Banking the Un Banked: Role and Challenges of Digital Channels

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Abstract

The Reserve Bank of India broadly defines financial inclusion as providing access to a 'wide range of financial services at a reasonable cost'. This provision of access to banking services to nearly 47 per cent of the reportedly unbanked population in India. Digital platforms are likely to deliver financial services to both the unbanked and the under banked population, especially in rural regions. Transaction cost has been lowered by the digital channel in comparison to the traditional channel. Digital financial inclusion involves the deployment of the cost-saving digital means to reach currently financially excluded and underserved populations with a range of formal financial services suited to their needs. Digital finance has greatly made the road to the goal of financial inclusion easier, but it has also birthed various problems. It is equally necessary to overcome these problems.

Introduction

Due to new technologies, transformative business models and ambitious reforms universal access to financial services is within reach. By 2020, instruments such as e-money accounts, debit cards and low-cost regular bank accounts, can significantly increase financial access for those who are now not included. A lot of work is being done to achieve the goal of financial inclusion. And yet today the unbanked population stands at a staggering 1.7 billion globally, according to data released by the World Bank. In the European Union alone, close to 40 million citizens don't have a bank account. Among member states, only Denmark and Finland have 100 per cent of their populations fully included in the banking system. To bridge the gap, digital technology can play a significant role.

Methodology of the Study

The present paper is prepared by using secondary data available in the newspapers, Magazines, Journals, Books and government web site. The study tries to bring out the role and challenges of digital technology for financial inclusion.

Government Initiatives for an Inclusive Growth

Pradhan Mantri Jan Dhan Yojana (PMJDY), is financial inclusion program of Government of India which is applicable to 10 to 65 years age group, that aims to expand and make affordable access to financial services such as bank accounts, remittances, credit, insurance and pensions.

'Aadhar' card

The profile of Digital India is unique in the world in some sense. India is the only country in the world which has given biometric-based digitally verifiable identity to 99 percent of its adult population. Out of a population of 1.25 billion, 1.09 billion people in India possess Aadhaar -- a digital identity of individuals mapped with their biometrics.

Direct benefits transfer (DBT)

The DBT scheme's primary goal is to mitigate leakages during funds transfer and offer benefits directly to the citizens. Millions of Indian citizens are poised to benefit from DBT as all government refunds, subsidies and benefits can be received directly in their Aadhar linked bank accounts. Its benefits:

- It eliminates the need for a human interface and thus greatly reduces the chances of improper governance through corruption, bribes and other unethical practices
- It ensures timely delivery of services to beneficiaries, reduces bureaucracy, middlemen and red-tapism.
- Since money/subsidies are transferred directly to the bank account of the beneficiary, it improves the quality and efficacy of government schemes and ensures benefits are delivered directly to citizens
- It lends greatly to the government's objective of financial inclusion
- It aims to wipe out all leakages from disbursal and save precious exchequer money
- By linking government schemes with a facilitating mechanism such as Aadhaar, the government is able to identify the beneficiary from his Aadhaar details while connecting it with DBT

Retail Banking

The issue of rural retail banking is contemporary. Over the past few decades, while urban retail banking has seen a lot of development, rural areas have continued to undergo from inadequate access to financial services. This is mainly due to the requirement of asset conduct, identity and income proofs among other documents by banks and FIs and absence of enough branches in these areas. The high cost of traditional banking is an additional obstacle to the awareness of financial inclusion.

Digital India

The program charts a roadmap to a digital India where a digitally literal population can leverage technology for endless possibilities. One key area in the focus of the government is the development of broadband highways that will cover 250,000 gram panchayats by December 2016. The govt is also focused on providing universal access to mobile connectivity.

Mobile Internet

Requiring mobile devices and internet connectivity to reach individuals and enterprises anywhere following are some movements, owing to increased mobile penetration and use of mobile internet, that reflect the shift towards financial inclusion: • Multiple models and partnerships have been forged between banks, telecom operators and technology players, • Mobile-based pre-paid instruments (wallets) is driving adoption of cashless transactions - remittances and commerce for the un/under banked.

Financial Inclusion and Digital Wallets

Payment Banks, to which licences have recently been issued by the RBI, are a step in this direction. These new kind of banks are designated to reach people outside the span of formal banking services.

PayTM (Vijay Shekhar Sharma): The PayTM digital wallets one of the most popular digital wallets in India right now. It boasts of more than 10 crore account holders and leverages the rising number of mobile users. It operates allow-cost model of financial inclusion and aims at bringing half a billion Indians to the mainstream of economy, riding on mobile phone penetration.

Vodafone M-Pesa: Vodafone has a large mobile-user base and over 90,000 agents canvassing form-pesa accounts, which it plans to leverage for its banking business. It is already seen as a popular and convenient way to transfer money. This is globally developed and tested model of mobile money for financial inclusion

Reliance Industries: Reliance is set to launch its Reliance Jio 4G mobile-internet network, which can be used to jointly promote the mobility as well as banking business. It has a huge customer base and a proven capability to launch mega projects

Tech Mahindra: As an IT service provider, this player has access to cutting edge technology which will enable low cost banking and payment transactions. Further, it already is exposed to digital payment platforms and branchless banking because it has been providing tech solutions in these areas to other entities since long.

Objectives of Cashless Transaction

Transparency: It's easier to maintain records when they go through a formal system of records.

Logistics cost reduction: Logistics for transporting cash are about 1.5% of India's GDP. Other countries may have varying numbers, but this is also one of the reasons for which cashless transactions are being pushed.

Tax Collection A cashless system ensures data collection and record keeping that helps track down earnings, expenses and tax liabilities. This is something that is possibly, right. Tax evasion, underreporting, and off book revenues are a massive deterrent to government expenditure.

Convenience: This is another possible avenue where cashless transactions can come in and help massively. In a retail outlet, the most time spent at one spot is usually at the register/cash counter.

Write offs: Cashless can also help balance the books on writing off amounts due to inadequate change and so on.

Reduce the corruption: To reduce the corruption which takes place mostly through the cash medium

Reduce the burden of the cost of printing To currency and also handling them.

Transfer of money The transfer of money from one place to another is also gruesome.

Track the movement of money To track the movement of money which is not possible completely in cash medium?

Revive the banking sector To revive the banking sector which is high on NPA and bad loans?

Make loans cheaper To make loans cheaper and affordable for everyone. In other words, digital transaction is better in all aspects. But there are certain challenges for us to go completely this way. Otherwise, it's good for a developing economy like India.

Advantages of Digital Transactions

Benefits of digital financial inclusion for the financially excluded and underserved are the following:

Access to formal financial services

payments, transfers, savings, credit, insurance, securities, etc. Migration to account-based services typically expands over time as customers gain familiarity with — and trust in — a digital transactional platform. Government-to-person payments, such as conditional cash transfers, that can enable digital stored-value accounts may provide a path for the financially excluded into the financial system

Lower Costs of Digital Transactional Platforms — both to the provider and thereby the customer — allow customers to transact locally in irregular, tiny amounts, helping them to manage their characteristically uneven income and expenses

Additional financial services tailored to customers' needs and financial circumstances are made possible by the payment, transfer, and value storage services embedded in the digital transaction platform itself, and the data generated within it

Reduced risks of loss, theft, and other financial crimes posed by cash-based transactions, as well as the reduced costs associated with transacting in cash and using informal providers

it can also promote economic empowerment by enabling asset accumulation and, for women in particular, increasing their economic participation.

Risk Related To Digital Financial Inclusion

Digital financial inclusion also carries risks mainly:

Originality risks for customers due to their lack of familiarity with the products, services, and providers and their resulting vulnerability to exploitation and abuse.

Mediator-related risks due to the new providers offering services are not subject to the consumer protection provisions that apply to banks and other traditional financial institutions

Know-how-related risks can cause disrupted service and loss of data, including payment instructions (for example, due to dropped messages), as well as the risk of a privacy or security breach resulting from digital transmittal and storage of data

Key regulatory issues raised by digital financial inclusion relate to agents, anti-money laundering and countering financing of terrorism rules, regulation of e-money, consumer protection, payment system regulation, and competition. Many of these issues fall within multiple regulators' competencies, requiring effective communication and collaboration among them.

On line fraud: Here are some of the situations that you may find yourself in: credit or debit card can be cloned when use it in a shop or restaurant. Fake calls pretending to be from the bank, to steal card or PIN number. Fake emails linking to sites that steal login details. Fake emails with virus attachments that steal financial information from computer. Scams that promise to transfer money into your account, but steal all your data instead.

Remarketing: Based on your past shopping, using a advice engine, you can be remarketed a lot of products and services. While this is theoretically good, it could lead to other issues.

Privacy hampered: This is the most significant issue of all. If every transaction ever made by you is on record, then this leaves you at the mercy of data theft, identity theft, and being prone to surveillance. Everyone makes mistakes, and everyone has something to hide. Where you used your money in the past should not be a determining factor in your future, but sadly this is the part that is underplayed the most.

Job losses: While cashless might be efficient, it does come with a serious pitfall. Jobs involved in the value chain are prone to erosion and extinction. As more and more banking organisations push the narrative on cashless, those involved in the maintenance, distribution and operation of the cash system are bound to be left on the wayside.

Digitisation Trends and Opportunities

Consumer behaviour is changing towards rapid adoption of digitisation as the market has been exposed to innovative digital-based services that have been disruptive in nature (e-commerce players and e-governance services), it is now betting on changing client preferences to move from pricing (discounts) to convenience and service.

The generation Y is techno friendly; hence they will be able to gardener the advantage of digitalization

India's demography is well suited to switch to digital behaviour, considering that the median age of an Indian is expected to be 29 years by 2020, with 900 million of the population falling in the age group of 15-60 years by 2025.

The financially excluded, along with Government of India initiatives, offer rapid growth opportunities

Around 50 per cent of the unbanked population is being aggressively targeted to be brought under the banking umbrella. Progressing towards this goal, around 160 million accounts have been opened under PMJDY, while INR500 billion has been targeted to be transferred directly under DBT

Increasing mobile proliferation and Smartphone Mobile penetration is likely to drive financial literacy as well as inclusion, as players are betting on mobile-based financial services. An increased Smartphone proliferation, projected at 50 per cent by 2020, and decreasing handsets costs are likely to boost acceptance, better servicing as well as security.

Conclusion

Digital finance strengthens Financial Inclusion. The availability of digital finance can create financial inclusion so the access for the financing is more easily gained especially for the Indian population that is undergoing development. Through digital finance Indian population can get capital and financing for the operational, investment and growth opportunity.

However, the risks associated with digital finance are also needed to be looked after. Rules and regulations need to be made and properly implemented to protect cyber crimes or frauds caused due to digitalisation.

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