villages in Tier 5 and Tier 6 centres.

The technology-levered Aadhaar programme is likely to be the biggest disruptor in financial inclusion delivery, as innovations leveraging the Aadhaar card are expected to assist in broad-basing the access and acceptance by financially excluded segments. In order to provide impetus to Aadhaar based biometric transactions, it was decided to extend support for incentivizing these transactions. The support is 0.5% of transaction value with a cap of Rs.10/- per Aadhaar enabled Point of Sale (POS) based transaction (for transactions upto Rs.2000/-)

Direct Benefits Transfer scheme was initiated to facilitate disbursements of government entitlements such as those under the social security pension scheme, handicapped old age pension



scheme, etc., of any central or state government bodies, using Aadhaar and authentication thereof, as supported by UIDAI.

Payments banks are a new model of banks conceptualised by RBI. The main objective of payments bank is to widen the spread of payment and financial services to small business, low-income households, migrant labour workforce in secured technology-driven environment in remote areas of the country.

Today, more than 70 per cent of our population owns **mobile phone**, hence, leveraging it's penetration to rural areas, with it's advantages over traditional banking methods because of breaking down geographical constraints alongwith immediacy, security and efficiency, it offers an innovative low-cost channel to expand the reach of banking and payment services especially to the large section of rural mobile subscribers.

Since connectivity and power issues can badly affect banking services and more in remote areas, all coop. banks in the NER and A&N Islands, have been made eligible for **support for solar powered V-SATs** from **'Financial Inclusion Fund'.** V-SAT connectivity support is also extended to all banks for new branches being opened in identified **LWE districts,** restricted to 7 branches per district.

To promote digital transactions for personal consumption expenditure, two schemes viz. **Lucky Grahak Yojana** and **Digi-Dhan Vyapar Yojana** was funded through Financial Inclusion for consumers and merchants respectively. National Payments Corporation of India (NPCI) determines the winners for cash rewards by choosing them through an electronic draw of lots from amongst the digital transaction IDs generated from 8 Nov. 2016, during the course of such transactions. Apart from this, the **Financial Literacy Awareness Programmes were recast as d-FLAP,** with an objective of transition from a cash-based economy to less-cash one. The digital modes of transactions like mobile apps, USSD-based transaction are also explained/demonstrated in dFLAPs held across the country.

The Way Forward:

What is to be emphasized here, is the need for banks to move beyond simply opening bank A/c, to ensuring that the poor customers are confident and comfortable enough to use them. We need a frugal, trustworthy, and effective Indian model of technology for financial inclusion. Let us wait for the forthcoming recommendations of the Dr. Nachiket Mor Committee, Dr. Sambamurthy Committee which will guide us how to expand mobile banking in India through encrypted SMS based funds transfer in any type of handset. So in sum, while several challenges do present themselves they carry within them the core of opportunities which will spur development impulses and lead to growth with equity.

(The author is Asstt. General Manager, NABARD, Chandigarh.
Email: manjula.jaipur@gmail.com