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MOBILE BANKING – AN ENABLER FOR FINANCIAL INCLUSION IN INDIA

MRS. GEETA J
Research Associate
E-Mail:geetamadhukar@gmail.com

ABSTRACT:

Use of mobile phone for inclusive finance is very crucial for countries where most of the population is unbanked or under banked. Mobile phones, as a medium for extending banking services, have of-late attained greater significance because of their ubiquitous nature. The rapid growth of mobile users in India, through wider coverage of mobile phone networks, have made this medium an important platform for extending banking services to every segment of banking clientele in general and the unbanked segment in particular. The mobile banking system is definitely ideal for the remote areas given that it is an easily accessible, cheaper, more convenient and faster means of sending and receiving money. Financial activity is increased in the rural areas and therefore economic growth is boosted. Through this Paper an attempt is made to first understand concept of Financial Inclusion, Mobile Banking. The impact of Mobile Banking in Financial Inclusion in India.

Keywords: *Mobile banking, Financial Inclusion, Financial exclusion, 'unbanked' India.*

INTRODUCTION:

Access to financial products is constrained by several factors which include: lack of awareness about the financial products, unaffordable products, high transaction costs, and products which are not convenient, inflexible, not customized and of low quality. Financial Inclusion promotes thrift and develops culture of saving and also enables efficient payment mechanism strengthening the resource base of the financial institution which benefits the economy, as resources become available for efficient payment mechanism and allocation. The empirical evidence shows that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality. If we are talking of financial stability, economic stability and inclusive growth with stability, it is not possible without achieving Financial Inclusion. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players.

FINANCIAL INCLUSION - CONCEPT AND DEFINITION

Financial inclusion means delivery of financial services at affordable costs to sections of disadvantaged and low income segments of the society. Defining financial inclusion is considered crucial for identifying the factors that lead to low level of access to the financial system. As measuring inclusion is perceived to be difficult, financial inclusion is generally defined in terms of exclusion from the financial system. However, financial inclusion is not just about physical access caused by the changing topography of financial services. Therefore, the debate has now broadened to include all types of people who make little or no use of financial services and the processes of financial exclusion (Ford and Rowlingson, 1996; Kampson and whyley, 1998).

"The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost"-The Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan, 2008)

Main factors affecting access to financial services: The financial inclusion can be seen to have two categories of barriers, viz., demand and supply side barriers. The factors that drive these barriers are listed as under:

Demand Side Barriers: The barriers arising out of the demand side factors may be characterized by the following features:

Complexity: The excluded sections of the society find financial services complex in nature. They see no reason to go to the banks for conducting small transactions, which in their opinion, are time consuming and perplexing

Place of living: Generally commercial banks operate only in commercially profitable areas and it would not be viable for banks to open branches in the remote villages. People who live in under developed areas find it very difficult to reach the nearest bank due to transportation cost and wages lost in travelling to the bank

Limited literacy: Financial illiteracy and lack of basic education are prohibiting factors leading to non-access of financial services.

Convenience and affinity towards informal sector: The excluded section of the society finds informal sector (such as the money lender or the pawn-broker) more user-friendly and accessible and as such, they develop an affinity which always drives them to approach this sector for their credit needs.

Supply Side Barriers: The supply side of barriers though not many, may be characterized by the following features:

Legal identity: Inability to provide a legal identity such as voter id, residence proof, birth certificates, etc. often exclude women and migrants from accessing financial services.

Outreach Issue: Very often, even if a person is bankable, the distances are too long for services & supporting the accounts at reasonable costs.

FINANCIAL INCLUSION IN INDIA

In most developing countries, a large population particularly of low income, has very little access to financial services. As a consequence, many of them have to necessarily depend either on their own or informal sources of finance and generally at an unreasonably high cost. A report of the

National Sample Survey Organization (NSSO) mentions that 76 per cent of the rural households in the country depend on loans from moneylenders as their source of finance.

INDIAN INITIATIVES FOR FINANCIAL INCLUSION

Banking penetration of rural and semi-urban areas has increased significantly

At the turn of the century, the expansion of brick-and-mortar branches, despite several efforts, was limited. The low penetration of formal banking led the Reserve Bank to look at financial inclusion as a major policy drive. The slew of measures that followed were the introduction of Business Facilitators (BFs) and Business Correspondents (BCs) and deregulation of the opening of ATMs and branches, while ensuring sufficient coverage to hitherto unbanked areas. Concurrently, relaxations in the BC model were made to bridge the 'last mile' problem. This accelerated the pace of branch opening, with more branches being opened in rural and semi-urban areas. Notwithstanding this development, the number of branches per 100,000 of population in rural and semi-urban areas is still less than half of that in urban and metropolitan areas.

Table 1.1: Branch Expansion of SCBs

As on March	Number of Branches			Estimated population* (in million)			Branches/ 100,000 population		
	Rural + Semi-urban	Urban + Metro-politan	Total	Rural + Semi-urban	Urban + Metro-politan	Total	Rural + Semi-urban	Urban + Metro-politan	Total
2001	44,905	20,713	65,618	851	177	1,028	5.3	11.7	6.4
2006	45,673	23,904	69,577	920	195	1,115	5.0	12.3	6.2
2010	53,086	31,072	85,158	980	211	1,191	5.4	15.2	7.2
2014	76,753	40,958	1,17,711	1,044	228	1,272	7.3	17.9	9.2
2015	82,358	43,716	1,26,074	1,061	233	1,294	7.8	18.7	9.7
June 2015	82,794	43,910	1,26,704	1,065	235	1,300	7.8	18.7	9.7

*Population estimates are based on CAGR between Census 2001 and Census 2011 data

Source: RBI

The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account.

RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts. Some of these steps are:

Opening of no-frills accounts: Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

Relaxation on know-your-customer (KYC) norms: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005; thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

Engaging business correspondents (BCs): In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs.

Use of technology: Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

Adoption of EBT: Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

Opening of branches in unbanked rural centers: To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centers.

FINANCIAL INCLUSION THROUGH MOBILE BANKING:

Concept of Mobile Banking:

Mobile Banking refers to provision of banking and financial services with the help of mobile telecommunication devices. The scope of offered services may include facilities to conduct bank transactions, to administer accounts and to access customized information (Tiwari and Buse, 2007). In the broader sense mobile banking enables the execution of financial services in the course of which - within an electronic procedure - the customer uses mobile communication techniques in conjunction with mobile devices (Pousttchi and Schurig, 2004 as cited in Singhe, 2011).

Mobile technology offers the dual opportunity of filling financial gaps and improving the economic lives of customers. Mobile technology for banking transactions has been gaining popularity world over. With the rapid growth in users and expansion in coverage of mobile phone networks in India, this platform has been recognized as an increasingly important medium to reach the unbanked. While e-commerce has skipped the majority of the population due to the cost of setting up such channels, mobile commerce has the capability to be inclusive due to the widespread use of mobile phones.

Mobile phones, as a medium for extending banking services, have of-late attained greater significance because of their ubiquitous nature. The rapid growth of mobile users in India, through wider coverage of mobile phone networks, have made this medium an important platform for extending banking services to every segment of banking clientele in general and the unbanked segment in particular. The poor people have been traditionally located in the informal sector where they hardly enjoy banking services. With mobile banking, they can now enjoy the same basket of financial services through mobile banking

Advantages of Mobile Banking

Anytime Banking: Mobile Banking gives you the privilege of anytime and anywhere banking. One can do most of the banking transaction after banking hours from anywhere, irrespective of whether you are traveling in bus or auto. Whereas this ease will not be possible if you are connected to a PC or Lap top, especially when traveling.

Mobile Banking is Free: The service provided by bank is free of charge, there is no limit for number of times you can access your account. Various banking services provided include Account Balance Inquiry, Credit/Debit Alerts, Bill Payment Alerts, Transaction History, Fund Transfer Facilities, Minimum Balance Alerts etc. can be accessed from your mobile. You can transfer money instantly to another account in the same bank using mobile banking.
Secure Banking: Some banks assure that, by downloading the app directly from the server, the data won't be stored in your mobile as well as SIM card. The app comes with advanced encryption technologies making it safe and secure as Internet Banking.

Social and economic benefits: Access to financial services lowers the cost of sending and receiving remittances, improves the safety and security of cash, and makes payments more convenient. More important, it promotes saving and borrowing, allowing families to pursue economic initiatives, generate income, and accumulate small amounts of net worth. As a result, it may make it easier for lower-income families to meet their periodic expenses, such as school fees and rent, or to buy seeds at planting time and fertilizer over the growing season. Mobile money also offers a savings cushion against expected and unexpected events, such as weddings or health emergencies.

Challenges:

Creating a working mobile-money model will be complicated. It calls for coupling physical assets and capabilities from two distinct domains, telephony and banking, as well as for partnerships with a variety of players—some unfamiliar—to manage cash collections and disbursements and promote adoption. Early movers that crack the code can not only capture the opportunity in their home markets but also have unique know-how that would be valuable in other geographies, either through strategic alliances or direct investment. RBI has issued certain guidelines regarding mobile Banking which has to fulfilled by the banks.

Technology and Security Issues

Information Security is most critical to the business of mobile banking services and its underlying operations. Therefore, technology used for mobile banking must be secure and should ensure confidentiality, integrity, authenticity and non-reputability.

Regulatory & Supervisory Issues

Banks which are licensed, supervised and having physical presence in India, are permitted to offer mobile banking services. Only banks who have implemented core banking solutions are permitted to provide mobile banking services.

CONCLUSION:

The provision of mobile banking to the unbanked/ under-banked population could be the quickest way to achieve the goal of financial inclusion. On the demand side, mobile banking will make banking products and services affordable and immediately accessible. On the supply side, mobile banking would be cost effective; it would save costs of providing physical access (bricks and mortar) and become a viable economic proposition for banks to handle small value transactions made by low-income citizen.

more than 60 percent of the population is in possession of a mobile phone. This includes a large section of the rural population. People have started understanding the value, convenience and ease of owning a mobile phone. Mobile banking has come in handy because of little or no infrastructure cost to the bank and no additional investment from customers. So this may be a useful channel where most of the population is unbanked. Mobile Phone, a Personal Device, which increases security though Second Factor Authentication may also be added.

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