



An Indian visitor meeting a talking robot at a digital banking branch in New Delhi.  
PHOTO: AFP

# Digital technologies finally making possible financial inclusion in India

All thanks to: a repackaged no-frills bank account scheme, a biometric ID system for all residents and the availability of cheap smartphones. **BY DUVVURI SUBBARAO**

**I**NDIA has long pursued financial inclusion as a policy goal in the hope and expectation that it will open up opportunities to the poor to improve their livelihoods. In practice, this proved to be an uphill task because of a mismatch of incentives.

What the poor wanted from banks most of all was credit so that they could escape the clutches of usurious moneylenders and vagaries of the informal sector. But banks weren't enthusiastic about lending to the poor, thinking they were too much of a credit risk. Banks, instead, were eyeing the large and stable low-cost deposits these poor peoples' accounts would bring which would improve their cash management and, hence, their viability. However, the poor had no interest in saving in a bank account that would impose transaction costs but give no tangible benefits.

That impasse has now been broken by digital technologies which have exploded over the last five years, fundamentally reshaping the challenge of financial inclusion. Digital technologies have made "banking on the poor" an attractive prospect for banks and enticed a variety of financial technology companies to enter the financial inclusion space even as competition for the "fortune at the bottom of the pyramid" has resulted in a host of banking services being offered to the poor at their doorstep, dramatically altering their banking experience.

The magic of digital technologies is best captured by the acronym "JAM" with the letters standing for Jan Dhan Yojna, Aadhar and mobile phone respectively.

Jan Dhan Yojna (a Scheme for Peoples' Wealth) was announced by Prime Minister Narendra Modi in 2014 shortly after he came into office. At its core, on offer is a no-frills bank account with a simplified KYC (know your customer) prescription and requiring no minimum balance.

A no-frills account by itself was not new, but to enhance its take-up rate, Mr Modi not only repackaged the scheme but also declared that, henceforth, all government subsidies and entitlement payments would be credited directly into the poor peoples' bank accounts. The impact was

dramatic. Millions of people who were apathetic to having a bank account suddenly rushed to open one.

The direct benefit transfer itself would not have been possible but for Aadhar, which is a mammoth initiative to give a unique 12-digit identification to every resident of the country based on biometrics. Aadhar, possibly the largest enumeration project in the world, was conceived and launched by the previous United Progressive Alliance government but was eagerly embraced by the Modi administration.

As many as 1.17 billion of the country's 1.3 billion people now have an Aadhar number. Anecdotal evidence suggests that the government has already saved over US\$15 billion (S\$20.6 billion) by eliminating ghost cards and middlemen, more than recouping the nearly US\$9 billion it spent on the project.

Aadhar has also empowered poor people in a dramatic way. They can now establish their identity anywhere and anytime with unimaginable ease and efficiency, making it possible for them to meet the KYC norms for opening and operating bank accounts.

If Aadhar was transformative, the penetration of mobile phones – the third element of the JAM trinity – allowed India to make a quantum leap in financial inclusion. The crash of smartphone prices, thanks to Chinese brands and China-made Indian brands, has enabled digital inclusion. India is currently second in the world, only behind China, in the number of mobile subscriptions which top a billion. Of this, as much as a quarter use smartphones and this base is projected to double to over a half billion by 2020. Paradoxically, more people in India have access to a smart phone than to a toilet.

Digital technologies have unleashed a slew of mobile phone apps uniquely tailored to India's low literacy, low awareness environment. Topping the list is UPI – United Payment Interface – that allows online payments from one smartphone to another with just a virtual address which is as simple as one's e-mail address. No other details – bank, branch codes or account numbers – are given out. UPI – simple, efficient and, most important, secure – is a pioneering state-of-the-art innovation.

What if one has no smartphone but only a feature phone? No worries. Banking services are still accessible through a simple messaging service that goes by the name of USSD. If one has no phone at all, banking is still accessible via the Aadhar number. All one has to do is to go to the banking correspondent in the village – India's homegrown version of a virtual bank – who can provide banking services with the help of a micro ATM which verifies customer identity through a biometric scan matching the Aadhar number.

The digital technologies underlying the JAM trinity have made possible banking in remote villages of India in ways that would have been unimaginable even three years ago. India's huge migrant labour around the world used to spend as much as a tenth of the amount transferred by way of fees to remit money home to their families. Now they can do it more quickly, efficiently and securely at a fraction of that cost. People in far flung villages are able to draw their pensions, buy rations and make payments using just their Aadhar.

In many countries, the reach of digital technologies has remained confined to payment systems. What is notable about India's digitally-driven financial inclusion is that it has extended beyond payment systems to the provision of credit. Digital technologies, for example, have made it possible for potential borrowers, whether in microfinance or in the small and medium enterprise sector, to build credit histories and demonstrate their creditworthiness and, therefore, improve their access to credit as well as the terms on which they borrow. Blockchain technology holds the potential to streamline land records and asset registries, eliminate corruption and bring the huge informal sector into the formal economy.

To paraphrase Nobel Prize winning author, V S Naipaul, India's financial inclusion space is ripe for a billion mutinies now.

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