



## Latent Potential and Impediments of Mobile Banking

### KEYWORDS

Mobile Banking, Potential, Economic development, Financial Inclusion

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### ABSTRACT

*This research paper is trying to explore emerging issues in mobile banking. It aims to study the market scenario, opportunities and challenges ahead. The study is descriptive in nature. Digital technologies are becoming extremely inexpensive. Mobile phones have become the starting points of business operations. Banking through brick and mortar operations is expensive in India. The best possible ways to reach the unbanked population is possible through mobile phones. Reserve Bank of India has laid guidelines for banks to implement the mobile banking services. Banks can push the envelope through lot innovative services and achieve financial inclusion. However, there are bottlenecks in achieving the mission. The market is facing bottlenecks such as literacy rate, technology adaptability, complex consumer behaviour, privacy and security related issues. These factors are hampering the implementation of mobile banking services. Banks has to strategize their mobile banking initiatives and leapfrog to success by overcoming these barriers.*

### INTRODUCTION

Digital technologies are becoming extremely inexpensive. The mobile phone is one of the starting points. Technology does not differentiate any longer between the rich and the poor. The poorest people can also have the exactly same technology as the rich have. The number of people who uses mobile phone is two-fold higher than having a bank account in India. Mobile technology has emerged more and more economical and viable over the years.

With regard to marketing activities, it has revolutionized the access of consumer in an incredible manner. The cell phone is not only a phone but also a computer, a map, a locator, a calculator, a watch, a camera and so on. All of them are coming together in one device. Hence, it is become indispensable in one's life and day-to-day activities. With the classical reach of branch banking method, it will take approximately next twenty years to cover the entire population of this country. Apart from that, setting a branch is also expensive, cumbersome and a time consuming one. The best possible way to reach the rest of the unbanked population is certainly possible through mobile phones. It is through which operating the basic functions such as utility payments, transfer of money and so on. In recent times, all the banks irrespective of public and private sector have initiated mobile banking service in a rapid manner as their core channel to engage their existing customer base. The Unique Selling Proposition (USP) of mobile banking is convenience to its customers.

In developed countries, it has gained a considerable attention. Whereas, the emerging markets, it is yet to achieve its full potential. Mobile banking is considered to be the ideal vehicle to reach a huge unbanked population. Indian banks are countering with a greatest challenge to diffuse the market and make this as an accepted channel to reach the unreachable. The adoption of mobile financial services is pretty low (less than 1%) in India as of now. A variety of innovative approaches, financial infrastructure, and revision in guidelines and regulations has to be blend with the customer need in order to achieve its complete potential. The banks have to design their long term customer value

oriented approach and prepare the action plan accordingly.

### RESEARCH OBJECTIVES:

1. To study the market scenario of usage of mobile banking services in India.
2. To study the potential opportunities in accessing mobile banking services.
3. To find out the barriers in adopting mobile banking in India.

The research methodology adopted for the study is purely descriptive in nature.

### MARKET SCENARIO

The population of India touches nearly 1.2 billion. Out of which, 900 million mobile phones are reportedly there in the market. This was achieved in a decade's time. India is the world's second largest market for mobile phone next to China. One of the major reasons for this stupendous success is emergence of economical mobile phone technology through continuous innovation offered by highly competitive players in the Indian industry both by domestic and foreign. In contrast to this phenomenon, the bank accounts possessed by the individuals count just 250 million alone. It establishes the popular theory that Indian market is quite fast in adopting mobile phone than bank accounts. It is perfectly in line with the global scenario too. Out of 7 billion populations in the world, 6 billion have mobile phones but hardly 2 billion have bank accounts. There is a huge potential to be unlocked here.

Banks are aggressively investing in the mobile technology by believing that the customer will adopt mobile banking over a period of time. The mobile banking has variety of core and added features in it. Also, it will reduce the cost of transaction in comparison with the branch banking. The adoption is relatively faster than online banking. The banks will engage the customers and retain them through mobile banking if it reaches in the perfect note.

### Present Scenario of Mobile Banking:

Mobile banking is becoming more and more rampant in India due to its convenience. The volume and value of transaction is improving on a month-on-month basis. According to Reserve Bank of India (RBI) data, 3.7 crore mobile transactions took place between February and November, 2012. These transactions have gone three times increase in value over the same period. The change can be attributed to smart phone adoption, media supported initiatives, various promotions to educate the customers towards mobile banking. Mobile banking is benevolent to both customers as well as banks with reference to convenience and low-cost channel. Table 1 about here reveals that SBI group of banks leads this space in volume terms with an overall share of 67.4 % in total volumes. Banks from private and foreign scored an overall share of 30.1 per cent in November, 2012. The rest are done by the other public sector banks and few co-operative banks.

Table 1

Type of Bank	Apr.	May	June	July	Aug	Sep	Oct	Nov
Co-operative + Public Sector	2.4	2.4	2.4	2.4	6.4	3.2	2.7	2.5
Private + Foreign	14.4	18.4	20.6	21.1	22.5	24.3	27.7	30.1
State Bank Group	83.3	79.2	77.1	76.5	71.1	72.6	69.6	67.4

Table 2

Type of Bank	Apr.	May	June	July	Aug	Sep	Oct	Nov
Co-operative + Public Sector	4.0	3.9	3.9	3.9	4.0	4.0	2.	4.0
Private + Foreign	49.2	56.4	58.3	59.3	60.6	59.0	73.5	61.6
State Bank Group	46.8	39.7	37.8	36.8	35.4	37.0	23.9	34.5

Source: RBI Annual Report 2012

Table 2 here on the other hand posted higher value in comparison with the public sector banks. The channel is moving from its nascent stage. There will be considerable developments and dynamics happen in near future and many more banks will get into this space. When it come customer base of mobile banking operation, SBI's total customer base is into mobile banking transactions is only about 3%. Whereas ICICI Bank has over 10 million customers have currently active in mobile banking. There are other utility services linked with mobile banking are prepaid mobile recharges, DTH recharges, ticket bookings (movies/travel). These are all ensuring the fastest growing transactions in mobile banking. As of now, there is no cap on per day transactions for mobile banking channel. However, if it is unencrypted transactions through SMS, RBI has set limit as rupees 5,000 per day.

#### Mobile Payments Readiness Index:

According to the Master Card Mobile Payments Readiness Index (MPRI), India listed in the 21<sup>st</sup> ranking among 34 countries which participated. The score is 31.4/100.

It is derived through a rigorous data-driven survey of the global mobile payments landscape. It finds out the their readiness to use three types of mobile payments such as person to person (P2P), mobile e-commerce and mobile payments at the point of sale (POS). The index clearly revealed the fact that Indians have not yet completely embraced mobile payment mechanism. The data shows that hardly 14 per cent of Indian consumers are familiar with both P2P and m-commerce transactions. Only around 10 per cent are familiar with POS transactions whereas a tiny country like Singapore topped the charts with a score of 45.6/100 followed by Canada and the USA.

#### Pushing the Envelope:

New generations bank like HDFC have operated up to 40 to 45% through bank branch in 2010. But, it has dropped surprisingly up to 18% now. It means around 82% of the HDFC bank customers are doing their mobile banking outside the bank branch. Today, the bank has 1.2 billion mobile banking users from all over Indian and abroad with its relatively less branches in comparison with public sector banks. The titan SBI has 5.2 million registered mobile banking users. This is expected to increase by 2 lakh new mobile banking users in a monthly basis. International banks like Citibank has got almost 63% of their account holders through use the digital medium for banking. The private sector banks are achieving the mobile banking adoption via aggressive proliferation of mobile banking services, offering various financial and non-financial services via mobile phones, customer education, corporate policy on ethics and transparency etc. They began with withdrawals, cheque book request, utility bill payments, and requesting credit card and debit card statements, fund transfer, opening a fixed deposit account, efficient cash management, and so on.

In order to facilitate the service in a better manner, RBI has allowed use of 'semi closed wallet' by mobile companies through which people can send and spend money through the mobile network, but can't withdraw cash. Mobile operators like Airtel, Vodafone and Idea are offering such services. Banks has to understand the nuances of the market where the country has got two dozens of languages in its depth and breadth. Hindi is the highest reaching language among all, especially the northern part of India. In order to expand the mobile banking reach, banks have started mobile banking service by using Hindi as a medium. A 'net safe light' virtual card is used to store a limited value to the user mobile. For example, a credit card limit is Rs 5 lakh but a user wants to buy garments online worth Rs 5,000. The user is allowed to create a new limit on his card using net safe light and use the code generated for online shopping. It offers a security for the user. Even if the card is being misused, the risk is limited only up to Rs.5000.

#### Mobile Banking and Income Profile:

According to the mobile banking users based on income profile is revealing the fact that subscribers who are earning Rs. 1 Lakh to Rs. 2.99 lakhs income group. It is followed by less than Rs 1 Lakh income group as 18%. It is evident that mobile banking is highly preferred in the low income group. Most of the mobile users have just started to fully utilize data capabilities in their mobile phones. Mobile Network Operators (MNOs) are every day coming up with new services in order to ensure smoothness in use as well as to improve the security. The 3G offers a higher data transfer and comprehensive mobile banking services. The mobile subscribers have exceeded fixed line subscribers in a short span of time due to better benefit and mo-

mobile infrastructure in comparison to fixed line. There are multiple stakeholders associated with the mobile banking services (banks, financial institutions, service providers, operators etc) are therefore expecting a potential growth in mobile banking industry in India.

#### Mobile Banking Services available:

Rank	Services	Rank	Services
1	Review of accounts balances	9	Bill payment processing
2	Recent transactions	10	Access to loan statements
3	Review of credit card balances	11	Domestic fund transfers
4	Status on cheque, stop payment on cheque	12	Credit card payment due date finding
5	Alerts on account activity	13	Mobile recharging
6	Change of PIN	14	Branch/ATM location
7	Ordering cheque books	15	Others

**Table 3 here presents the list of services available via mobile banking. Source: Prerna Sharma Bamoriya and Dr.Preeti Sing (2012)**

#### Role of Reserve Bank of India:

Reserve Bank of India plays a pivotal role in regulating, monitoring and controlling the activities associated with the mobile banking. Also, it promotes the mobile channel as a possible to reach the unbanked masses of India. It has first come out with mobile banking guidelines way back in 2008. After that, it issues guidelines regularly based on the needs and market trend.

#### NEW GATEWAY OF MOBILE BANKING

##### Financial Inclusion:

Financial inclusion is receiving required attention in our country over the last two decades. The objective is to provide access to financial services to all the people in a fair, translucent and impartial manner at an affordable cost. For that, it is essential to modify the credit and financial services delivery system at present. The banking need of people vary in rural from urban areas. Indian banking system is quite strong and well regulated under the control of Reserve Bank of India. Indian Banks have evolved over a period of seven decades to cater to the different market needs to the best of its ability.

Indian bank has been categorized into two broad levels based on the geography such rural and urban. There are different inclusion models adopted for both based on the need, reach and intensity. Almost 60% of the population does not have a bank account. The major challenge for banking in rural areas that the people hesitate to have banking accounts due to the perception that the banks serve the affluent customers.

In order to erase this gut feel, there are banks like Indian Bank who modeled the financial inclusion project in such a way that the bank staff would meet the people at their home itself. They will detail the need and help them to open no-frills/zero balance savings bank account and deliver passbooks at their doorsteps. As per the KYC norms, the banks will do the process by obtaining photocopies of their ration cards, electoral ID cards, recent photography, Aadhaar UID card as a documentation purpose. The bank account will be opened hardly on the spot. Later, they will be delivered with their debit card. There are Self Help

Groups, NGO's, students, village volunteers who informally tie-up with the bank to promote the financial literacy towards reaching the unbanked. With the help of mobile banking, it would be easier to reach the unbanked through mobile either at an individual level or at a group level.

#### Innovative Services:

India is unique in its own way by employing less than 15 million people who work in formal jobs and rest are informal sector. It has people around 7,00,000 who still live in villages without any access to roads, sanitation or electricity. Digital connectivity with the special mention to mobile phone is the only way to unlock the mammoth demographic potential of the country. In order to achieve that, we need innovative approaches and services.

There are new initiatives, ventures are happening vibrantly at mobile banking platform. For example, Eko India financial services are one of the pioneers in this field. They offer a variety of services via mobile banking and raised about \$5.5 million from Creation Investments' Social Venture fund recently. Mobile banking is one of the most exciting trends in the tech world and more people have mobile phones than toilets in the world. There is a huge opportunity and a chance to bridge the gap. The most innovative matter is mobile payments is being done using basic SMS. It is dramatically changing people's financial lives. If the savings of an individual goes helpless when the money isn't readily available, unsafe while travelling, fear of robbery and many more intricate troubles faced by a rural person.

With the mobile banking support, it is no longer needed for a branch visit transaction. Eko, a single organization has processed around last year is an astounding \$270 million in transactions. The fact is that 2/3<sup>rd</sup> of the transactions are less than a few dollars. Eko has achieved this based on a simple numerical system (VeriSign attested). The key success of the services comes from its fantastic distribution network. Today, it has more than 9, 00,000 accounts, and processing nearly 2.3 million transactions through a growing network of 1,300 agents. Eko has received support from international premier bodies like World Bank and The Gates Foundation for the fruitful cause to uplift the people who really need support.

#### Business Correspondents (BC) Model and Impact:

This model is a scheme of RBI to commercial banks to operate for village's population below 2000. There are about 36,000 Business Correspondent's are being employed by banks. Each bank manages the individual BC's on their own. According to RBI guidelines, Business Correspondent's will raise deposits, disburse tiny loans, recover bad loans, sell micro insurance, mutual funds, pension products, and other third-party products, and receive and deliver small value remittances. Though their activities will fall under the regular banking business, it will be conducted at places other than the bank premises and ATMs.

#### BARRIERS IN ADOPTION OF MOBILE BANKING IN INDIA:

##### Economies of Scale:

Without large volume in place, it is really hard to develop high transaction value. Otherwise, profitability cannot be achieved. There is no country specific model available for this. The spread of rural India is also quite high more than 6, 00,000 villages. Hence, it is important to aggregate the service in mass scale rather pilot projects. There are success stories in mobile banking from Tanzania, Kenya, Ghana and Philippines. But, it cannot be replicated in the

same way to Indian market. Based on the present infrastructure, payment facilities and various alternatives available to the customer, the mobile banking has to achieve its penetration.

#### **Policy Issues:**

There are guidelines pertaining to mobile banking issued and governed by Reserve Bank of India. RBI is giving its best to promote mobile banking in India. However, there is a restriction that current financial institutions only allowed to offer mobile banking services. There should be more and more encouragement has to be offered to NGOs and MFIs. They can reach the rural segment effectively and construct their own group.

#### **Adaptability:**

The present policy allows only rupee transactions. It may give less flexibility towards international transactions around the world.

#### **Non-Account Holders:**

The present system ensures the facility only to those who have a legitimate bank account. This will hurt the reach of various Financial Inclusion (FI) programmes. It curtails the reach of banking to the huge unbanked population.

#### **Language and Literacy:**

The diversity of India is such that there are about two dozen languages and innumerable dialects which cannot be witnessed anywhere in the world. There are about 18 official languages are there in India. There are states which has its own official language apart from the national language called Hindi. In addition to this, 45% of the population in India is illiterate. It is really hard for any service provider to reach them and that too cutting edge mobile banking solutions.

#### **Poor Penetration:**

Though there is a high base of mobile phone users, the penetration of smart phone is very limited. It is less than 20%. It is a hindrance to offer a wide variety of mobile banking features. The users cannot access or download applications on basic phones. They have to solely depend on SMS alone.

#### **Regulation:**

As per the TRAI norms, a single user can have up to nine mobile phone connections (numbers). In contrary, RBI rule prescribe that only one mobile bank account is allowed. The maximum transaction limit for mobile payment is also Rs.50, 000 per month which sounds conservative in approach.

#### **Slow trend:**

The mobile payments through MNOs makes possible predominantly on scale. It may take long years to achieve if the trend moves slow. Mobile payments of today remind the same stage as credit cards two decades ago and ATM 15 years back.

#### **Poor Incentivization:**

There are about 10,000 outlets which accept Airtel Money/ any other mobile payment. But, there is no incentive for the merchants to accept mobile payments.

#### **High Cost:**

Though we consider it as convenient, the cost of KYC for mobile banking/payments is around Rs. 400 to Rs. 500 per individual. But, it is certainly higher than the Average Rev-

enue per User for telecommunication companies.

#### **Complex Customer Behaviour:**

It is also about the awareness and inspiring trust – at present, for a large section, it is difficult to believe that mobile can be a way of banking. "It is also about behaviour. For masses, it is still hard to believe that mobile can be used for banking though they may be doing the same on the Internet, say paying bills to a company".

#### **Security Issues:**

Mobile banking is having the same threat as personal computer faces. These are portables and easy to use which means greater threats. A sophisticated attacker with enough time can defeat most security features of mobile phones and gain access to any information they store. Anyone can develop apps for some of the most popular mobile operating systems and mobile service providers may offer third-party apps with little or no evaluation of their safety. In order to protect the customer, RBI has put a cap of Rs.5, 000/ for mobile transactions.

#### **FUTURE OF MOBILE BANKING**

Mobile banking is the future due to its cost effectiveness and vast reach of customers in remote areas. However, it might take a decade to mature. With the help of Near Field Communications (NFC), mobile banking is picking up in industrial countries like US and Europe. NFC is a technology chip embedded in a mobile phone. It enables the phone to interrelate with sales terminal. The mobile phone will also act as a virtual credit card. It is also possible to do cheque truncation via mobile phones. As a further advancement, banks will be soon able to approve loans via mobile in the next five to ten years.

With the thrust from RBI and changing consumer trends and needs, we can safely say that mobile banking is finally poised for a takeoff in India. Recently, RBI has relaxed guidelines to allow telecom operators to set up semi-closed mobile wallets to be used for m-commerce. This move will in turn increase customer awareness and adoption of mobile banking and should be seen as a positive sign by the banks. Our research indicates that banks has to successfully carry out mobile banking with a solid understanding of the stakeholders needs, cost sharing and satisfying a latent need in the under banked regions. It will helpful to achieve the value creation for the customers in the long run. In order to deploy mobile banking viably, banks can follow a three phased incremental approach. First, introduce a limited set of mobile initiatives to its customers and make them to use those services. Second, offer a complete suite of services and enhance customers acceptance and build a competency along the way. Third, try to replicate the success in segment after segment by identifying the troubles and successfully overcoming them. Banks need to take more initiative from their part rather coercion by RBI guidelines. It is the time for banks to re-think and strategize their mobile banking initiatives and leapfrog the learning curve to success because this is one area which is waiting to be tapped.

#### **CONCLUSION**

Mobile banking could be a game changer and in the next five to ten years if it could scale in a better manner. In urban areas, many consumers have bank accounts but still rely on cash for 90 to 95 % of small-ticket transactions. It is ready to take off with the support of operators, regulators, banks and mobile manufacturers. It is by far the less costly to offer banking and payment services using mobile

technology than to build new branches in a country that, outside of major cities, is still largely rural. Mobile banking is definitely a big opportunity for banks in terms of growing the customer base, increasing customer satisfaction as well as reducing operational costs.

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