



Mobile Banking in Rural India: Roadmap to Financial Inclusion

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ABSTRACT

The concept of digital inclusion in the banking industry has become a parlance in the worldwide. The term digital inclusion provides the people the skills of basic technology to participate in the knowledge economy that lead to an enhanced performance of macro-economic. The study deals with the mobile banking in India. This study in detail discusses about the mobile banking, the emergence of mobile banking and present scenario in India, mobile banking in rural areas of India, how mobile banking helps in achieving financial inclusion. Further it will also discuss how mobile banking helps in overcoming the financial challenges with the analysis of scope of mobile banking in the near future.

Keywords : Digital Inclusion, Banking, Mobile Banking, Rural, Financial Inclusion

Introduction to Mobile Banking

According to Tiwari and Buse (2007) mobile banking is also referred as m-banking, SMS banking and so on. Mobile banking is the term used for performing account transactions, balance checks, credit applications, payments and more through a mobile device like tablet computer like iPad or mobile phone. Mobile banking is a provision offered by financial and banking institutions that help users avail their services with the help of devices like mobile phones and other devices. The scope of offered services encompasses facilities to conduct stock and bank market transactions, to access customized information and administer the accounts. Mobile banking is performed through mobile internet or short message service (SMS). Mobile banking gives an opportunity for banks to retain their technology-savvy, existing customer base by offering innovative and value-added services to attract the potential customers. Mobile banking provides account information like alerts on accounts activity and access to loan and card statements, payments and transfers such as mobile recharging, international and domestic funds transfer and commercial payment processing, support services such as exchange of data messages, ATM location, cheque book requests and email, investments such as personalized alerts on security prices, portfolio management services and real time stock quotes and content services such as location based services and loyalty related services (Corporate Essvale (2011)

Barnes (2012) asserts that mobile banking is a channel whereby the user, interacts with a bank through a mobile device like mobile phone or PDA. There are many different categories of financial transaction offered by mobile banking. For example, amount or money can be stored in a mobile phone or handset and then spend accordingly. It is also used to transmit and receive remittance, or to pay bills and make purchases (Sullivan, 2007). Mobile banking helps customers to access their bank accounts through mobile phone to conduct traditional and more advanced financial transactions (Kim et al, 2009)

Mobile banking emergence and present scenario in India

Siau et al (2001) point out that the telecommunication companies and financial institutions worldwide are facing a new loop on the information-telecommunication technology convergence spiral. Mobile banking has emerged as a new application of the next mobile commerce or electronic commerce. The adoption of mobile commerce strongly relies on the user infrastructure that is user-accessible mobile devices

and on the mobile telecommunication networks. Lan et al (2000), Kiesnoki (2000) and Guardini et al (2000) refer that commerce applications encompassing mobile banking, can be implemented successfully with an integrated underlying infrastructure. Mobile banking enables the technologies fall into four categories that is embedded systems, network, databases and security.

Mobile banking is enjoying a tremendous growth in India. It has successfully crossed the stage of introduction. The service of mobile banking is being channeled from metropolitan cities to urban areas and then to the rural areas. The effectiveness and popularity of mobile banking mainly rely on the banking system in India and their connection with supporting and regulatory system. There are lots of supporting factors which support the mobile banking in India. First of all being so much beneficial, Indian banks are taking initiative and also encourage the people to register and use the services of mobile banking. Customers are also adopting the mobile banking services and customers are also getting lots of benefits. The country's regulatory system is also serious about the success of the mobile banking services. Reserve bank of India framed the formal guidelines for the mobile banking. The awareness of people, security guidelines of the reserve bank of India (RBI) and efforts of banks will shape the robust framework for the Indian mobile banking. The RBI and others banks have published the guidelines to use the mobile banking services. All these efforts will surely make the path for successful mobile banking in the rural India (Gupta and Mittal).

Mobile banking in rural areas of India

According to Unnithan and Swatman (2001) mobile phones have become a significant communication tool for every person throughout the world. In rural India, where the mobile users far exceed the fixed line subscribers due to better mobile infrastructure when compared to fixed line infrastructure has made the mobile banking much better in offering services. Various players in providing services of banking, service providers, financial institutions, and operators and so on are therefore expecting a potential growth in Indian mobile banking. The actual usages of mobile banking do not match the number of mobile users in the country. Mas (2008), Banzal (2010) and Lyman et al (2008) describe that in rural India, the various issues in the services of mobile banking such as interoperability due to a large number of different mobile phone devices and lack of mobile banking standards of technology, Security of financial transaction at the data encryption level

and physical level that is security of mobile device (Lyman et al, 2008; Sharma and Singh, 2009 and Banzal, 2010)

Sharma and Singh (2009) refer that mobile banking has not accepted widely but there is an essential growth found in the recent years after the emergence of the mobile network. Mobile banking is particularly valuable for rural regions due to the lack of delivery, alternatives relies on overcoming several impediments. The most pressing of these is satisfying the prerequisite of mobile network and the coverage of electricity. The concerns of physical security are more acute in rural areas particularly with branchless banking models which use agents. RBI has adopted the bank led model in which the mobile banking is promoted with the help of business correspondents of the banks. Indian banks offer many facilities through mobile banking such as get automatic updates on bill payments, check account balance, electronic fund transfer, and get automatic updates, scheduled payments and so on.

Role of mobile banking in achieving financial inclusion

Rao et al (2009) refers that financial inclusion is the process of assuring access to proper financial goods and services needed by the vulnerable groups like low-income groups and weaker sections at an affordable cost in a transparent and fair manner by mainstream institutional players. Financial inclusion has become one of the main aspects in terms of inclusive development and growth. A broad vision is developed for financial inclusion, where payments can be made easily through a mobile device or an electronic network. This visioning is used to bridge distances, contain settlement risks, close information gaps and reduce the transaction costs. Alam et al (2010) refers that mobile banking has a great potential to extend the financial services distribution to poor people as it lowers the delivery cost, encompassing costs both to banks for maintaining, building channels, for delivery and to users who access services.

According to Gupta and Mittal the provision of mobile banking to under-banked or unbanked population could be the quickest way to achieve the objective of the financial inclusion. The aim of the financial inclusion is to extend the financial services scope of the organized financial system to involve within its ambit people with low income. On the demand side, mobile banking will make the banking services and products and immediately accessible. On the supply side, mobile banking it will be cost effective; it will save costs of providing physical access that is mortar and bricks and become an economic proposition for banks to handle transactions based on small value made by the low-income citizens. Ivatury and Mas (2010) refer that concentrating on smaller banks and MFIs (Micro Finance Institutions) face a much higher cost-of-delivery due to values of smaller transaction and the likely more dispersed and remote location of at least some of their consumers.

Lyman et al (2008) and Yu (2009) point out that financial inclusion refers to the delivery of financial services at an affordable cost to the most sections of the low-income groups. The customers can store, enter, process, transmit and display information through mobile banking. Mobile banking as the channel of branch banking will be more helpful to rural customers in saving the travelling encompassing precious time and money to visit the distant branches for money transaction and it is an appropriate delivery door-step banking model. Thus it is concluded that mobile banking helps to achieve the financial inclusion.

Mobile banking and Financial Inclusion in Rural India

Yu (2009) points out that mobile banking is a substitute for the mortar and brick structure of the bank branches and raising branch density in the rural areas of India. It helped to overcome the supply side of the financial inclusion barriers. The mobile banking in rural areas of India facilitates financial service delivery such as withdrawals, saving mobilization, remittances, credit disbursements and repayments, bill payments, fund transfers and so on through banking facilitators

or banking correspondents. The banking facilitators are encouraged to raise their earning capacity through multiple transaction rather than limited transactions with the help of mobile devices or hand-held devices. Mobile banking is successful in handling the business transactions of large number of under-banked and disadvantaged rural customers. The mobile banking also supports the inclusive rural banking but also reduces the cost of services or transaction for the rural customers and banks.

Mobile money acts as an innovative tool for the inclusive financial services in rural areas. There a difference between the mobile money and mobile banking. All transactions such as mobile banking can be undertaken with the support of mobile money without having bank accounts. Rural customers may avail the mobile money facilities without the bank accounts. Money is stored in the upgraded mobile phone under the system of mobile money but it does not earn the interest rate of saving account in the bank. The operation of micro credit disbursement and saving mobilization cannot be undertaken with the support of the mobile money system. The rural population which uses the services of mobile money cannot be covered under the concept of financial inclusion (Banzal, 2010).

Sharma and Singh (2009) describe that recognizing its potential in order to achieve the financial inclusion faster, reserve bank of India has issued guidelines for functioning mobile telephony-based financial services. The RBI has issued the guidelines for mobile banking transactions. Some important guidelines are only banks which are supervised and licensed in India and infrastructure in India encompassing core banking solution are only allowed to offer services of mobile banking, services are restricted only to the bank customers or/and holders of credit/debit cards issued as per the extant RBI guidelines, only Indian rupee based domestic services are provided, the guidelines issued by reserve bank on anti money laundering and know your customer and combating the financing of terrorism from time to time will be applicable to the mobile based banking services, cross border outward and inward transfers is strictly prohibited.

Challenges and Scope of Mobile Banking

According to Yu (2009) security experts state that mobile banking is safer than computer banking since very few Trojans and viruses exist for phones and that does not mean mobile banking is vulnerable to security threats, but mobile users are particularly susceptible to a publishing-like scam referred as smishing, it occurs when a mobile banking customer receives a fake text message asking the details of bank account from a hacker acting like a financial institution. It is the biggest problem in the mobile banking services. Mobile banking is not available on all devices. Some banks do not offer mobile banking at all. Others require to use a custom application of mobile banking which is applicable to smart phones alone like RIM blackberry and Apple iphone. Third party mobile banking application or software is not always supported. More advanced features cannot be seen in normal phones.

Kumbhar (2011) refers that mobile banking is cost effective and it is a simple way to provide banking to the non-banked customers in India. At present it is not accepted by common customers in India due to the following reasons. Less information technology literacy is adversely affecting the use of mobile phone as an electronic device for banking. Some customers use cell phones for communication purpose alone. Most of rural peoples do not have an idea about mobile banking and how it is applied and used. It is identified that only 3 percent of existing customers are using the services of mobile banking in urban areas and they do not have any clear idea about advantages of mobile banking. Good quality and continuity of cellular service connectivity is not available in the rural areas. Security and trust are the most significant aspects of any banking service, but people have more doubts about its trustworthiness and security.

Mobile banking provides a limited range of services and it does not provide a deposit facility which is an important service for the users. If customers want to deposit their money then they have to go to the bank branch. Refund service is very poor in the mobile banking. If user made some wrong transaction and sent money to the wrong bank account by mistake then the bank do not refund that money immediately. For refunding it takes a maximum of fifteen days. Breakdown of mobile banking create inconvenience for the users. Language used in the mobile banking software is also one of the barriers, all software is using English as common language but less literate and rural people are unable to use this software because of poor knowledge about English (Kumbhar 2011).

Telecommunication service in India points out that mobile or cellular phone service is growing tremendously in the last five years. According to the TRAI's report on Indian telecommunication industry, the wireless phone connections decreased in the last few years and connections of mobile phone were increased very fast. At present, sixteen cellular service providers are providing mobile service in India and there were 621.28 million phone connections in India and in these 584.32 million were cellular phone connections (Bangens and Soderburg, 2008).

Conclusion and recommendations

It is concluded that mobile banking gives an opportunity for the banks to retain their technology-savvy, existing customer base by offering innovative and value-added services to attract the potential customers. Mobile banking provides investments such as personalized alerts on security prices, portfolio management services and real time stock quotes, account

information like alerts on accounts activity and access to loan and card statements, payments and transfers such as mobile recharging, support services such as exchange of data messages, international and domestic funds transfer and commercial payment processing, ATM location, cheque book requests and email and content services such as location based services and loyalty related services. The aim of the financial inclusion is to extend the financial services scope of the organized financial system to involve within its ambit people with low incomes. On the demand side, mobile banking will make banking services and products and it is immediately accessible. On the supply side, mobile banking it will be cost effective; it will save costs of providing physical access that is mortar and bricks and become an economic proposition for banks in order to handle the transactions based on small value made by the low-income citizens. The major challenges associated with the mobile banking are the security issues.

It is recommended that when downloading the mobile banking applications they must be downloaded from reputable stores or sites after reviewing the feedback from other customers. The users must closely review application requests for permission, install mobile security software and regularly have to update the security patches in order to detect the viruses. They must keep the software and operating system up-to-date by installing updates when available. Further they must setup a personal firewall to protect the mobile device from unauthorized electronic access. The firewall can be set on various levels by permitting varying degrees of limited access. By doing so the challenges associated with security in mobile banking could be overcome and the users can enjoy the benefits of mobile banking services to the fullest.

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