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A Study on Financial Inclusion Initiatives and Progress with reference to Indian Banking Industry in digital era

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Abstract:

Access to banking, access to affordable credit and access to free face-to-face financial advice as major concerns, the Government of India and Central bank have initiated and implemented Inclusive finance policy. The objective is to deliver financial services at reasonable cost to low income section of the public in contrast to financial exclusion. As the Indian financial system is largely led by banks, the financial inclusion policy direction has obviously been prejudiced towards the bank-led model. This paper evaluates the initiatives taken by the selected Banks in financial inclusion and the efforts made for ICT based financial services, on the basis of the data collected from the RBI's reports and other banks reports. This paper reviews trends in banking sector for financial inclusion, regulation, technology in India. The paper concludes that financial inclusion plays a major role in driving away the poverty from the country. The recent initiatives taken by Government of India boost to promote financial inclusion and surely lead to the position where all Indian have their bank accounts, using of Information Technology enabled services.

Key words: *Digital products, Mobile Money, financial Inclusion, Technology, Payments*

Introduction:

Financial inclusion is an essential ingredient of economic development and poverty reduction and it can also be a way of preventing social exclusion. A person's right to use formal financial services, as a way of preventing social exclusion, must be a priority.

Previous efforts to advance financial inclusion in India include the long-standing priority sector lending requirements and another push beginning in 2011 to bring banking to unbanked villages with population more than 2000. While the current program builds on past initiatives, the difference this time around is the combination of a determined government and banks benefiting from technological innovations which are expanding reach and reducing costs. Without the technological advances facilitating identification, mobile banking, transference of funds, and direct deposits, the bank accounts opened under the program would be largely unreachable for the underserved demographic for which they are intended. One of the most important catalysts is the Aadhaar cards. The application of this biometric system enables the expanding database to act as the foundation upon which the financial inclusion program is built and make regulatory compliance easier.

RuPay, the debit card issued with the PMJDY accounts, also allows for financial security and ease of payment. The most important development is the absence of a need to carry large amounts of cash when making purchases, paying bills, or otherwise transferring funds, increasing personal safety. While MasterCard and Visa have dominated the debit card market in India, they have so far been more active in prosperous urban areas. RuPay will prove tough competition due to its rural reach where the majority of the new accounts have been opened. However, there are early stage acceptance issues to overcome, with transactions using the RuPay card requiring merchants to have card readers and to accept them without charging premiums. However, the mobile phone-based non-banking financial inclusion model popular in East Africa is yet to take off in India. Kenya has largely achieved success through "mobile wallet" applications for smartphones. These allow individuals to load money onto their online accounts but do not require connection to a bank account. The most widespread "mobile wallet" application is Vodafone and Safaricom's "M-Pesa."

In recent times India financial services are being catalyzed by the following five trends

Demographic dividend: More than 65% of India's population is under the age of 35 years and more than 50% smartphone users in India are aged between 18 and 30 years. These consumers are tech-savvy and ready to experiment with unconventional digital financial services products that promise speed and convenience.

Smart Phones: A majority of the low-income population in India is leapfrogging into internet usage via mobiles, bypassing fixed line internet. The increasing affordability of mobile phones and decreasing cost of data has resulted in a highly digital populace. The emergence of smartphones is enhancing mobiles from a simple communication device to a full-fledged payment device.

JAM : Jan Dhan–Aadhar–Mobile is a win-win combination that has created the building blocks for a cashless pathway to financial inclusion. Mobile phone, bank account and unique digital IDs are the pillars on which the DFS environment is being built in India.

E-commerce: The rapid growth in e-commerce has seen lakhs of proprietors and wholesalers become online sellers. It is estimated that every month roughly 30,000 retailers are inducted as online sellers on e-commerce platforms This offline-to-online migration is enabling FinTech companies to tap into the digital trails of these merchants – social media footprint, customer ratings/reviews, purchase history and other factors – and make credit decisions based on machine learning algorithms.

Advancement in ICT: Higher computing capability and storage capacity have given rise to 'big data' analytics, facilitating better risk assessment and trend discovery. The access to wider and richer consumer data has allowed players to extract behavioral insights and develop targeted solutions. The SMAC (social media, mobile, analytics and cloud) and API technologies have allowed different data streams to 'talk' to each other in a highly efficient manner. This has led to the amalgamation of multiple services into a common platform, thus creating different use cases for delivery of financial services and a parallel 'app economy'.

Review of literature

Gupta & Mishra (2012) examined the new emerging trends of E-banking in Indian banking industry. The study found that there are many challenges faced by banks in E-banking and there are many opportunities available with the banks. It concluded that banking sector will need to master a new business model by building management and customer services. It also suggested that banks should contribute intensive efforts to render better services to their customers..Chavan (2013) described the benefits and challenges of Internet banking in an emerging economy. It observed that online banking is now replacing the traditional banking practice. It showed that online banking has a lot of benefits which add value to customers‟ satisfaction in terms of better quality of service offerings and at the same time enable the banks gain advantage over the competitors. It also discussed some challenges in an emerging economy. Srivastava (2007) analysed the customer‟s perception on usage of internet banking. It also focused on what are the drivers that drive consumers, how consumers have accepted internet banking and how to improve the usage rate. The study revealed that education, gender, income plays an important role in the usage of internet banking. It also observed that inhibitory factors like trust, gender, education, culture, religion, security, price can have minimal effect on consumer mind set towards internet banking.

Objectives

- To study the present status of Financial Inclusion in India
- To provide overview of financial inclusion practices adopted in the country

- To highlight the initiatives taken by banks, other regulatory bodies and government for promoting financial inclusion
- To review the digital products and their reach in India

Research Methodology

The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles and reports available at RBI, National Payments corporation of India, CGAP, World Bank, IMF etc.

Financial Inclusion plans 2015-16 progress and performance of banks

India's financial inclusion initiative expanded its presence manifold in 2010–2016.

Financial Inclusion Plan-Summary Progress of all Banks including RRBs

Particulars	Year ended March 2010	Year ended March 2015	Year ended March 2016	Progress April' 15 - March; 16
Banking Outlets in Villages – Branches	33,378	49,571	51,830	2,259
Banking Outlets in Villages – Branchless Mode	34,316	504,142	534,477	30,335
Banking Outlets in Villages –Total	67,694	553,713	586,307	32,594
Urban Locations covered through BCs	447	96,847	102,552	5,705
Basic Savings Bank Deposit A/c through branches (No. in million)	60	210	238	28
Basic Savings Bank Deposit A/c through branches (` billion)	44	365	474	109
Basic Savings Bank Deposit A/c through BCs (No. in million)	13	188	231	43
Basic Savings Bank Deposit A/c through BCs (` billion)	11	75	164	89
BSBDA-Total (No. in million)	73	398	469	71
BSBDA Total (` billion)	55	440	638	198
OD facility availed in BSBDAs (No. in million)	0.2	8	9	1
OD facility availed in BSBDAs (` billion)	0.1	20	29	9
KCCs (No. in million)	24	43	47	4
KCCs (` billion)	1,240	4,382	5,131	749
GCC (No. in million)	1	9	11	2
GCC (` billion)	35	1,302	1,493	191
ICT-A/Cs-BC Transactions (No. in million)	26.5	477	826.8	350
ICT-A/Cs-BC Transactions (` billion)	6.9	859.8	1,686.90	827

Source: RBI Annual Report 2015-16

i) The number of banking outlets in villages went up from 67,694 in March 2010 to 5,86,307 in March 2016 after RBI permitted appointment of BCs and laid out a roadmap for spreading banking services in rural India through a mix of bank branches and BC outlets. In addition, the number of

urban locations covered through BCs has also surged from 447 in March 2010 to 1,02,552 in March 2016.

ii) The Basic Savings Bank Deposit Accounts (BSBDAs) have gone up from 73 million in March 2010 to 469 million as on March 31, 2016. Under the PMJDY alone, until June 1, 2016t, 220 mn accounts have been opened with an approximate balance of Rs. 384 bn.

iii) There were 47.31 million small farm sector credit accounts and 11.3 million small non-farm sector credit accounts with an outstanding of Rs. 5130.7 billion and Rs. 1493.3 billion outstanding respectively as on March 31, 2016. The number of small farm and non-farm sector credit accounts stood at 24.3 million and 1.4 mn respectively in March 2010.

iv) The total number of transactions in BC-ICT accounts which were around 26 million during 2010-11 have increased to 826.81 million as on March 31, 2016.

Government Initiatives to boost Financial Inclusion

From Jan-Dhan to Jan-Suraksha

Experiencing huge success of the Pradhan Mantri Jan Dhan Yojana (PMJDY), Finance Minister Arun Jaitley proposed working towards creating a universal social security system for all Indians, especially the poor and the under-privileged, as he explained at the announcement of the Union Budget in February 2015. Coined Jan-Suraksha, the social security program was launched by the Prime Minister Modi over the weekend on May 9. It has three key parts:

- The Pradhan Mantri Suraksha Bima Yojana to offer accident insurance of INR 200,000 ($3,165) for a premium of just INR 12 ($0.19) per year, or INR 1 (just under two cents) per month.
- The Pradhan Mantri Jeevan Jyoti Bima Yojana to offer life insurance coverage of INR 200,000 ($3,165). The premium will be INR 330 ($5.00) per year, or less than INR 1 (just under two cents) per day, for people between 18 and 50 years of age.
- The Atal Pension Yojana to provide a defined pension, dependent on the contribution amount and duration of contributions. To encourage people to join this scheme, the government will contribute 50% of the beneficiaries' premium limited to INR 1,000 ($16.00) each year, for five years, in the new accounts opened before December 31, 2015.

JAM for DBT

Finance Minister Jaitley also introduced the concept of JAM or Jan-Dhan, Aadhaar and mobile during his budget speech. The idea is that the transfer of government benefits will involve all three - a bank

account under Jan-Dhan, Aadhaar number or biometric ID and a mobile phone and number. Jaitely explained in his budget speech: "We are now embarked on…more game changing reforms...called the JAM Trinity – Jan Dhan, Aadhar and Mobile - to implement direct transfer of benefits…[which] will allow us to transfer benefits in a leakage-proof, well-targeted and cashless manner."

PaHaL

The Direct Benefit Transfer for LPG (DBTL) program Pratyaksh Hanstantrit Labh (PaHaL) is the first digitized DBT program under the new government. It was launched in 54 districts in November, 2014 and in the rest of India in January, 2015. Those with an Aadhaar number can link their Aadhaar number to their bank accounts and LPG consumer number to get the subsidy, those without can submit their bank details. There are close to 130 million PaHalL beneficiaries and over INR 122 billion (close to $ 2 billion) have been disbursed through the program. This can serve as an example on how the government can digitize cash transfers.

Micro Units Development Refinance Agency (Mudra) Bank

Prime Minister Modi launched the MUDRA Bank on April 8. It is being set up through a statutory enactment and will be responsible for regulating and refinancing MFIs through a Pradhan Mantri MUDRA Yojana. It will cater to the almost 51 million micro and small businesses who employ about 20% of the country's labor force in the manufacturing, trading, and services industries. These individuals are spread all across the country and usually do not have access to institutional credit. MUDRA Bank will be set up with a capital allocation of INR 20,000 crore ($3.2 billion) and a credit guarantee fund of INR 3,000 crore ($480 million). MUDRA will partner with local coordinators to provide financing to "last mile financiers" of small entrepreneurs and businesses.

MUDRA will initially started as a department of Small Industries Development Bank of India (SIDBI), a non-independent financial institution aimed aid aiding the growth and development of micro, small and medium-scale enterprises (MSME) in India. Its role is to promote and finance the small-scale sector, implement government plans and coordinate with other organizations. The primary product of MUDRA will be refinancing/lending to micro businesses.

Unified Payments Interface (UPI)

The National Payments Corporation of India (NPCI) expects to launch the UPI in the next few months. UPI is an additional layer of payments architecture built on the Immediate Payments System (IMPS) which will allow interoperability between different payments systems. The new interface is designed to enable all account holders to send and receive money from their smartphones with a single identifier – Aadhaar number, mobile number, email ID or virtual payments address – without entering any bank account information. Given the ease with which this enables people to transact digitally, it has the potential to dramatically reduce the use of cash and change the way payments are made in the country.

Digital Technologies & Financial Inclusion

Indian financial services landscape is undergoing a technology driven shift. Government has accelerated its approach to achieve financial inclusion with the help of digital technology in banking services. The steps taken by RBI on financial inclusion needed this support of digital infrastructure to reach the unbanked population which would unfold huge opportunities for financial services. Banks need to target such under banked and financially excluded segments through technology which can provide the necessary traction needed as urban markets are crowded with a large number of players. This shift from Brick and motor business to digital platforms will help provide the services in rural/remote regions, at a low cost, and subsequently increase digital financial access to provide high quality, affordable financial services.

The rapid growth in Aadhaar biometric enrolments along with simultaneous improvements in digitization of banking and G2P payment databases, digital payment systems, technology-enabled last mile banking, has fed abundant enthusiasm for creating an all-inclusive digital financial ecosystem. Aadhaar has also led the Government of India, the RBI and the banks to rollout out the physical financial infrastructure such as ATMs, branches, micro-ATMs and BC network to unbanked areas.

In the series of initiatives announced by the government, Pradhan Mantri Jan-Dhan Yojana (PMJDY) is a National Mission for Financial Inclusion to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. RuPay, India's own payment gateway with more than 175 million accounts has received the much needed popularity and is now comparable with peers such as Visa and MasterCard in India. DI coupled with a payments infrastructure, is building the platform for digital economy, based upon the increasing willingness of people using the internet, and the rising data traffic in the country. Today the number of people using mobile phones is substantially larger than the number of people who have bank accounts. The National Payments Corporation (NPCI) is putting across the country a digital network which will eventually enable a lot of payments to be made on the digital platform. RBI and TRAI are working towards eliminating all roadblocks and ensure financial inclusion is achieved.

Mobile Banking in India

Perhaps the biggest change in banking in recent times has been the introduction of mobile banking. The RBI issued its first set of regulatory guidelines to do with mobile banking in 2008, where banks were permitted to transfer funds from one bank account to another through the mobile platform. From 2010 to 2012, the number of users of mobile banking services grew 277.68% (from 5.96 million to 22.51 million) and the value grew a whopping 875.6% (from Rs. 6.14 billion to Rs. 59.90 billion). These figures clearly indicate that mobile banking in the country is growing at a very high

rate. Yet, as of 2014, there were 350 to 500 million unique mobile subscribers and only 22 million mobile banking customers

Online Payments in India

The National Payments Corporation of India was set up in 2009 as an umbrella organisation for all retail payment systems (under section 25 of the Companies Act) with the core objective of consolidating and integrating the multiple systems with varying service levels into a nation-wide, uniform, and standard business process for all retail system. In 2012, the RBI, in its Vision 2012-2015 document, recognized the development of new e-payment systems and the increasing proportion of transactions taking place through these systems. The introduction of technology such as cloud computing, mobile telephony, service oriented architecture, and an increasing popularity of the virtual world would, according to the RBI, lead to significant changes in the way payments would be processed in the future. The document elucidated the possibility of the movement away from cash transactions to electronic transactions, leading to their goal of a 'less-cash economy'. The RBI set the objective of innovating towards the convergence of products and services which should be available across all delivery channels to all, in a low-cost, safe, and efficient manner.

Banks' Top Opportunities in Financial Inclusion

1. Build on digital payments, including:
a. G2P - procurement, payroll, social transfers, pensions, etc.
b. Private sector - retailers, consumer goods companies, payroll, etc.
2. Start with the underbanked and use data to understand their needs.
3. Cross-sell the full range of products.
4. Address the usage gap by building financial capability.
5. Develop the ecosystem through bank-led partnerships, increasing customer convenience while sharing
costs and risk.
6. Enable remote account opening using digital IDs, supported by proportional, tiered KYC requirements.
7. Align all systems to digital banking, benefiting banked, underbanked and unbanked customers.

Banks' Top Barriers to Financial Inclusion

1. Lack of trust - in banks, in digital, in agents - leading to lack of uptake.
2. Lack of financial capability and digital literacy - leading to lack of usage.
3. Agent networks - building them, equipping them, ensuring their quality.
4. Data - privacy, security, cost, lack of capacity to analyze the data, lack of willingness for parties to share data, and regulations around these issues.
5. Regulatory issues, especially pricing, capacity, and KYC requirements.
6. Lack of coordination among government bodies.
7. Lack of connectivity/infrastructure.

Conclusion

The RBI, setting out a goal of financial inclusion and a less-cash economy, has kept up with developing technology in the financial sector, in order to ensure that consumers can glean the benefits of these advancements, and the goals it set out can be achieved.

Mobile banking is one of the largest opportunities for financial inclusion in countries, and the RBI, through its policy efforts, is trying to ensure that it reaches maximum penetration in the country. E-commerce is growing in the country, leading to a new financial space being created, which the RBI is privy to. The NPCI has been a boon in this sector, achieving a considerable amount since it was launched. P2P lending, a new and relatively untested development is gaining momentum in the country, and the RBI has begun to take concrete steps to make sure it does not get out of hand.

Technological advancements will continue to change all industries, including the financial services industry, and it is the task of the RBI to make sure that these advancements are utilised to the best of their abilities, so as to benefit the customers in the country as best as possible.

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