Financial Express - Delhi | Monday, 12 Jul 2010 | Page# :9 | Size : 703.92 sq.cm. (156.43 col cm)

AXIS BANK ■ NEW PRIVATE SECTOR BANK ■ RANK 2

Plug and play

Conventional banking channels will not be adequate to meet the vast, latent demand for financial services. Technology will play a critical part in providing 'last mile connectivity' and reducing service delivery costs

SHIKHA SHARMA

GROWTH, as they say, is the best antidote to poverty. But this growth, to sustain, has to be inclusive.

Maintaining a high (9%-plus) growth trajectory for India requires, among other things, the assimilation of low income households into the formal financial system. This is important, both to tap into savings that have hitherto been inaccessible, as well as to enhance productive efficiency through credit provision. India's growth momentum will increase with the percentage of population creating productive assets. Economic opportunity is closely intertwined with access to finance; as Prof Amartya Sen has emphasised, poverty is a deprivation of basic capabilities rather than merely a lowness of incomes. This asset creation has to be facilitated by the banking sector. There is an opportunity here as well—new markets, increased incomes and hence savings.

This hitherto latent opportunity can now be realised due to a combination of circumstances, including distribution channel innovations, low-cost banking technology and regulatory facilitation. A strategy for commercially viable (and hence sustainable) financial inclusion initiatives has to leverage on these developments, with a suite of banking products and services that address the financial needs of low income households. With this perspective in mind, an effective and successful financial inclusion initiative must adopt a three-pronged strategy—suitable products that address the needs of low income households, unconventional distribution channels and the smart use of technology.

That there is a large latent demand for financial services is evident from the ubiquitous moneylenders. Based on successive surveys highlighting the need for both savings and credit products, the suite of services most likely to benefit target customers are savings, microcredit, remittances and distribution of third party products like micro-insurance and micro-mutual funds. Globally, remittances have been the primary financial transactions that have migrated from traditional modes to mobile telephony, but a confluence of promising developments will facilitate the migration of customers from a pure funds destination to a user of financial services.

ROHNIT PHORE

Conventional banking channels will not be adequate for the scale of activities envisioned and critical for delivery of these services. A three tier distribution structure might be visualised as concentric circles spreading out radially, the innermost distribution tier consisting of traditional brick and mortar branches. The second layer would be a 'no frills' version of normal branches and would typically be opened at rural centres. The third and outermost distribution layer would consist of the branchless banking model, through business correspondents and business facilitators.

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BANKING FOR THE OTHER HALF

Technology plays a critical part in providing the 'last mile connectivity' and in reducing the service delivery costs on a per-transaction basis. Very recently, Axis Bank has successfully field-tested the electronic data capture (EDC) model with debit cards issued to a closed user group of customers in five tribal village blocks in Nashik district, covering 29 villages. On successful field testing, the bank has also done a full production rollout of this initiative. This technology model is enabled to offer a savings bank account, a loan account, and a recurring deposit account and development of a remittance solution on this platform is under way. This technology is now in a 'plug and play' mode, where it can be used seamlessly across multiple financial inclusion initiatives and geographies. Other technology options are being explored, including low-cost mobile technology that offers real-time online integration with the bank's core banking solutions. These options will, to a large extent, depend on their compatibility with and future adherence to Unique Identification (UID) standards, besides availability of connectivity across remote locations.

Despite the increasing delivery efficiencies through the three-pronged strategy, effective financial access to large segments of the un-banked will have to be through a collaborative distribution approach, riding on the distribution infrastructure of FMCG, telecom, insurance and other such companies with a deep penetration into rural pockets. Collaboration with the government and RBI in furthering the common cause of financial inclusion will also be critical. The rollout of the UID initiative is illustrative of the significant role that the government is likely to play in partnering with the banks, potentially allowing technology scalability apart from facilitating issues like Know Your Client (KYC) compliance. The government has also shown credible intent in this area. Two funds, a "Financial Inclusion Fund" and a "Financial Inclusion Technology Fund", to meet the costs of technology adoption, have been constituted, each with a corpus of Rs 500 crore, with initial funding to be contributed by the Union government, RBI and NABARD.

Facilitating payments through electronic benefit transfers (EBT) is an increasingly important channel for bringing unbanked lower income households into the formal financial sector. The technology-led cost and delivery efficiencies can now be increasingly leveraged by payments of public subventions to economically weaker sections, particularly if initiatives like the UID project facilitate KYC requirements. The Union government alone plans to spend over Rs 60,000 crore in 2010-11 through various social sector schemes and entitlement programmes. Routing even a part of these payments through electronic channels can speed up the inclusion process, by giving the banks a further incentive to manage the ecosystem of transactions that is likely to result. Axis Bank already services 1.5 million EBT beneficiaries and this is likely to cross 2 million in 2010-11, with a widening of services to provide full scale transactional and other banking facilities for EBT beneficiary accounts. Axis Bank is working on providing full-scale banking services to EBT beneficiaries.

With the key building blocks gradually being put in place, there are exciting times ahead for the banks in terms of accepting the challenge of financial inclusion and making it a success.

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