Publication: The Hindustan Times | Edition:

hindustantimes

Vikram Akula

August 07, 2009
First Published: 23:28 IST(7/8/2009)
Last Updated: 23:35 IST(7/8/2009)

The time for mobile banking for financial inclusion is now

On a hot June morning in rural Madhya Pradesh, 24-year-old Satyendra Nishvade was starting his workday when tragedy struck. Satyendra, an SKS loan officer, was on his way to collect money and disburse loans at a village.

He'd joined SKS two years ago and showed great promise. But Satyendra's life was brutally snuffed out. On a lonely, winding road, he was stopped and attacked with a spear. His attackers stole his bag containing Rs 72,000. It was the first time in our 11-year history that an SKS loan officer has been killed on the job.

Satyendra's death could have been avoided. If India allowed people to use mobile phones for bank transactions, loan officers like Satyendra could avoid the risk of transporting bags of cash across inhospitable terrain. Instead, mobile banking is still just rhetoric discussed by policymakers.

The time is now to put mobile banking into action. India is the world's fastest-growing mobile market with more than 400 million customers. Many of these users are in remote parts of the country where banks and even microfinance institutions do not reach. Harnessing the power of phones to make payments and disburse loans instead of risky, labor-intensive manual collection could help transform the lives of millions more needy Indians.

Clients would get convenience. They could make repayments or access funds at one of SKS 1,400 branches or even at designated village-level cash collection and disbursements points, like a kirana store. Loan officers would still regularly visit villages to check in with clients but without carrying large bags of cash. Finally, microfinance institutions would also benefit through lower costs. SKS, for example, disburses Rs. 10 crore a day and mobile banking would potentially lower operational expenses by as much as 4 per cent - a savings that we could pass on directly to our customers in the form of lower interest rates.

Microfinance is rapidly expanding across India, but mobile banking would speed and lengthen its reach to the country's most remote corners. The cumbersome task of manually handling small loans would become safer and far more efficient.

Yet mobile banking in India is stymied by a number of policies. For starters, the Reserve Bank of India (RBI) bars non-bank finance companies and microfinance institutions from opening bank accounts on behalf of borrowers or handling deposits of clients (only banks can do so). Since having a bank account and making and withdrawing deposits is a prerequisite for mobile banking, mobile banking becomes a non-starter.

The regulators had believed that the issues of bank accounts would be addressed through the no-frills accounts drive of the regional rural public sector banks. But results are mixed. Take, for example, the heralded effort in Gulbarga, Karnataka. Though the government claimed 100% financial inclusion after the one-year campaign, an independent study of a random sample revealed that 68% of households still did not have bank accounts.

Instead, a better solution would be to allow non-bank finance company (NBFCs) microfinance institutions to be "business correspondents" for banks and collect savings on their behalf. A 2006 Reserve Bank of India (RBI) regulation allowed this, but was later amended and was essentially rendered useless. The original regulation needs to be brought back.

The RBI may be hesitant because it is worried about protecting the deposits of the poor. But by excluding microfinance institutions from accepting savings on behalf of banks, the central bank is hindering the needy rather than helping them. Moreover, non-bank finance companies are already regulated by the RBI. And they would be subjected to further regulation as business correspondents since they would be accountable to their deposit-receiving banking partners.

The other reason that the RBI has failed to act is that it worries that banks would subvert the branch licensing process by setting up their own NBFCs as their business correspondents. But there are ways to ensure that this does not happen, including prohibiting banks from taking equity in NBFCs serving as business correspondents; limiting the deposits from the poor to be no greater than the loan outstanding; or limiting the outstanding loan per client for NBFC business correspondents to, say, Rs. 50,000.

Whatever the concern, successful mobile banking systems around the world demonstrate that a wide range of issues can be addressed. Vodafone's M-PESA service in Kenya has grown to 6.5 million customers in the two years since its launch. It has been invaluable in expanding microfinance in a country where law and order problems would hinder and endanger loan officers in the field. In the Philippines, a service called GCASH has been thriving since 2004.

Our new government has pledged its commitment to financial inclusion for all Indians and mobile banking is critical to fulfilling that promise.

And we owe it to dedicated people like Satyendra to put into action technology that is well within our reach. The tragedy that took place on that dusty, desolate road in Madhya Pradesh shows how urgently we need action, not rhetoric.