Financial Inclusion in India: Banking and Beyond

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What does it mean to not have access to financial services? To the millions of Indians without bank accounts, it means making only cash purchases, spending money as soon as it is earned or saving money by hiding it under their mattresses or even in their shoes. For migrants sending cash to loved ones means taking favors from friends traveling to their villages or paying Angadías, an unofficial courier cum banking service. Not having access to even small loans often means getting caught in a debt trap by usurious money lenders. While much has changed in India demographically, socially and especially economically, since its liberalization in the early nineties, much also remains the same. In particular, this nation of 1.2 billion people is struggling to bring financial inclusion to its masses. It ranked a low #81 for financial inclusion despite an increase in incomes and a high savings rate of 81% (Niyogi & Niyogi, 2012). The World Bank estimated that 65 percent of Indians did not have accounts in financial institutions, only 8 percent had debit cards and 2 percent had credit cards. Indeed the 2011 census found that just 58.7% of the population used banks (Knowledge@Wharton, 2014).

Undoubtedly, India needs another transformation to create financial inclusion. The current Prime Minister, Narendra Modi, aimed at just that when he launched a hugely ambitious program in 2014 for dramatically increasing the number of banked households. Called the Jan-Dhan Yojana – translated as People’s Wealth Program – it differs from earlier unsuccessful zero-balance schemes, by aiming to deliver state support directly to the needy via these bank accounts, thereby replacing the massive subsidy programs often infamous for waste, corruption and failure to reach the intended recipients. Buoyed by government push as well as the simultaneous relaxation of restrictions by the Reserve Bank of India (RBI) in 2014, the Jan Dhan
program managed to achieve over 100 million new account openings, even though 70 percent of the country lived in villages that were hard to access. New RBI guidelines have also eased the erstwhile restrictions faced by banks to set up branches, Automatic Teller Machines (ATMs), and agent networks, as well as issue debit cards, offer deposit accounts, process payments such as for utilities and provide other financial services. Most critically, RBI removed the criteria of providing current and permanent address proof for opening a bank account. This would be a game changer drawing in scores of migrant laborers and others at the bottom of the pyramid who had no such proof. For now, the real impact of such initiatives is yet to be felt. Despite the 100 million bank accounts opened financial inclusion goals remain a work in progress, given that many households may have more than one account, many may have none, and many may have an account but rarely or never use it (Parussini, 2015).

Further, financial inclusion means much more than simply opening a bank account. The account needs to be conveniently accessible and the opportunities for using it for a variety of transactions needs to increase. Yet, it is expensive for banks to increase the number of branches and staff and maintain them. Instead, self-service technologies such as ATMs and Internet banking are extremely cost-effective. For example, a bank branch transaction could cost about one USD but an ATM may cost twenty five cents and an online transaction may cost just about six cents (Gupta & Gupta, 2008). Given the geographical expanse and infrastructural constraints in India, as well as the technology readiness and/or literacy required for operating self-service technologies, banks have been using product and logistical innovations such as ATMs in local languages with voice and/or biometric enablement, powered by solar energy, transported to villages on vans, and equipped for multiple uses such as information (weather, ticket bookings, cell phone re-charge cards, agri-business information, etc.) (Banknet India, 2007). Only by
increasing access and usage opportunities can banks avoid zero account balances where even the administrative cost of setting up the account cannot be recovered (Knowledge@Wharton, 2014). However, India has just 19.7% Internet penetration (Internet World Stats: Internet Users in Asia 2014 Q2, 2015) and so Internet banking is not a feasible solution. Even ATMs had not proliferated to the extent needed, with just 150,000 ATMs nationwide by 2014 (Jetley, 2014).

Thus, addressing the financial inclusion challenge in India necessitates thinking outside the box. Some have suggested using the more widely available postal services which have become outdated due to the rise of other communication means. No doubt post offices could get a new lease of life if used for providing financial services and their reach would be unmatched. System wide changes like these will likely be difficult to implement in the short run.

Instead, the biggest game changer is more likely to be mobile phones. Not only do mobile phones offer an alternative to banks but they may even help banks succeed in realizing the dream of Jan-Dhan (Parussini, 2015). India has over 930 million mobile phone subscribers of which 41% are in rural areas (TRAI, 2014). It is the sixth largest market for mobile phones in 2013-2015, growing at an incredibly high rate of 459% (Azevedo, 2014). Mobile payments such as M-Pesa have been enormously successful in Kenya and nearly 25% of the country’s GDP flowed through this system (Amberber, 2014). Not just payments, but also banking itself is being offered via regular cell phones even though smart phone adoption is expected to boom with pricing and product innovations to over 200 million in India (compared to about 90 million in the US) (Knowledge@Wharton, 2014). In a global survey, Indian consumers indicated high receptivity towards using mobile for banking (even greater than in the United States) (EY, 2014), and so expectations are high for mobile money as well.
However, in the 2014 Intermedia Financial Inclusion Insight (FII) Survey of 45,000 Indian adults, just 0.3% of adults were found to use mobile money as compared to 76% in Kenya, 48% in Tanzania, 43% in Uganda, and even 22% in Bangladesh (Kumar & Radcliffe, 2015). Since then regulatory restrictions have eased somewhat but the impact on consumer adoption is yet to be realized. Bharti Airtel’s had launched Airtel Money in 2011 and was the largest player with a market share of 22.74% but had only 1.4 million active users by 2014 (Vikas, 2014). Even Vodafone, despite its M-Pesa experience and success and its 18.69% market share in India, had just 0.37 million active users since its launch in 2013 (TRAI, 2014). Some other payment solutions in the market included State Bank of India’s mobile wallet, Eko and Idea Cellular’s M-Wallet.

The economic benefits of mobile banking has been well documented (Anyaso & Otubo, 2009) and its potential for transforming the rural Indian economy is immense. Yet the deployment of mobile technology as a method of providing banking, payments and other financial solutions is currently at a nascent stage in India. Although mobile usage is high, even in rural India, mobile banking regulations were announced by the RBI only in 2008 and mobile handsets are typically low end devices and not Internet enabled. As the regulatory landscape becomes increasingly conducive for, mobile banking adoption will gain from a simultaneous increase in the use of Internet enabled phones. Meanwhile, minus expensive smart phones and Internet plans, using text (SMS) for getting account information or conduct transactions seemed more realistic for increasing mobile banking penetration. Further, availability, reliability, privacy and security concerns are critical for mobile banking but there is little understanding of privacy needs and security concerns of Indian consumers. (Vinayagamoorthy & Sankar, 2012). Thus, government support and a favorable regulatory environment needs to be combined with an effort
to understand the market, in particular, consumers’ attitudes, for this market to flourish. Yet very little research, especially in the public domain, addresses the issue of how emerging market consumers, such as in India, differ from or are similar to those in the developed world. Would their adoption of technology, especially, mobile banking or payments, mirror that of the West? Some initial academic research had suggested otherwise. Meanwhile, it is hoped that mobile solution providers are undertaking a comprehensive exploration of consumer behavior and scanning the environment before launching their financial/payment solutions. Their success may well determine the nation’s achievement of its financial inclusion aspirations.

References


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