

Financial Inclusion through M-Banking: Especially After Demonetization

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Abstract: *With the help of modern information communication technology, m-banking as a new type of banking services carrier can provide efficient and effective financial services for the unbanked and rural people in India. Increased cellular service usage in rural India provides wide opportunity to expand m-banking services in India. However, in spite of opportunities there are a number of problems in the m-banking system. The major shortcomings are network coverage, security, low cost effectiveness, inconvenience in using mobile handset, IT literacy, etc. The outcome of the paper is a defined set of customer requirements to m-banking services in India and an explanation of major failure reasons along with scope for improvement.*

Keywords: *Mobile Money, Liberalization, Financial Market, Demonetization, Cashless Economy.*

Introduction

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and lower income groups. Unrestrained access to public goods and services is the *sine qua non* of an open and efficient society. Banking services are considered of same nature as public goods, therefore it is essential that banking and payment services are available to the entire population without discrimination (Leeladhar, Deputy Governor, RBI). At present, many people in remote and rural areas do not have appropriate access to banking services in India. Therefore, the Government of India and the Reserve Bank of India are encouraging commercial and cooperative banks to provide banking facilities to those people through modern technology i.e. internet banking, ATM, smart cards, mobile banking and business correspondents. However, it has been realized that mobile banking is one of the important ways of financial inclusion in India. Recent scenarios show that wireless infrastructure has emerged as an effective option of connecting to an ever-evolving expansive information network such as the internet and mobile phone services in India. In the 21st century, "mobile" is not only a means of communication, it is now

effectively related to banking and financial services. Even various initiatives use mobile phones to provide financial services to the unbanked, and mobile banking provides the benefit of convenient financial transactions. The emergence of mobile banking technology has implications for the general discussion about telephony in the developing world.

Objective(s)

The broader objective of the study is to explore the impact of m-banking India. Besides this broad objective we are also looking:

1. To study impact on mobile money transactions demonetization.
2. To find out the positive and negative impact of m-banking.

Design/Methodology/Approach The methodology in this research work is based on data collection from primary sources as well as secondary sources.

Primary sources: The sources of primary data collection were based on discussions with bank officials or the service provider by financial intermediaries and putting a

questionnaire before market players like consumer payer through Paytm, net banking or through different financial apps.

Secondary sources: The secondary data has been collected from various external sources such as business magazines, the web, and daily newspaper. The present status of Indian economy has been taken into consideration especially after Demonetization.

Literature Review

In this field few studies have been conducted in India. The researcher reviewed many pieces of research conducted in India and abroad to find out the correct area to carry out the research work, which will be fruitful for professionals, and the country as a whole.

Van B., Paul, Veloso, Francisco M. and Oliveira, P., (2012) , “Innovation by Users in Emerging Economies: Evidence from Mobile Banking Services”.

This paper examines the extent to which users in emerging economies innovate, and whether these innovations are meaningful on a global stage. To study this issue, the researcher conducted an empirical investigation into the origin and types of innovations in financial services offered via mobile phones, a global, multi-billion dollar industry where emerging economies play an important role. The researcher used the complete list of mobile financial services, as reported by the GSM Association (GSMA), and collected detailed histories of the development of the services and their innovation process. Analysis of this study shows that 85% of the innovations in this field originated in emerging markets. The researchers also conclude that at least 50% of all mobile financial services were pioneered by users, approximately 45% by producers, and 5% jointly by users and producers. Additionally, services developed by users diffused at more than double the rate of producer innovations. Finally, the researcher observed that three quarters of the innovations that originated in emerging markets have already diffused to OECD countries and that the (user) innovations are therefore globally meaningful.

Rangan, V. Kasturi and Lee, Katharine L., (2012), “Mobile Banking for the Unbanked”.

The case describes in detail the workings of two mobile banking operators in Africa- WIZZIT in South Africa and M-PESA in Kenya. It explores the dimensions of strategy that make for success in the market for the unbanked. It raises questions regarding the portability of the model to other countries and settings.

Origin of M-Banking

According to Ogawara, Jason and Pete (2002), the concept of mobile payment originates from Finland. Sonera, a telecommunication company in Finland, released a mobile payment system named Sonera Mobile Pay (SMP) in 1999. Then, a cellular payment system called Pay Box started in 2000 for online shopping in Germany. In 2001, SMP service Pro-tact was released as Mobile Money System (MMS) in Japan. Korean banks also developed mobile banking networks to reduce transaction cost in banking operations and increase convenience, in 2002. Bank of America offers mobile banking through a browser-based program in USA. Over 1.6 million users were using m-banking services in 2007; Bank of America reported having 5,00,000 active users of its mobile banking service in USA. In order to meet the increased demand of mobile devices for use in m-banking, most of the cellular device developer companies like Ericsson, Motorola, Nokia, LG, Siemens, Samsung, Sony etc. are developing their mobile handsets according to m-banking requirements. Most recent handsets are enabled with CDMA, SM, WAP, 3, SMS, MMS, JAWA, GPRS, Bluetooth, Infrared, and Windows also.

Effects of Demonetization

1. Pooling of money means cashless transaction
2. Promoting digitization in economy.
3. Digitizing means no black money transaction will take place in the country
4. A cashless society describes an economic state, whereby, financial transactions are not conducted with money in the form of physical banknotes

or coins, but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties.

5. The value of debit card transactions has gone up, the value of mobile banking transactions has gone up.
6. The value of interest banking transactions has gone up.
7. Many people whose debit cards were inactive so far have made them active.

The Term 'M- Banking'

Mobile banking is simply the application of mobile (cell) phone devices on banking via Wireless Application Protocol(WAP), PRS AND 3 technology and short message services (SMS) facilities. Mobile financial services is a term applied to a range of financial activities conducted using mobile devices, such as cellular phones or personal digital assistants (Cheney,2008). The terms m-banking, m-payments, m-transfers and m-finance refer collectively to a set of applications that enable people to use their mobile telephones to manipulate their bank accounts, store value in an account linked to their handsets, transfer funds, or even access credit or insurance products.

Mobile banking allows bank customers to check balances, monitor transactions, obtain other account information , transfer funds, locate branches or ATMs, fund transfer, mobile phone recharge, pay bills, tax pay etc. All these services are rendered via SMS, WAP, GPRS, 3G or mobile Internet.

According to the International Finance Corporation(World Bank), m-banking refers to financial transactions undertaken using a mobile device against a bank account accessible from that device i.e. m-payment, mobile-money transfer, m-wallets etc. It is the broader set of payments and financial transactions that can be enabled across mobile networks.

RBI has adopted the Bank led Model in which mobile phone banking is promoted through business correspondents of banks. Recently, Indian banks are offering the following facilities through mobile banking:

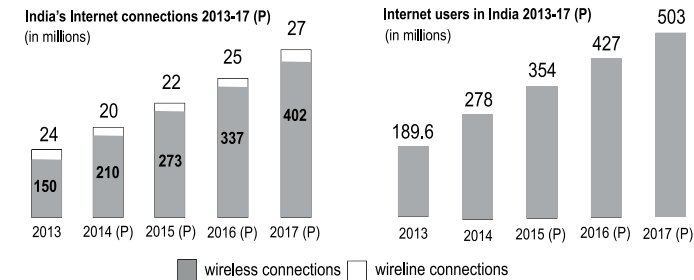
1. Check account balance.
2. Get automatic updates on bill payments
3. Get automatic updates on scheduled payments.
4. Mini account statement.
5. SMS alert about deposit and withdrawal.
6. Electronic fund transfer.
7. Bill Payment, Donations, Subscriptions etc.
8. ATM and branch locating.
9. Mobile Top Up, Recharge of other DTHs
10. Demat Enquiry service.
11. Real- time stock quotes.
12. Merchant payment, SBI Life Insurance premium.

Scope for M- Banking in India after Demonetization

1. After demonetization on 8th November 2016, people have no other choice but to go for m-banking to avail services or fulfil their day to day needs.
2. This has increased the scope for cashless transactions and thus, people have gotten to know about such services.
3. Mobile banking has not been widely accepted but there is significant growth found in recent years after the spread of mobile network. Since 1995 in India, tremendous growth is found in the number of mobile users in India.
4. As per TRAI's report on telecommunication industry in India, the wire line phone connections were in decline in the last few years and mobile phone connections were increasing fast.
5. The Indian telecommunication services scenario indicates that cellular or mobile phone service has been growing tremendously in the last five years.
6. Mobile phone services have not only spread in urban areas but also in rural areas in India.
7. The penetration of mobile phones in rural India has increased from 22 per cent to 38 per cent in the last four years.
8. From 200 million internet users in 2013 to over 500 million internet users by 2017 — including 314 million mobile internet users — the growth story of mobile internet in India is on the

upsurge.

9. Bankers have vast scope to facilitate banking services to the unbanked through mobile banking system in India.
10. M- Banking services to the unbanked are not only a social responsibility of the bankers but also a golden opportunity for business expansion.



Economic Status of M-Banking

M- Banking is a cost effective way to provide banking services to the unbanked because there is no need to set up physical branches to facilitate customers. It is called 'branchless banking'. The branchless bank model includes enhanced ability to carry out limited banking transactions via mobile phone. Only bank should develop their m-banking system and register their customers electronically for m-banking. It is noted that the initial cost for establishment of m-banking system may be high but marginal cost for additions of new customers in m-banking will decline continuously till full utilization of existing installed capacity. Connectivity for mobile devices is not part of banking service - it is the duty of the telecommunication department and cellular service providers. Hence, bank should only lease the telecommunication lines provided by telecommunication department to provide access to the customers.

RBI Guidelines

Recognizing its potential to achieve financial inclusion faster, RBI has issued guidelines for enabling mobile based financial services. Some of the important guidelines are:

1. Only banks which are licensed and supervised in India and have a physical presence in India including core banking solutions will be permitted to offer mobile

banking services.

2. Only Indian Rupee based domestic services shall be provided. Use of mobile banking services for cross border inward and outward transfers is strictly prohibited.
3. Banks should follow the rules of Know Your Customer (KYC) and provide full details of the terms and conditions to the customer.
4. The customer/consumer protection issues assume a special significance in view of the fact that the delivery of banking services through mobile phones is relatively new.
5. Banks wishing to provide mobile banking services shall seek prior approval of the Reserve Bank of India by furnishing full details of the proposal.
6. Banks are required to make mandatory disclosure of risks, responsibilities and liabilities of the customers on their websites and/or through printed material.

Problems in M-Banking

Mobile banking is a simple and cost effective way to provide banking services to the unbanked in India. However, at present it is not accepted by common people in India for the following reasons:

1. Low IT literacy adversely affects the use of mobile phone as electronic device for banking. They have been using mobile phones just for communication.
2. Most of the rural people have no idea about m-banking and how it is used.
3. Continuous and good quality of cellular service connectivity is not available in rural areas.
4. Security and trust are most important aspects of any banking service, but people have many doubts in its security trustworthiness.
5. Refund services are very poor in m-banking.
6. Charges on GPRS or 3G services are not cheap to use in m-banking service. It reduces cost effectiveness of m-banking.
7. Language used in the m-banking software is also one of the barriers-most softwares are using English as the common language but rural people are unable to use this software due to poor knowledge of English.

Suggestions for Action

Several actions are necessary to accelerate financial inclusion through m-banking while at the same time, ensuring customer protection. Many of these actions fall in the policy and regulatory space:

1. Building customer awareness and informing the public on use of m-banking models is required.
2. The RBI and commercial banks should plan a coordinated campaign in partnership with trainers and professionals to educate customers.
3. Technology used for mobile banking must be secure and should ensure confidentiality, integrity, authenticity and non-reputability i.e. authentication by ID and m-PIN.
4. Bank should enhance their refund facility concerns in case of wrong transactions made by customers
5. Customer should regularly check transaction history details and statements to make sure that there are no unauthorized transactions.
6. Customer should change password or PIN at regular intervals and avoid using easy-to-guess passwords.
7. Banks should develop m-banking software in regional language and should use commonly used phrases, names and shortcuts in the software.

Conclusion

Based on the study and analysis it can be concluded that there is a high correlation between demonetization and m-banking in a longer span but there is low impact in the short span. With the assumption of 5% significance level, the null hypothesis was assumed as- "There is no significant relationship between demonetization in economy & m-banking transactions". And it was found that null hypothesis was invalidated. Thus it is proved that demonetization has a significant impact on cashless transactions.

The empirical study on the basis of ordinary least square method suggests that there is a strong positive relationship between the variables. This means that demonetization has a significant direct impact on cashless transaction & indirect impact on Indian economy. Hence, it can be concluded that

there is a significant relationship between m-banking and demonetization.

Indian banking scenario also shows that there is need of m-banking for financial inclusion of poor urban people. For the last five years, mobile telephone services have expanded tremendously in India and it provides golden opportunities to extend m-banking service in India. However, because of various problems in m-banking system, it is not widely accepted by Indian bank customers. Hence, there is a need to improve m-banking services including network coverage and security in banking.

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