Chapter 1

Role of Technology Options for Financial Inclusion: Case Study 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 chapter is based on available front end and back end technology options for financial inclusion. Further, it describe the role of front end and back end technology options 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

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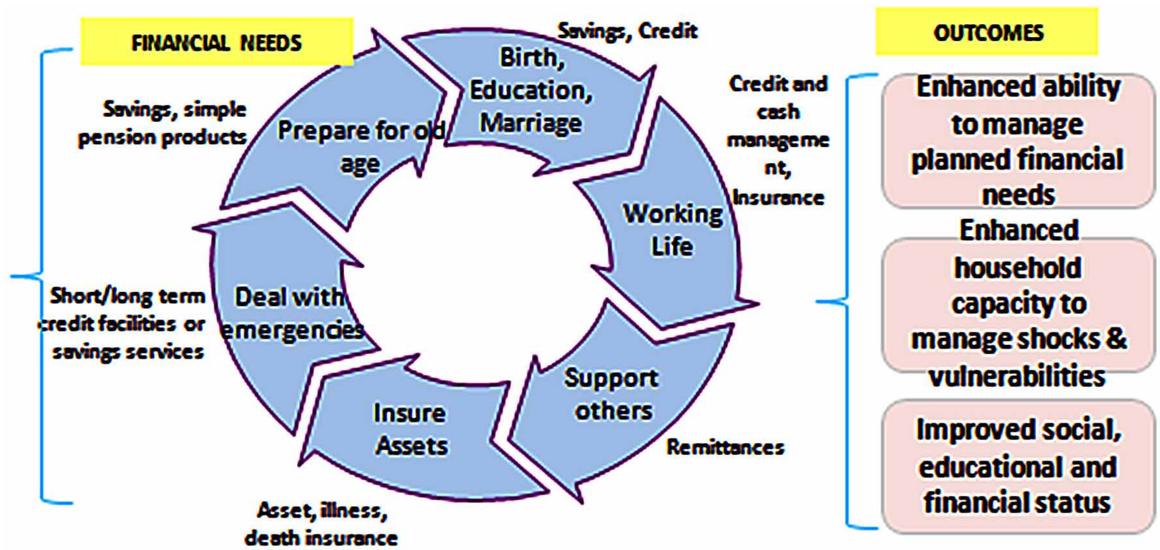
Figure 1. Financial needs
Source: Microsave



financial households have any form of savings with formal banking institutions (Adams, et al., 2008). The following figure no. 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.

According to the World Bank (2009), getting financial services to 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 access during festive seasons or emergency needs (World Bank, 2008; Balmer,N., Pleasence,et al., 2005). They also have a willingness to pay reasonable charges to avail these services (Cheney, 2008). Given the few and expensive alternatives for financial services that poor have, they are willing to pay a price based on perceived value and cost of existing alternatives likes loan sharks, money lenders or informal savings with high risk.

Key influencers of demand and willingness to pay are demographics, literacy levels, social-dynamics, local enablers and inhibitors, availability of informal and alternate channels (together with their cost and convenience), adaptability to change, comfort with technology, and other exogenous and endogenous

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