

IMPACT OF TECHNOLOGY IN ENLARGEMENT OF FINANCIAL INCLUSION IN CONTEXT OF RURAL INDIA

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Abstract

The term “Financial Inclusion” means to provide financial services to every individual and particularly to those belonging to disadvantaged and low income segments of the society. This is particularly to enable them to access and utilize these services. The financial inclusion not only restrain to opening of saving bank accounts with the banks but also to create acquaintance with the various financial products. The accessibility of people towards financial products and services leads to economic welfare and growth of a particular nation. The sustainable development of the country depends upon an effective mobilization of household savings and distributing it to meet the growing credit requirements effectively. The Banking sector and RBI are making spell bound efforts to bring every section of the country under the hub of financial system. Although there is a massive gap between the expectations and ground realities with respect to mobilization and utilization of funds but still Modern Information and Communication Technology has played a tremendous role in bridging the gap between the urban and rural accessibility to financial services. Technological advancement has helped the banks in managing their risk, making customer reachability easier and above all reducing cost. The objective of this paper is to study various technological applications which are adopted by Indian Banks towards enlarging Financial Inclusion. The technological effectiveness of Financial Institutions can be visualized in uplifting the neglected strata of Rural India by bringing them under the hub of financial services and increasing their accessibility which is also the aim of government in support of inclusive growth.

Keywords Financial Inclusion; Information Technology; Rural Area; Banking Sector.

Introduction

Financial inclusion is basically delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low income groups of the society. It is the “process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”(Dr. C. Rangarajan).

It is the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. (Aggarwal R, 2007)

As per the targets of Five Year Plan (2012-2017), the Government of India aims to achieve an “Inclusive Growth” which is clearly depicted through the policies formulated that ensures the easy availability of the financial services at a bearable cost especially to the low income segments of the society. The objective of “Inclusive Growth” is not attainable unless the non privileged sections come under the organized and well developed financial system. These lower segments are deprived of financial services and thus are not able to come under the

scope of economic development of the country. The first and foremost objective is to ensure the availability in fair and transparent manner of the financial services to these unprivileged groups. It should not be regarded as a statutory obligation or charity rather it should be considered as unexplored market of financial services. Only few banking and other micro organizations are focusing on these priority sectors. There is an identifiable demarcation of line between rural and urban area in provision of these financial services. Financial illiteracy can be considered as one of the significant factor responsible for this. Therefore along with the provision of the financial services the need of an hour is to educate people in rural areas and influence them to avail these benefits. Ease of access and economical services can help in building a platform that will serve the underprivileged section. Modern Information and Communication Technology can help in extension of the financial services to the low income segments of the society. To attain the target of “Inclusive Growth” Information and Technology will act as a remarkable tool. It allows the collaboration of processed form of data with other entities in an effective manner. Information and Technology will reduce the cost for the

consumers and act as user friendly tool. Several efforts have been made by RBI and other banks to reach the rural areas with the help of Modern Information and Communication Technology. Studying various tools of Information and Communication Technology used by the banks will tell its contribution to achieve the objective of “Inclusive Growth” and also show how banks and other institutes are working for attaining the same.

Objective:

1. To study various Financial Inclusion Initiatives undertaken by the Banking sector along with the Government of India.
2. To study the various applications of ICT used by the Banking sector to reach the objective of Inclusive Growth in Financial Inclusion.

Review of Literature

ICT has favored better information flow, and the data collected for depositors can be used to analyze credit worthiness more effectively and to facilitate deposit taking. (Andrianaivo Mihasonirina et al, 2011). A per macroeconomic perspective evidences supports a positive correlation of financial

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depth with economic growth (King and Levine, 1993) and employment (Pagano and Pica, 2012). Financial inclusion thus is well associated with financial stability (Han and Melecky, 2013) and poverty reduction (Clarke, Xu, and Zhou, 2006). Another main issue of interest is to know whether low level of financial inclusion is associated with high income inequality (Kempson, 2004) the slow inclusion is the absence of appropriate delivery model and products which satisfy the financial need of low income families. (Bansal Shashnank, 2014). They use the high level of coverage available through mobile telephony, the gradual development of banking correspondents and regulatory modifications to provide easier access to financial services.(Fernández de Lis et al.,2014). RBI itself took the initiative of doing the task of computerization of banks so as to improve customer services, MIS and

book keeping.(Singh S.N et al.,2014). In Latin America and Caribbean Countries only 35 % of households have access to bank account. (Chong Alberto, 2011). Accessibility, affordability, appropriateness and benefits determine tells how much deep financial inclusion penetrates in the social fabric of the Indian village.(Ram Kumar V,2007).There is also internal problems which accounts to absence of linkages of credit with marketing, investment credit which is having no provision for working capital. Inadequate staff and managerial deficiencies within the banking system have also been causing problems (Rajasekhar, 1994). Bringing financial services to rural clients is the biggest challenge in the quest of financial inclusion. The main barrier to financial inclusion in rural areas is the long distances that rural residents must travel to reach a bank branch. Poor infrastructure and

telecommunications, and heavy branch regulation, also restrict the geographical expansion of bank branch networks. (Christabell. P. J et al., 2012)

Financial Inclusion Initiatives in India

The term Financial Inclusion does not limit to the provision of these services to weaker and lower segments of the society at an affordable cost but also extends to the availability of various services such as credit facility, investment services, foreign exchange services, remittance services loans and insurance services.

Table1 explains the branch expansion of Schedule Commercial Banks per 100000 populations in rural as well as urban areas under the policy of financial inclusion initiated by RBI

Table 1.1 (Source RBI)

BRANCH EXPANSION OF SCB'S									
As on March	No. of Branches			Estimated Pop* (In Mn)			Branches/1lkh pop		
	R+S.U.	U + M.P.	TOTAL	R+S.U.	U + M.P.	TOTAL	R+S.U.	U + M.P.	TOTAL
2001	44905	20713	65618	851	177	1028	5.3	11.7	6.4
2006	45673	23904	69577	920	195	1115	5	12.3	6.2
2010	53086	31072	85158	980	211	1191	5.4	15.2	7.2
2014	76753	40958	117711	1044	228	1272	7.3	17.9	9.2
2015	82358	43716	126074	1061	233	1294	7.8	18.7	9.7
Jun-15	82794	43910	126704	1065	235	1300	7.8	18.7	9.7

*Population estimates are based on CAGR between Census 2001 and Census 2011 data

R denotes rural areas,
S.U. denotes Semi urban areas,
U denotes urban areas,
M.P. denotes Metro Politian areas

Table 1.2 shows that the saving deposits with the commercial banks increased with the CAGR of 14% and the growth rate was higher for the rural and semi urban areas i.e. 15.6 and 15.9 respectively followed by urban and metropolitan areas.

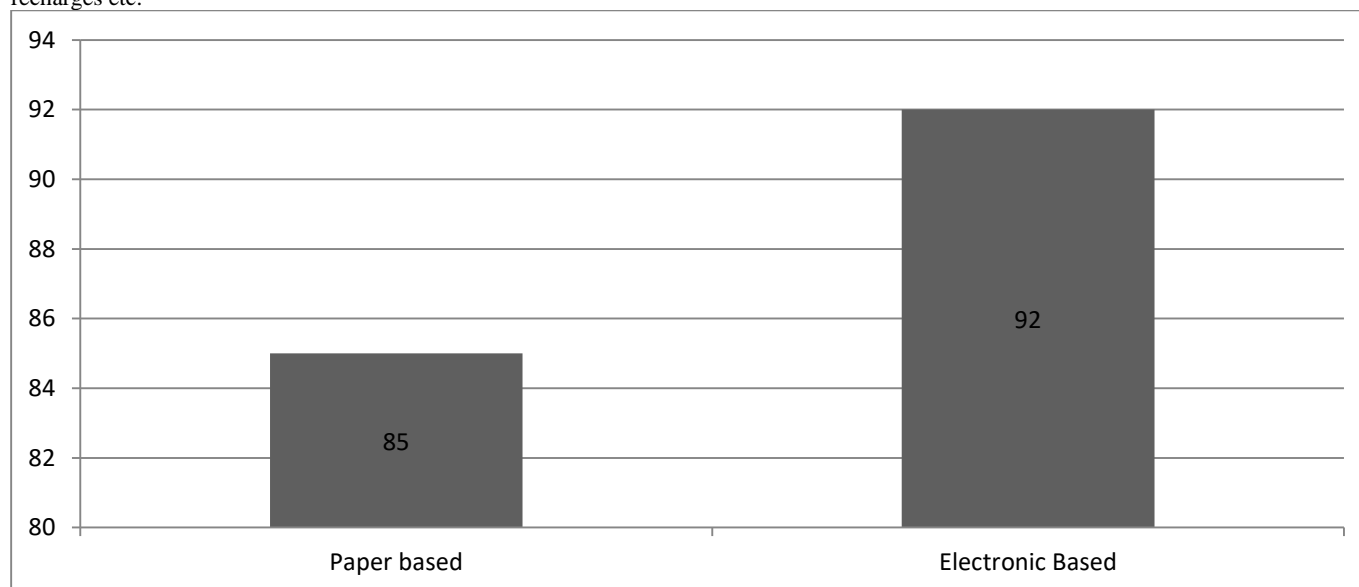
Table 1.2 (Source RBI)

Growth in Individual's Savings Bank Deposits A/Cs with SCB's								
Pop Group	No. of Ind. Saving deposit A/c(Mn)				Ind. Saving deposit A/C Amount O/S (Bn)			
	2006	2010	2015	CAGR	2006	2010	2015	CAGR
Rural	104	167	384	15.6	962	1703	3601	15.8
Semi Urban	85	136	320	15.9	1124	2155	4470	16.6
Urban	68	97	186	11.8	1246	2381	4541	15.5
Metropolitan	71	100	180	11.9	1838	3731	6476	15
India	329	500	1070	14	5170	9970	19088	15.6
CAGR is for all Schedule Commercial Banks including RRB's during 2006-15								

Further, Government and RBI have taken initiatives to remove the financial illiteracy. RBI has launched financial education website and has undertaken "Project financial literacy" with an objective to teach basics of banking and financial services to the weaker and lower

segments of the society. NABARD and other government institutes are undertaking various measures to disseminate the information and educate the people in rural areas. Various training and counseling centers have been set up by the overseas banks with an aim to educate people.

As per the report of Economic Times, Rajesh Nair (2016) the online payment in India accounted for atleast 14% of the total transactions. The paper based transactions were INR 82 lakhs crore while that of non cash transaction was INR 92 lakhs crore. There has been a significant increase in the electronic transactions as well which can be due to growth of E- Commerce industry, remittances from online payments, recharges etc.



Role of Technology In Financial Inclusion

The constraints in reaching to the goal of financial inclusion emerges from the both the service provider and the weaker and lower segment group. Financial illiteracy and lack of basic education act as a wall between them and the services as they find the borrowings through formal institution a complex procedure and thus find an informal system and thereby exploited by the lenders. The providers of financial services face the hurdle of providing services at an affordable cost to the non productive and non profitable segments.

Commonly used technologies in Financial Inclusion in India:

1. Mobile Banking: It enables to reach the large unexplored banking market. People in remote areas can use mobile phones and do banking transactions.
2. Automated Teller Machine: This computerized telecommunication enables to undertake the financial transactions without the need of cashier and other banking staff. These days bio metric ATMs are set up for the illiterate people.
3. IT enabled Internet Kiosk: These kiosks are located in areas where the set up will lead to considerable rise in the user rate. It ensures reliability and security of information, reduces opportunity cost and time and results in high transaction volume.

4. Smart Cards and POS: Smart cards records all the customer information i.e. fingerprints, photograph etc. It enables the user to deposit or withdraw cash at the POS terminal when ever required without visiting the bank.
5. Core Banking System: NEFT and RTGS are the two convenient payment channels provided by the banks to enter into financial transaction with any branch in the country.

The widespread of financial services with the help of ICT has been the aim of the Banking sector and the Indian Government. In order to meet the needs of the consumers' banks have been constantly gathering and analyzing information from the market with the help of modern technology. Geographical Information System, a web based technology used by the banks have all the details of state cooperatives, bank branches, ATM's etc. thus helping the banking sector to identify the neglected areas where the services can be carried out.

Conclusion:

Various initiatives have been undertaken by the Banking Sector and the Government of India to reach the objective of Financial Inclusion. There has been increase in the number of Branches of Banks to provide the financial services, but this rise is more in the

Urban and Metro Politian cities rather than the Rural India. Majority of the people are still not the part of economic development of the country as they are deprived from the facility of the financial services. Lack of appropriate delivery of the financial products and services at an affordable price is the main cause of the slow growth of financial inclusion. Further, Government, RBI and other institutes are using various applications of Information and Communication Technology such as GIS,GPRS, Mobile Banking, Biometric ATM's, Smart Cards to reach the rural areas and making products affordable for the customers but due to financial illiteracy among the people in the rural areas the desired objective is yet not attained. Information and Technology can act as a platform to overcome the obstacles of financial illiteracy and to reach the unbanked population of rural India. With the help of ICT both the customers and banks will be in profitable position as customers will be able to avail the services at reduced process and banks will be able to extend in the unexplored markets.

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