

m

obile banking for inclusive growth

Dr. Sourendra Nath Ghosal , Head (KM) , Microfinance Focus

There is no doubt that the most popular mandate in developing countries is to outreach poor by creating employment opportunities and providing financial support to the poor through state interventions. Obviously such intermediation often fail to reach the poor as these intermediaries floated by the state are loaded with bureaucrats and politicians who are more prone to exploit the poor and ignorant rather than to outreach the bottom of the pyramid and or to hold their hands in running their farms or firms and to provide succor to overcome calamities they often encounter. Indeed it is widely held view that rural micro - entrepreneurs are not capable to organize themselves to conceive, run and bear risk of any sustainable economic enterprises and therefore they need support and hand holding by the state government and or economic institutions promoted and run by the state and people (PPP). No wonder that state policies and programs for alleviation of poverty are all routed through state political and economic institutions.

FAILED INTERMEDIATION

It is an irony that in practice it has been observed that such intermediation has failed to outreach bottom of the pyramid as because these institutions are found in practice keener to fill their pockets rather than provide succor and support to the poor. Seibel and Parhasib and Benjamin and Piperek in their research studies (1990 & 1997) have brought out very vividly that the traditional approach of funding the bottom of the pyramid only through state intervention as has been generally practiced due to perhaps the influence of Keynes's theory of state intervention to prop up the economy need not only revisiting but also rewriting. In fact doles and subsidies provided by the state not only fail to reach through such intermediation by the state but on the other hand weakens the self confidence and initiative of the poor and make them more and more dependent on the state as if state is next to god to ameliorate their misery and poverty. This obviously over the years have made them laggards and fatalistic.

ENCOURAGE DISINTERMEDIATION TO REACH THE POOR

It is therefore imperative to conceive tools and technologies to outreach poor with least intermediation and creating direct accessibility to finance and other support services. In fact the revolution in information technology has created an opportunity to reach directly to the customers irrespective of time and place. It has become possible outreach people residing in far flung rural areas and has access to finance and services at any time i.e. 24 hours. This has created new paradigm for financial institutions particularly banks as has been portrayed below.

EMERGING OPPORTUNITIES

It is obvious therefore that the new paradigm has provided greater opportunity to banks and financial institutions to outreach rural and far flung areas to cater financial services and products to people of those areas. In fact in the last decade banks and other financial institutions have developed the delivery technology dynamically in terms of client outreach and enlarging the space. These institutions particularly banks have acquired technology support like ATM , biometric security and internet banking along with core banking and electronic money transfer hardware and software. This has obviously led them to consider the possibility and feasibility to introduce mobile banking. In fact some banks have already availed this facility in a limited way to facilitate money transfer and payment system. However the most asked for facility that mobile banking is expected to provide is reach out villagers to enable them to avail financial facilities with ease and least cost. In fact RBI is also keen to introduce mobile banking facilities by banks. In this regard it has already circulated guidelines and has set up a working group under the CHAIRPERSON of a deputy Governor Mrs. Thorat to find out suitable strategy to help banks to introduce this facility.

CHALLENGES TO BE ENCOUNTERED

However there are some difficulties in adopting such facilities; of these major one is the non availability of reliable data with regard to the financial health and



Africa mobile banking, Source : ugotrade

transactions of rural people. The volume of data the mobile network operators (MNO) usually collect on the basis user's transaction records are not adequate to assess risk and provide comprehensive banking services though transactions like bill payment could reflect through its regularity, frequency and volume some idea with regard to financial capability and avidity of users of such facilities. In fact that need to be collected should reveal not only the credit worthiness of the customer but also their capability and capacity to take risk and proneness to save and spend within their means.

In a recent study made by the POLITICAL AND ECONOMICS RESEARCH COUNCIL (PERC) of the Brookings Institution has brought out that value of non conventional data based on bill payment history etc if put to use could be of some value as follows:

- it would enhance the reliability of measuring credit risk by only 10 per cent;
- It would also help enhancement of measuring credit score by 22.4% only.

HELP BUILDING COMPREHENSIVE DATABASE

It is obvious therefore mobile banking transactions that are presently practiced could help to a very limited extent to measure and evaluate risks of all types

banking transactions. The most important challenge therefore is to make it feasible to use data made available through MNO, M banking, and M payment system should be comprehensive and dependable information for credit and other financial risk assessment. To develop the same obviously the first step would be to assess the present gap that could not be filled by the data made available through MNO and Mobile payment facilities that are now available through mobile phones. That would also be necessary to examine the level of interest of all stakeholders to build comprehensive database for their use. This would obviously not just one time exercise as the interest of stakeholders would vary with the growth of volume and customers and also technology to enhance reachable and reduce cost.

CASE STUDY ON MOBILE BANKING IN KENYA

THE PROJECT AND HOW IT WORKS The project provides commercial banking services to remote rural communities in Kenya. These financial services are provided at village satellite centers, which are mobile banking units attached to existing branches. The units are located at strategic market centers servicing surrounding villages and serve each area once or twice a week on market days. They provide customers with the same financial services as in normal branches, such as deposits and savings, money transfers, and remittance processing and loans. The service helps to reduce congestion in banks existing branches, as well as increases the bank's penetration. Mobile customers pay the same rates for their transactions as at branches plus a small fee for the mobile access. The mobile banks consist of an all terrain four-wheel drive vehicles, are manned by 2-3 bank employees who meet customers at designated market places on fixed days each week. Once there, the team serves customers from buildings that have been rented out at the market places. The mobile units use solar power to run a computerized transaction processing system that is directly linked to the home branches via GPS and satellite.



The recent initiative taken by RBI to permit banks to appoint correspondents need to be trained to the latest gadgets of mobile telephony and internet bank-

THE INNOVATION

The mobile bank project reverses a long term trend for commercial banks in Kenya to withdraw from rural areas. Satellite centers with sufficient business volumes can become fixed branches, enabling the mobile unit to take services to new and more remote customers.

This model can be easily replicated. Equity has been approached by a number of banks throughout Africa interested in understanding and adopting this model for their own operations.

THE RESULTS

The results have been impressive. There are now more than 120 villages covered by mobile units, a six fold increase over the original target of 20, and the units are servicing some 40,000 new customers, of which nearly half are women. Average transaction times are 3 minutes, compared to the norm of 10 minutes at normal branches. The mobile business overall is profitable. There is also clear evidence that other commercial banks in Kenya is responding to this new competitive environment. Branch closures are less common and banks are focusing heavily on how to harness the technology of mobile Communications to enable transactions and thus increase their reach

NEED TO DEVELOP COLLABORATIVE MODE FOR INDIA

However as has been pointed out by K.C. CHAKRAVARTY Dy. Govern or of R.B.I.that indeed it is a great opportunity for banks to outreach the bottom of the pyramid but there is need to develop an effective collaboration between mobile service provider and banks. He also emphasized that it would be necessary to open accounts with the bank before bank could provide banking services and products to him. In fact he has rightly raised some limitations of banks to fast forward this scheme. These are as follows:

- Banking technology is of recent origin and

Perspective : Mobile banking for inclusive growth

therefore there is need for scaling up the same and that would obviously take some time and investment;

- Payment facilities are only one area where banks could be active and for that also there is need to develop appropriate delivery model; and
- The recent initiative taken by RBI to permit banks to appoint correspondents need to be trained to the latest gadgets of mobile telephony and internet banking.

In fact he was frank enough to opine that banks are laggards and therefore to expedite the introduction of the system one has to look for alternative non-bank models.

OPEN UP OPPORTUNITIES TO MFIs

Even if one may not hold such a pessimistic view, it cannot be overlooked that there exist considerable gap in the technology and database that hinders the development of a suitable model for banks to reach the poor to provide comprehensive banking services to the rural poor. In fact mobile banking is a subset of electronic banking. It may be defined as a method to deliver financial services using mobile communication technologies such as GSM and CDMA including mobile devices such as cellular phones and personal digital assistance. In fact under M banking customer can carry out basic financial transactions like remittances and payments.

RECENT MODELS EVOLVED FOR COLLABORATION

Presently there are four types of M.banking model viz. wap, sms, and pda and sim toolkit.

WAP (wireless application model) is based on micro website and the model is similar to internet banking.

SMS banking is based on GSM standard service to exchange text messages that a customer could send to obtain information or to provide an information and or instruction to the banker.

PDA model is designed with a mobile phone to provide more access and to store data to enable customer to operate on individual software. It therefore helps processing loan applications also.

Similarly mobile phone with SIM toolkits also en-

hances the capacity of users and banks to deliver more services.

COLLABORATION OF INTERNET, MOBILE AND BANKS

However to make mobile banking a real tool for disintermediation which is perhaps the prime need in India to avoid corruption and high cost it would be necessary to avail the latest development in mobiles that provide storage and internet facilities. In this regard Google has advanced considerably and one would expect as the present trend indicates the prices of these handsets would come down and become affordable. Further it would also be helpful to strengthen the organizations like Financial information network (FINO) to build necessary financial portals to help banks to draw upon these as and when considered necessary.

In fact it would be imperative to develop biometric ATMs along with mobile phones in the initial stage as that would help educating the rural youths to become familiar with these technologies and would not hesitate to contact directly the banks for seeking their services and products. In this regard it is really encouraging news that banks have started exploring the ways to leverage the Unique Identification Number project. In fact it is interesting news that after meeting the officials of UIN 14 banks and telecom companies as well as officials of RBI had a meeting to identify a model to integrate these innovations for inclusive growth.

About the Author:

Dr. Sourendra Nath Ghosal holds a PhD in finance and Masters degrees in commerce and economics. He has taught for 18 years in colleges and later in the University of Jodhpur, Rajasthan; He Worked as principal, Cooperative Training College for about 2 years at Kalyani, West Bengal. He worked with the United Bank of India for 22 years and retired as general manager, credit. He has authored several books and papers in several national and international journals and newspapers. You can reach him at souren@microfinancefocus.com