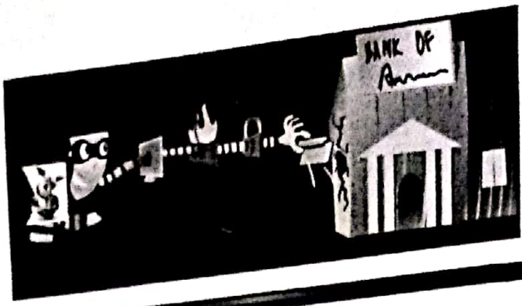

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ICT & FINANCIAL INCLUSION

[Indian banking sector holds the rather dubious distinction of being over-branched and under-serviced - one which it would be better to discard! An embarrassing feature of our financial services provisioning is that it has largely bypassed a large segment of the Indian population and institutional support to the 'poor India' has only regressed over the years, pointing to the falling reach of formal banking services to them. A plethora of reasons exist for this willful ignorance - from lack of a clear policy framework to the limiting infrastructure, thus making the financial inclusion proposition an extremely difficult concept to pursue, both commercially and philanthropically. However, a true analysis of the landscape will also reveal that banking with the poor is more about psychology and perceptions rather than anything else]

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Financial Inclusion is the delivery of financial services to all the people in a fair, transparent and equitable manner at affordable cost. Financial Inclusion has the potential to improve the standards of life of the poor and the disadvantaged. Financial services permit individuals and households to manage the risk and uncertainties to save risk free, borrow on better terms, to invest in a business venture or property and to cope with unforeseen expenses.

Financial exclusion is the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers. This exclusion predominantly covers poor, underprivileged, uneducated section of the society and more prevalent in rural areas, and leads to financial exploitation. Poor therefore perpetually remain at the bottom-end of the economic order. Financial exclusion further aggravates this poverty.

The need of the hour therefore is to ensure financial inclusion of these under privileged people, so that there will be better interaction in the society, offering wide choices to all and paving way to a equitable prosperity.

The Main Hindrances of Choosing not to do Business in Rural Area are:

1. Distance
2. Location constraints
3. Availability of skilled labour
4. Availability of information

No doubt, quite a few Banks have ventured into rural areas for expanding the horizon of financial inclusion. But a lot remains to be done because of existence of innumerable constraints. Further, a standard or uniformity needs to evolve, so that the benefits reach the really needy people. There is also an increasing realization now that welfare orientation and commercial prudence are not necessarily disjoint objectives. On similar lines, financial inclusion is also increasingly being driven by reasons that are beyond philanthropic considerations and regulatory compulsions.

Over seventy per cent of people in India still live in villages. As per known macroeconomic facts, India has over 210 Million households with more than 140+Million households in the rural areas. These households and the people living in rural area remain excluded from the purview of the economic developments as they do not have easy access to the banking and financial transactions and related facilities, even after 60 years of independence.

The Role of ICT in Financial Inclusion

Technology has created transformation in banking structure, business process, work culture and human resource development. The objectives of technology intervention in banking sector are, to reduce costs of doing business, enhance business productivity, reach to customers and better manage busines... financial inclusion initiative primarily a... financial services to all the people in a fair... equitable manner at an affordable cost... technologies available in these areas is a... prerequisites for overall development of... Technology has become the driving force of... modern world and has not only changed... communicate, but has also altered... structures.

In its broadest sense, ICT may be defined as... that facilitates collection, transfer and tra... data & knowledge and hence collaboration a... in a manner that is more efficient, faster a... than what would have otherwise been poss... is not surprising that ICT is also being looke... extremely viable option to circumvent the... problems that have traditionally inhibited a... intervention in this area.

Despite this, majority of people living in rura... remain excluded from the purview of t... advancements that have taken place, even a... of independence. There exists an acute... (disparity between "haves" and "have nots"... which describes the fact that a certain section... (and more so, people in rural areas) don't ha... and capability to use-modern technology s... individual economic development. There is... need to bridge this digital divide by ensuri... access for all, to these latest technologies.

ICT can lead to enhanced business productivi... in efficiencies, effectiveness and economies... scope in business processes. With the help of... technology framework, a focussed mindset and... soul, extending the banking facilities to the ru... availability of financial facilities to common m... country for inclusive growth is not far from...

The Challenges to be overcome... Technology Intervention to... Financial Inclusion

1. Distance and reach
2. Environmental factors viz. terrains, high temperature locations, dust, humidity, storage conditions in different parts of the country
3. Use of Alternate models like Business Facilitators and Business Correspondents
4. Arriving at a suitable delivery model
5. Storage of high volume low ticket data, part of CBS
6. Contingencies for link failure
7. Servicing of the equipments
8. Increasing the branch network in rural areas
9. Choice of ideal and standardized technology solution across banks.
10. Handholding through Networks by establishing strong links with NGOs, Government and other extension agencies, community based organizations etc.
11. Development of new products and services to meet the emerging needs of customers brought in through financial inclusion.
12. Lack of marketing facilities
13. High density of population in some states such as UP, BIHAR, MP etc.
14. Awareness about technology usage, handling & storage of smartcards by rural consumers

While the challenges are formidable, the technological advancements that have taken place particularly in communication sector have provided with a lot of viable solutions to help overcome the difficulties. The other side of the coin is vast untapped market in rural areas - a virtual gold mine to be excavated. The need of the hour is developing a suitable cost effective model to serve the under-privileged and in the process Banks also stand to gain by way of newer business opportunities.

Financial literacy

Financial literacy is instrumental in expanding financial inclusion, which in turn is helpful in further expanding financial literacy, thus, mutually reinforcing each other in a positive manner Persons in unbanked remote villages are situated in the far flung areas still depend on local money lenders and are denied of the affordable banking services.

The role of BC/BF (Bank correspondent/Bank facilitator) is an important one for financial inclusion. They are not only the first point of contact with the customers but they are required to educate the customer also about the benefits of having an account with the bank. The strength of bank lies in reaching the far flung areas with help of the private agencies. Some of the agencies can be out of NGOs, Farmers Clubs, SHG, Co-operatives, Community Based Organizations. NABARD is working with the Indian School of Microfinance for Women and has identified state level partners on modalities for alliance, monitoring systems and impact evaluation mechanism, for formulating a National Alliance on Financial Literacy (NABARD, 2011).

Recommendations of the Rangarajan Committee

The above implementation of financial inclusion process with technology intervention should be done by accommodating the various recommendations of the Rangarajan Committee, such as:

1. Facilitate seamless integration of Regional Rural Banks with the main payments system, by providing computerization support to them.
2. Leverage technology to open up channels beyond branch network and creating required banking footprints to reach the unbanked, with the objective of extending banking services similar to those dispensed from branches.
3. Ensure that nearly all pilot models converge on certain essential components and processes to be followed in a technology application.
4. Evaluate whether the operating costs of the various models being pursued are minimized, and can be easily absorbed by banks as the increase in business volumes so as to justify the incremental operating costs.
5. Focus on substantially lowering of costs by a building

business case of infrastructure sharing for enabling nationwide financial inclusion, thus conferring large scale benefits and also facilitating effortless transfer of funds between various entities.

6. Encourage Business Facilitators/Correspondents to play an active role in financial inclusion, by supporting them with technology applications and capacity building.
7. Seek government sponsorship and support for making payments under National Rural Employment Guarantee Scheme and Social Security Payments thru' such technology based solutions, so as to render further viability to the business case.
8. Create a national data-base, sectoral, geographic and demographic reports, and also a payment system benefiting the cardholders from the underprivileged/ unbanked population.
9. Evolve common minimum standards for ensuring interoperability between systems, by working jointly and closely with the various technology suppliers and banks.

Conclusion

Banks have a major role in extending banking facilities to rural areas for inclusive growth and availability of financial facilities to common man across the country. In this context, commercial orientation may be important for achieving financial inclusion. When policy decisions are based on development, banks with its regularity board, are willing to reach out to the poor and ICT builds relevant platforms such as m-commerce, biometrics, etc. the country will go a long way in achieving financial inclusion agenda.

References:

References has been taken from various sources. It has not been listed here due to space constraint.