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Technology and Financial Inclusion: An Agenda for Holistic Growth

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ABSTRACT

An efficient financial system is essential requirement for any country's socio-economic growth. Financial system is needed to mobilize the savings and allocate these to the productive investments. Financial inclusion is a matter of concern for the policy makers as it is an enabler for inclusive growth. Till now a large number of efforts have been made by the Government of India and Reserve bank of India to include the financial excluded segments of the society in the financial mainstream. Digital financial inclusion has emerged as a game changer for the under-served as well as un-served low income households and micro and small enterprises. Hence with the prospects of getting near to billions of customers, both banks and non-banks started offering the digital financial services. The basic requirements for Digital financial services are: a digital transactional platform, agent network and customer's access to device. The most impactful technological invention to expend financial inclusion has been the mobile phone. These can be used for P2P payments, payments of bills and enabling the people to use m-banking and m-wallets. Technology can be used for bringing the financial excluded people under the purview of the financial system in a very cost effective manner rather than a traditional brick and mortar banking system.

Keywords: financial system, financial inclusion, digital financial services.

INTRODUCTION:

Financial inclusion is the main objective of the government of India from decades to the time till now. The term financial inclusion in India means that connecting all the society sections to the banking service system. So only a banking system can balance the economic development through banking system. Indian government and Reserve Bank of India took several steps to make the banking system with best commissions into Indian financial inclusion though it reaches a progress stage (Kaur, 2015). However, the "digital India" initiative established by prime minister is very big corner stone in financial inclusion. With this digital India, all Indian citizens acquire digital literacy by connecting them to banks digitally. While Tamilarasu, (2014) highlights after the implementation of trendy financial inclusion digitally the India was lead towards the development with new trends in number of banks in India.

Digital financial inclusion has emerged as a game changer for the under- served as well as un-served low income households and micro and small enterprises. The regulatory supervisory and also the standard settings of challenges and their solutions which includes a new paradigm shift by new digital finance customers go online (CGAP, 2015). "Digital financial inclusion" defined as the digital access for using the formation services of finance by the undeserved as well as excluded populations. These services are well suited to needs of the customers and also it delivered the new responsibility at cost that is both affordable for the well fare of customers and sustainable for the service providers. Hence with the prospects of getting near to billions of customers, both banks and non banks started offering the digital financial services for all the populations without partiality to improve the digital access channels for all the financial institutions. In fact, innovation in the digital financial services involves the mobile phone usage that has been launched for more than eighty countries of the world (GSMA, 2014).So as a positive outcome of this enhancement in the innovative products of financial services provided though digital financial inclusions poor customers are moving in millions from the cash based transactions exclusively to the formal financial services.

LITERATURE REVIEW:

Review of various related articles reveals the importance of financial inclusion and financial literacy. It should be taken as a opportunity by the banks. Technology can play a very important role in attaining the goal of sustainable development through financial inclusion. This can be well understood from a keynote address by Dr. K.C. Chkrabarty, deputy governor, RBI 'We have encouraged the banks to leverage technology to attain greater reach and penetration while keeping the cost of providing financial services to the minimum.

OECD, (2015) measures the financial literacy and financial inclusion by means of toolkit. Financial literacy is stated as a combination of skills, knowledge, awareness behaviour and attitude that can make better financial decisions and helps in achieving individual's wellbeing in finance. Thus financial inclusion and financial literacy are now designed to combine the changes in the banking system so that each and every nation gains the valuable financial services through technological development.

Financial inclusion in the digital economy is investigated by Susantono, (2016). The digital economy is rapidly developing all over the world as they are the huge driver's of growth, competitiveness and innovation. Even though there are many people excluded from the opportunities of digital economy for supporting the financial inclusion for the sustainable economic development. India is creating new conditions in developing the digital financial services which includes identification of good national system, efficient settlements system between the service providers of finance, supportive regulatory environment for different financial services from banks and non- banks and government support for the digital financial inclusion. Thus technology in India is improved and it provides way for payment infrastructure by lowering the challenges and reducing costs of financial inclusion.

Boston Consultancy group(2016) studied the future of the digital payments by 2020. According to the study digital payment system in India is also displaying a growth potential due to some global changes which are happening in Indian context also. The main reasons behind the potential growth of the digital payment system are- technological revolution which has made the digitization easy, entry of various non-banking institutions which are offering payment services and most important reason is awareness and adaptation of the consumers to one touch payment system. There are several factors which show India's readiness to use digital platform to receive and pay money. Convenience, discounts and cash backs happened to be the most important reasons behind using digital payment services. 75% merchants believe that using digital payments system will help them to expand and grow their business. Complexities and limited adoptions are the main hindrance in using digital payment system. It was found in the study that branch based transactions have shown a declining trend and it was 7% and use of ATM has increased from 10% to 15% in year 2014.All the participants whether banks or non banking financial institutions will have to develop the models according to the needs of the customers so that they can feel ease in using the digital services. One model that is successful in particular economy or circumstances may not be helpful in all situations

High level principles of the digital financial inclusion are explained by Sun, et al (2016). Digital technologies provides affordable way for the excluded financial gaps, especially its focus on helping women who tend to make payment, do small business and get loan, buy insurance or send a remittance and save for the school. DFI promotes digital approach to the financial inclusion for development. Balance innovation promoted to achieve the digital FI with identification, assessing, monitoring and even managing any risks. With the help of DFI, the enabling legal and regulatory framework is acquired in an international standard setting. Establishment of responsible Digital financial practices helps to protect the consumer's data on any issues. Strengthens the digital and also financial literacy by creating awareness in the financial services DFI facilitate the identification of the consumers buy encouraging the use of products and services provided by the financial services.

Bhatia, Kumar and Agarwal, (2016) researches about the contemporary study of the micro finance as it has become a main medium that extends the financial services to the section of unbanked populations through the Jan Dhan Yojana in India. Financial inclusion has emerged as major policy that acts as main objective for the development of country. Financial literacy also plays key role for the people to have information about using the financial services. Transparency in pricing of financial increases the competitiveness fairly and borrowers don't have to end up in borrowing more than their ability to repay it. Technology plays main role in reducing the cost of operation making each and every person achieve their dream of banking through digital financial inclusion that boost Indian economy.

Sundaram and Sriram, (2016) discusses about the financial inclusion in India that helps to identify how it serves the economy and also households for the growth. Predominant role is played by the policy of financial inclusion for the inclusive growth all over the work for transforming the financial neglected population that are numbered as 2.5 bn that is neatly one third of India's population. Basically financial inclusion got originated from the financial initiatives of the United States which opens it financial services in India at affordable costs. India being a land occupied with rural supremacy now gets updated only by the technological development and its penetration in the financial sector. The financial inclusion got digitally acquired in urban areas as well as in rural areas for improvising the living standards by creating awareness about the financial literacy.

Gibson, Pasini and Buckley, (2015) pointed out the regulating digital financial services in the developing countries for promoting the financial inclusion. As money in thus era can be transacted digitally by a click of mobile button , even the affluence householder's financial lives are entrenched in the digital financial inclusion that facilitate the process of cheap economic activity and easy remittances or receiving of money. Conversely the poor people are not much aware of the system as they save their valuable assets by cash, livestock and precious metals. It is highly evident that the financial extension of payment via digital channels provides opportunity for connecting the needy with the financial service providers. However, the technology is playing ultimate role in the global scenario with the financial inclusion policy regardless of the any particular region.

Digital financial inclusion is a promotion of the financial system to reach every person in possible way of technology stated by Peric, (2015). Technology is very valuable and advanced tool that provides the access for banking products and services even in the remote areas. But some of the illiterate as well as non consumer of technology still doesn't consider ATM as a user friendly choice. Banks are now apparently increasing the financial approach especially for excluded population by creating awareness and financial literacy. Through digital financial technology the scope of the financial accounts and savings is made easier, cost effective and quicker.

OBJECTIVE OF THE STUDY:

To study how technology can be helpful in attaining financial inclusion in India.

RESEARCH METHODOLOGY:

Methodology adopted for the present research is descriptive analysis. Secondary data has been used for the study. Various research articles from reputed journals, websites and magazines has been downloaded and retrieved. Various reports published by banks, RBI and other financial and non financial institutions have been used for various important inputs

ROLE OF TECHNOLOGY FOR FINANCIAL INCLUSION:

The main hurdles in the path of financial inclusion are- from the side of the financial excluded section of the society and other is from the side of the service providers. Due to lack of formal education and financial literacy the excluded section of the society have a limited access to financial services. On the other side the service providers are also struggling to meet their cost of providing their services to the masses. Cost is the main constraint in serving the small value and unprofitable customers. But all these constraints can be tackled by the use of information technology. Technology can be used to reduce the cost of providing the services and can make the use of these services easy for the customers. Transaction and maintenance costs can be reduced. For example ATMs plays a very important role in reducing the front-end cost.

The combination of the IT and mobile technology along with other IT-enabled services has emerged as a viable solution for greater financial inclusion. The combination of these technologies reduces the need for setting up physical branches. It allows the banks and other service providers to provide their services efficiently. Short message service (SMS), Unstructured Supplementary Services Delivery (USSD), Wireless Application Protocol (WAP), GPRS and SIM based applications are the various technology applications which can help in improving the level of financial inclusion in the country.

Financial services through mobile telephony, micro, mobile and biometric ATMS, internet enabled kiosks and PCS, biometric handheld devices, smart cards and PoS terminals are the key distribution technologies for financial inclusion (UNDP and NABARD, 2011).

Technology based Financial Services:

UPI App:

Unified payment interface is a payment mode in which funds are transferred through a mobile app. By using UPI app funds can be transferred between two accounts. To use UPI app customer has to register for mobile banking and create a UPI ID. Various UPI apps are available and it is not necessary to use any particular bank's app in which customer has his/her account. Any UPI app can be used. But all these services can be availed only when the customer has access to android phone and stable internet connection.

AEPS:
Aadhaar Enabled Payment Service is another important mode of digital payment. Aadhaar number is required to make payments in this mode. To use this service the customer is required to link his/her aadhaar number with bank account. When you use this service, the money you pay automatically will be deducted from your account and credited to the payee's account. There are no charges to use this service unlike cards and USSD. No bank account details, signature or any password are required to use AEPS. Fingerprints are used as password in this service, so this is very secure mode of payment. Funds can be transferred to any aadhaar linked account at any POS.

USSD:
*99# is also very innovative payment medium. This can be used through unstructured supplementary service data. This service is unique in its nature and different from other digital modes of payment, because there is no need to have a smart phone and internet facility to use this service. This service can be used even by using a basic feature phone. Objective behind the launch of this service is to provide the banking service to every common man. This service can be availed by simply dialing *99#. Account to account transfer, balance enquiry and mini statement is the main facilities which can be availed. Customer's account number should be linked with bank account. For using this service customer need to register for USSD/Mobile banking and get a MMID i.e. mobile money identity and get a mobile pin.

Mobile Wallets:
In a mobile wallet cash can be stored in a digital form. For this purpose customer can link his/her cards information in mobile device to mobile wallet application. Another way to transfer money to mobile wallet is online transfer. Customers need not to carry physical cash or cards; they can pay with their smart phone. Most of the banks have their mobile wallets and various private companies are also in this field like Paytm, Freecharge, Mobikwik, Airtel Money, Jio Money, SBI Buddy, Vodafon M-pesa etc. by using this service customers can make balance enquiry, accept or pay money.

Banking Cards:
There are various types of banking cards available i.e. debit cards, credit cards, cash cards and travel cards. Banking cards are more secure and convenient way for making payments because these cards provide double layered authentification for making any payment. Secure pin and OTP is required to make payments. By using cards to make payments time and money can be saved of both the customers and merchants.

Mobile Banking:
By using mobile banking customers can perform different type of financial transactions without visiting their branch. These transactions can be performed through mobile phone through an app.

Micro ATM:
This is the device that is used by business correspondents to deliver banking services in the remote areas. On authentication of the identity, the customer can deposit or withdraw money into their bank account through business correspondent. In this service the business correspondents acts as a bank for the customers.

CONCLUSION:

Majority of people in India don't have access to banking and financial services and as a result they remain excluded from the horizons of economic development of the country. The main reason for this is the absence of the proper delivery model and products which will suit the requirements of the low income group of people. There is great need of the affordable products by the banks and financial institutions so that people can use them and help them in mobilizing their savings into profitable investments. Technology can act as very important tool in bridging this gap and can assist in developing a platform in remote areas to extend the financial services. These advanced technologies are opening up the new avenues in providing the banking and financial services to the unbanked and under-banked population of the country.

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