



## A Study on emerging Innovations in Financial Inclusion

### KEYWORDS

Innovations, Financial Inclusion, Banking

**M.P.Prince Allwyn Jebaraj**

Assistant Professor, Department of Management Studies, Sri Venkateswara College of Computer Applications and Management, Ettimadai, Coimbatore.

**ABSTRACT** Now a day's banking sector plays a very important role in human life and it motivates human to make saving money for their future. As we know that in this 21st century every sector have a great challenges i.e customer satisfaction, and being a part of the society banks also facing this challenges, and banks are accepting challenges very nicely for the betterment of service. Banks are providing innovative services to the customer so that they can get proper benefit in this sector. Banks have influenced the economics and politics for centuries. The objective of this paper is to analyze the innovative services provided by banks, and to observe that how innovative, and new services they are giving to the society, and to know that how much these facilities or services are beneficial for the society and as well as banks.

### Introduction:

Innovation helps the organizations to grow, flourish and renovate in sync with the changes in the environment, both internal & external aspects. Banking is no exception to this. Due to globalisation, financial infrastructure had provided an additional impetus to this massive effort. The enveloping influence of information technology has revolutionaries in banking sector. Transaction costs have crumbled and handling of excessive brick and mortar structure has been rapidly yielding ground to click and order electronic banking with a plethora of new products. Banking has become boundary less and virtual with a 24 x 7 model. Even though the size of the unbanked and underserved population is too large and spread across vast geographies to be properly served by conventional channels alone.

There is a need to Innovative Banking solutions to address the scalability and sustainability challenges facing financial inclusion. Innovativeness in financial services delivery can have a transformer effect on poor households. India has made a greater impact on financial inclusion, even though, there is a long way to go to cover unbanked population, yet to be provided with banking and other financial services.

The financial inclusion for the disadvantaged people and lot more work needs to be done to bind the informal financial system that still plays an important role among low-income social and sectoral group in India. But the role of the informal financial sector will reduce in size as the formal financial system takes its place, in providing basic financial services to a broader segment of the population. Thus the importance of Innovations in financial services for Financial Inclusive agenda is not only compatible but could also promote overall financial stability. This study attempts to analyse few innovations is financial services that will help the financial service providers to improve their services in a efficient manner.

### Objective of study

The objectives of study are –

- To identify and analyse the innovation initiative
- To analyse that how the innovation are profitable for the society as well as banks.
- To analyse the effect of these innovation in banking and financial services.

### Review of Literature

Innovation is has always been a sought after area of organization. Innovation service is termed as the important driver for companies to prosper growth and uphold at a high profitability.

Many researchers have given their views on the innovation in the services. In the perception of **Chanakya Jayawardhana and Paul Foley.2000**; Innovation are discontinue innovation difficult "only

accessible to people with certain qualities".

(**Scott M Davis and Kristan Moe (1997)**) have framed eight steps that effectively take a company from customer driven needs and work assessment to final commercialization.

(**Schumpeter. 1934,p.228**). Schumpeter recognized and felt that Entrepreneur seek profit thought innovation transform the strategies, equilibrium into a dynamic process of economics development.

**S. Mahendra Dev, (2006)** highlighted that Financial inclusion is important for improving the living conditions of poor farmers, rural non-farm enterprises and other vulnerable groups. Financial exclusion, in terms of lack of access to credit from formal institutions, is high for small and marginal farmers and some social groups. Apart from formal banking institutions, initiatives should be taken to implement inclusion through introducing innovated services, so that the desired target can be achieved.

**The Mint Conclave for financial conclusion (Jun 17 2014)** has mentioned that the way ahead and financial inclusion event, panellists called for innovative technology-based financial inclusion models as the only solution to bring banking services to millions of unbanked people in the country.

### Leading factors to introduce Innovative Financial Services:

The **first change** comes from the next generation of consumers. The Internet is now more than 22 years old, which means that anyone under 40 has never known a social or working life without it. As a result, youngsters come to the banks and other financial service providers with different expectations. As an alternative of technology being used to hold them enslaved, they expect service providers to use technology to sanction them to establish not only how services will be provided, but what services will be provided in an effective manner. Just consider how today people prefer to use their Facebook name to identify themselves to new sites on the Internet, showing how the power gradually moves into their hands.

The **Second stage** comes due to financial exclusion of some weaker section of the society. It is estimated that, 2+ billion people who today have no access to financial and banking services, and resort to cash for all transactions. The traditional banking system has all but mistreated them like they don't fit the established business model of the banks and their services. The problem the banks have in serving these people is not so much in terms of lack of revenues, but it is mostly of having access to them, as many of the poor people are far away in rural areas without traditional banking coverage (branches and ATMs).

The other problem is getting to know them in a traditional ways like identifying people through social security, Street addresses, ID cards etc., are mostly not available to them. Nowadays a large majority of the people are having a mobile phone, a very powerful instrument not only for communication, but also for financial inclusion. This explains why the telecommunication companies are increasingly seen as instrumental in making financial services available to the unbanked.

The **last change** comes in the way we access and consume the available financial services. Conceivably this change is most noticeable with the advent of the tablets and smart phones. The smart phones and tablets have simplified the reach of banking and financial services considerably. But most of the users are still facing a different app for each service provider, while what they really want is to have a flawless and integrated view of our financial assets, i.e. One identity, one user interface for all service providers.

The above changes — really new, fundamental requirements — are driving the pace of technological innovation.

### Financial Innovations

#### Bitcoin

Ripple, a company based in San Francisco, uses this idea to propose what they describe as a low cost, worldwide, multi-currency payment mechanism they say is faster, more secure and simpler to use than any banking based alternative. Bitcoin is a kind of digital currency also termed as crypto-currency, which is not controlled by any country's central bank or government. Bitcoins can be exchanged for goods or services with vendors who accept it as their payment.

The transactions of Bitcoins are made by digitally exchanging unidentified, heavily encrypted hash codes across a peer-to-peer (P2P) network. The P2P network monitors and verifies the transfer of Bitcoins between the users. Each user's Bitcoins are stored in a program called a digital wallet, which also holds each address the user sends and receives Bitcoins from, as well as a private key known only to the user. The Bitcoin network is designed to mathematically generate no more than 21 million Bitcoins and the network is set up to regulate itself to deal with inflation. Bitcoins can be spent by initiating a transfer request from a Bitcoin address in the customer's wallet to a Bitcoin address in the vendor's wallet.

#### Application Programming Interface:

The software developers have been using this API for many years to assemble program components within an application. There is a new usage of APIs is to make business functions available as components on the Internet. The APIs will lead to grow volumes from existing customers, and attract new customers without friction. API can help the bankers to interact with its target customers in a easier way. It is a technological protocol that allows diverse software components to communicate. In India, Yes Bank is the first private bank which has digitalises the B2B supply chain with the launch of API banking and financial services. The API allows the customers to access their bank's transaction processing services from their ERP environment. Here the customers no need to create any file or log in to their corporate net banking system. The business transactions can be done through API calls to bank's system through secured system integration between corporate customers and their banks.

#### Crowd-Sourced Identity System:

In the current financial scenario, banking regulations imposes bankers to conduct "Know Your Customer" (KYC) activities, with the objective of confirming the identity of their customers those open accounts and conduct banking transactions. In most of the times, KYC proves to be very burdensome, because it implies manual checks of various documents. This issue can be eradicated through Crowd sourced Identity system. This helps to easily identify the customers and confirm their identities, as well as to allow them to open accounts and process transactions.

#### Unique Identity Code:

It is a multipurpose identity number that enables the people to avail all benefits which include opening a Bank account, applying for government schemes and subsidies etc. Further it simplifies the process of connecting financial transactions to the payment gateways which are providing financial and banking access to unbanked remote people. Nowadays Indian government has taken more initiatives to link the UID project with financial inclusion for establishing a strong foundation of delivery of financial services to the unbanked section of people.

#### Social Media Based Identity System:

It is an additional way to look at social networks like Facebook or LinkedIn and other major networks as a trusted identity system. Because Facebook has more than one billion people all around the world, many of them were unbanked, which could be the great opportunity for the banking and other financial service providers to cover these people under financial inclusion. For example, [Fidor](#), a financial service provider in Germany, allows the customers to open an account with only through their Facebook profile with a reduced service, and will provide additional banking and financial services as they know more about them.

#### Biometric ATM:

Biometric ATMs are self-service automated teller machines that use a biometric measure like thump impression to identify the customers and allow them to withdraw cash. Innovation of Biometric ATM enables the Illiterate, Semi illiterate and old age customers to avail ATM services in an easiest way. Here the customers no need to enter the PIN number for withdrawal. Instead their registered thumb impression will be used for authentication.

#### Micro ATM:

The Micro ATMs can be located at easily accessible locations where the rural and unbanked people mostly visit like Market, Petrol pumps, Public distribution centres etc. This type of ATMs will have some basic features such as Cash withdrawal and balance enquiry. The cost of installation and maintenance is very low comparing to other full featured ATMs. So that, it enables the financial and banking service providers to reach the unbanked section of people and offer them their services in a lower cost.

#### Open Source Movement:

It is a community of banking and financial service providers, specialists in technology, experts in financial services and analysts working together to improve the reach ability and efficiency of proper distribution of financial services. Further the Open source movement system helps to accelerate the elimination of poverty by enabling financial service providers to deliver their services in a effective manner. It helps to reach the unbanked people and offer them required financial services by the providers.

#### Payment Banks:

It is a new version of banking system, where the customer will be offered financial services through their registered mobile by the authorised payment bank service providers. The payment bankers cannot offer any loan facilities to the customer. But they can raise deposits up to Rupees One lakh and if there is any balance that will be subject to interest benefits like a savings account does. Further it enables the customers to transfer and receive money through registered mobile phones. It also facilitates the customers to avail other financial services like Debit, Credit and Forex Cards usable on ATM networks of all banks. Recently the Reserve Bank of India has granted approval for payment banks to 11 private entities.

#### Conclusion:

The innovations in financial system will need to be a platform that facilitates the following,

- Be accessible safely and reliably from connected devices
- Enable new customers to be connected flawlessly, using a crowd

sourced and flexible “know your customer” system

- Enable customers to own their accounts, and operate them themselves or choose freely who to contract to operate it for them

There is a need to join all hands to deploy the innovative technologies to work openly, safely and reliably.

#### References

1. Bessant, J., Tidd, J., "Innovation And Entrepreneurship", John Wiley & Sons. 2007
2. Chanaka Jayawardhena, Paul Foley, "Changes I the banking sector- the Case of Internet banking in the UK", Internet Research; Electronic Networking Application and Policy, Vol. 10, No. 1, 2000, pp.19- 30
3. Scott M. Davis, Kristin Moe," Bringing Innovation to Life", Journal of Consumer Marketing, Vol. 14, No. 5, 1997, pp.340-341
4. Salmana Jafri, "Emergence In Banking In India., The Journal of Business & Economics Studies, vol. V-II, pp, 81-85
5. S. Mahendra Dev, Economic and Political Weekly, (Vol. 41, No. 41, Oct. 14-20, 2006)