

# M-Money: The Delivery Engine for Financial Inclusion

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Mobile Telephony - The digital nervous system of 200 Million Indians, connects our vast and diverse nation and brings its people closer every day. With over 6 million mobile phone owners being added every month, the mobile phone reaches out to over 300,000 villages in India, spreading acceptability, superior usability, making every Indian home a part of our rapidly expanding economy. Let's discuss the opportunity of inclusive banking in India through mobile phones. Connecting the 600 million un-banked.

## Anywhere Banking

Despite having the world's largest banking network and a robust postal network a large part of India does not have access to financial services. Much of this can be overcome if we consider the fact that 94 per cent of India i.e. 5,65,000 villages have Village Public Phones and this connectivity can be exploited to deliver basic banking services. Every village phone can be configured to deliver financial services as the connectivity and reliability is already there. Enabling the financial services to be delivered on this back bone is the key.

## Low Cost Banking

Most of India i.e. 88 per cent does its banking in cash. Our low cost channels of banking i.e. ATM /POS remain very much urban / semi urban with a ratio of about 270/million people compared to about 10,000/million in the USA. Even if 10 Million ATM and POS were to be installed in India for free - the cost of providing customers with cards, educating them and enabling commerce will make the exercise challenging and time consuming. India needs to exploit the connectivity it has on the devices which customers already own, to deliver financial services.



Today new phones are available below Rs 1000 and an instant message costs less than Re 1/-. The key is price. With today's technology it's possible to deliver a financial transaction anywhere in India under Rs 5/-.

## Digital Money Can be Real

To the common man, basic banking services would mean making a deposit, withdrawing money to pay self or third party and getting an update on balances and transactions at a regular interval. If we look at the pre-paid mobile services today which has covered over 90 per cent of the entire mobile user base, it makes all of this happen - seamlessly. The distributors are available in every street corner of India selling "Airtime" for cash. Cash changes hands daily, in millions, for purchase of airtime. They even buy products like ring tones or transfer airtime to their friends via text messages. The mobile economy is ready. It just needs to replace airtime money with digital money. At the price of a text message and under five seconds it's possible to transfer /receive airtime value across the country. Real Money Transfers is happening in Philippines, Kenya, and South Africa, to name a few countries. India needs a collaborative effort between Banking / Telecom / Insurance regulators, telecom and technology providers with banks to agree on minimal standards to enable basic services.

## Always On

The mobile network continues to receive large

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investments to ensure high availability and capacity. It assumes every user is always on and every month over 10 million will join. If this network is exploited for banking, then the future of inclusive banking can be 24/7, and a giant leap over the traditional branch banking model. Regular transaction and account updates will be easier and cheaper to deliver.

## Cheaper Micro Finance

Mobile phones can help banks and Micro Finance Institutions (MFI's) deliver and collect credit in a faster and cheaper manner. A micro credit can be delivered and managed remotely thereby transferring the cost benefits to the price of the credit itself. The closest competitors are cash and middlemen both unrelated to credit and can be eliminated. The mobile phone is also a very live device and it can also be used to effectively point out where a customer is, how he has used the credit and hence, provides better information in credit management and end use monitoring.

## Pay Anyone Model

The mobile wallet can pay anyone remotely or face to face. It has been actively demonstrated in Philippines where millions of dollars are transferred person to person or person to business on a daily basis at a price of a postage stamp per transaction. In India, the cheapest service for money transfer available to the common man comes in the form of postal services money transfer and costs 10 times more. It's time we summon the political and regulatory will to stop punishing the common man for simple and small value money transfers when there are cheaper and more widely acceptable options available.

## Technology : Barrier or Enabler

The mobile banking and payments technology has often been questioned on its security features and reliability. While there are standards evolving, unless significant volumes are established and they are tested, it's very early days to predict how safe or reliable they will be. Both debit and credit cards are still in their early stages of development and mobile has the opportunity to help India leap frog in adopting a more widely distributed and accessible payments platform.

## Mobile Payments for a Greener Society

The existing economy which thrives on 88 per cent cash transaction will create tremendous pressures of cash and

coin handling once it becomes more inclusive and more accounts are created in the banking environment. Thought has to be given to manage inclusive banking as much paperless as possible to ensure greater commitment to the environment. This agenda should be adopted as a central theme to embrace mobile commerce by all participants.

## Bridging the Economic Divide

Mobile usage today transcends across all classes of the society. Given its mass appeal mobile payments will be accepted with greater ease when compared to any form of plastic. It's available across India, and people across all economic segments use it the same way and the cost of ownership is the lowest in the world.

## Regulatory Challenges

In India, only a bank or a licensed financial company with specific authority to accept public deposits may accept money even if held "in-trust". Mobile payments within existing bank account holders will work. However, does it actually address the needs for inclusive banking? Applying existing rules to a trusted distribution system (Mobile Telephony) which far exceeds any other financial payments network in India may not work. There has to be an attempt made to test the system out with learnings from other countries. For e.g. pre paid mobile top-up forms up to a value of Rs 5000 can be used as a common form for mobile money top up itself. The customer anyways submits a photograph, address proof and his signature for the mobile service and his identity is established. On this basis, he should be able to load and transfer value via a simple text message to an identified recipient who can use the same message at a mobile store to redeem for cash. The entire transaction is tracked with complete audit trail and can be effectively used by regulators for AML purposes as well.

## Creating a Foundation

A mechanism has to be developed for regulating and supporting the growth of mobile payments and banking in India. This is the key to the success of "Financial Inclusion". This mechanism presently does not exist and hence, there is confusion between telecom operators and banks as to how the M-Commerce system will work. There are many small initiatives which are presently underway to kick start mobile banking and payments. Their success will tell us how the under banked of India will pay tomorrow.

