

Chapter 40

Leveraging Technology Options for Financial Inclusion in India

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ABSTRACT

Financial services have a ubiquitous need however the urban rich have easy and universal access with wider options, compared to the low-income group who are forced to accept informal, expensive and riskier means to fulfill their financial needs. The demand and supply of financial services for the poor is imbalanced, with supply being acutely constrained by lack of viability and sustainability of current business models. Technology and IT has a pivotal role in making financial inclusion a viable reality. Technology, including information technology can enable lowering costs by increasing automation, enhancing efficiency, enabling scaling up through uniformity, consistency and security. Multiple technology choices are available to financial service providers but few have been proven yet. This paper examines technology options at the front end and back-end in detail with a critique of alternatives available for financial inclusion in Indian context.

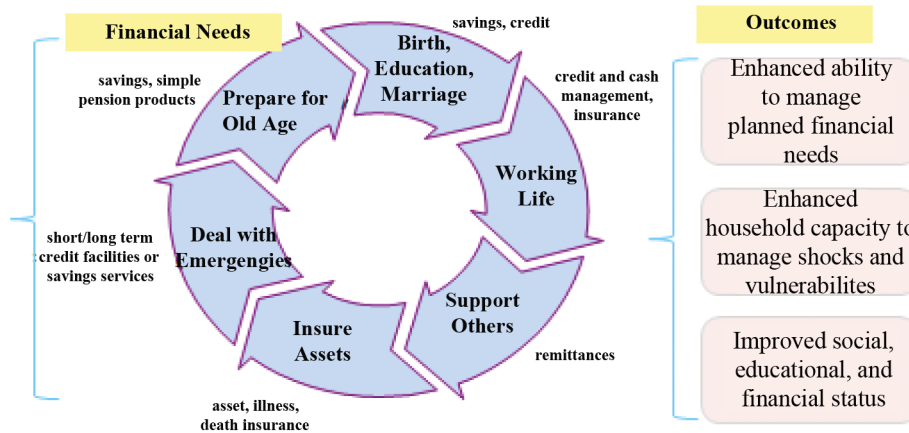
INTRODUCTION

Access to financial services (in the form of savings, credit, insurance, remittance or welfare payments) is a fundamental tool for managing a family's well being and productive capacity, to smooth expenditure when inflows are erratic, to build surplus when the demand for expenditures is heavy (school fees, marriages, buying farm equipment) or to protect against emergencies. However only one-

quarter of financial households have any form of savings with formal banking institutions (Adams, et al., 2008). The following Figure 1 depicts how finances help a person at every stage of his life. It not only improves person's social, educational and financial status, also provides capacity to manage shocks and vulnerabilities at any point of time in life (Singha & Gayithri, 2012; Borghoff, 2011; Ravi, et. al., 2011; Zhang, 2011). According to the World Bank (2009), getting financial services to

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Figure 1. Financial needs (Microsave)



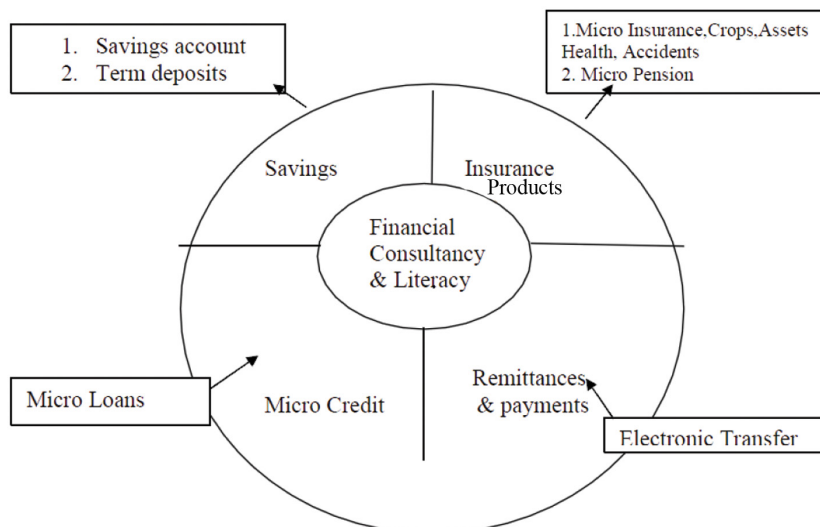
rural people is the biggest challenge in the quest for broad –based financial inclusion.

According to the “Transact” the national forum for financial inclusion “Financial Inclusion is a state in which all people have access to appropriate, desired financial products and services in order to manage their money effectively.” It is achieved by financial literacy and financial capability on the part of the consumer and financial access on the part of product, services and active suppliers.” The following Figure 2 depicts the Components

(Savings, Micro credit, Insurance and Remittance) of Financial inclusion.

Several studies have demonstrated that there is considerable demand for financial inclusion by the under-banked and unbanked provided these services address specific consumer needs such as ease and proximity of access, security, low-value high-volume transactions, and financial services that offer value better than existing informal alternatives and integrate into the livelihoods, such as entrapping income during harvesting and enabling

Figure 2. Components of financial inclusion (Karmakar, 2010)



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