

Round Table on “Payment Solutions for Financial Inclusion” held on June 24, 2011 at IDRBT, Hyderabad – Brief of Deliberations

Financial inclusion is recognised as being essential to achieve inclusive growth in India. Efforts towards financial inclusion are in an evolutionary stage with the agents engaged in the process experimenting with a variety of modes to deliver financial services to the common person,, leveraging information technology. In this context, CAFRAL organised an round table where stakeholders deliberated the efficacy of various payment solutions and delivery channels for achieving financial inclusion, The discussions threw up a number of aspects which are key to achieving financial inclusion on the desired scale, such as financial education, training of BCs, pricing of services, development of infrastructure,etc.

I. Introduction

Financial Inclusion (FI) has become one of the important watchwords striking the roots of the Indian economy. With many initiatives having flowered and many new approaches being proposed with the definitive role of technology, CAFRAL conducted a one-day Round Table on the subject “Payment Solutions for Financial Inclusion” at the IDRBT, Hyderabad on June 24, 2011. Present during the deliberations of the day were participants drawn from various sectors spanning users, the Government, regulators, service providers, telecommunication service providers, banks, research specialists and academicians. Many aspects of topical importance were deliberated during the sessions spanning across the following three broad areas:

- **Payment solutions for Financial Inclusion**
- **Issues relating to delivery channels**
- **Customer service and Operational Risk Issues**

II. Discussions

The major points of discussions resulting in take-aways for the participants and the ensuing action points are as detailed below:

A. General System related :

- a. Given the size, demographic variations, literacy levels, differing telecommunication penetration, expectations of the large population, economic constraints and other relevant factors, a mix of different models - cards, biometric, mobiles- is required for large scale coverage. Focus needs to be on usability, convenience, cost, connectivity, inter-operability, customer needs and preferences and appropriate systems being put in place.
- b. At the base of the pyramid is the need for adequate financial education which holds the key to success of FI.
- c. The potential of the Unique Identification (UID) with its attendant biometric verification capabilities marks a good beginning for integrating these in the standards for FI.
- d. There is a need for a judicious use of online and offline approaches to authentication with a leaning towards the former which would result in

substantial cost savings and less dependency on high telecommunication requirements.

- e. The bank led model offers itself as a safe and most preferred model; this would result in the availability of a range of financial services to the FI target account holders, instead of a mere payment systems provision.
- f. The Business Correspondent (BC) model has the potential for maximum coverage; FI customers could be encouraged to have contact with the sponsoring bank in case of any issues with the BC.
- g. Business Correspondent inter-operability and appropriate pricing by banks would result in BCs discovering value in extending their services entailing in their continued availability.
- h. Adequate, trained and sensitive BC work force is essential.
- i. There is a need for providing the infrastructure for FI accounts in an efficient manner for the banks and other constituents of the chain, with the objective of providing reliable service to the customer. Some of the options which could be considered in this regard include:
 - i. Creation of a common platform for FI accounts with focus on a simple, lean and effective structure,
 - ii. Allowing telcos to extend payment services using their existing distribution channel which provide large reach, with the objective of treating them as FI customers,
 - iii. Pricing services in such a manner that they are attractive for FI Customers apart from being self-sustaining for the service providers and the banks concerned,
 - iv. Providing incentives to ensure migration from cash based deliveries to electronification of payment transfers; This would involve examining challenges relating to last mile cash requirements and exploring the feasibility of wide spread use of mobile wallet, usage of UID authentication for KYC for mobile wallets, allowing cash drawals through semi-closed instruments and linkages between bank and m-wallet transfers
- j. Providing for appropriate security for the system as a whole as well as for the customers
- k. There are certain areas which require attention by the telecommunication companies - such as the need to address frequent connectivity disruptions; coverage across all parts of the country; making USSD/SMS financial services available on an assured delivery basis at reasonable prices and feasibility to move over to WAP and STK technologies, and the need for banks and telcos to complement each other.
- l. As far as system solution providers are concerned, some of the areas which are required to be provided for, are:
 - i. Need to look at alternate and more cost effective authentication methodologies, including voice biometrics in local languages
 - ii. Need to provide scalable and robust platform
 - iii. Enhanced secure mobile platform and delivery systems
 - iv. Providing a bouquet of last-mile connectivity options, including card based, biometric, mobile and the like.
 - v. Need to re-engineer business processes to provide a host of FI services including credit and other banking services, as well as other related products such as insurance.

- vi. Challenges relating to efficiency in relation to the low ticket size of payment transactions in the Indian scenario.
- vii. Options relating to low cost equipment at the merchant end coupled with ease-of-use facilities by customers.

B. Regulatory Aspects:

While most participants felt that the current regulatory context enables the emergence of viable bank-led models for FI using branchless banking, the following issues were raised :

- i. Last-mile Customer Service Point (CSP) interoperability: Many expressed a preference that last-mile CSPs/sub-BCs should not be exclusive. It was suggested that RBI should revisit this issue. Another view was expressed that given the volume of transactions happening through the NPCI mobile switch, this may not become a show stopper and hence the industry should continue moving forward within the current context.
- ii. KYC for low-value accounts or remittances: The whole idea of risk-based AML/CFT policies was discussed extensively. In particular, the issue was brought up in the context of a product which offers an IMT service enabling bank account-holders to send money to a recipient's cell phone, and the recipient can cash out at an ATM with the phone number and code, without having an account. Apparently, even the customers who are receiving money for amounts less than Rs. 5,000 are required to go through the full KYC process, which is impeding the model.
- iii. Status of prepaid instruments: Questions were asked about the fact that prepaid accounts do not count as "accounts" for the purpose of financial inclusion targets. While this needed to be looked into, another view that emerged was that if all the KYC processes could be gone through by institutions before issuing the cards, what was the hitch in opening accounts?
- iv. Security standards: There was a question about the requirements for encryption of transactions of different sizes.
- v. Role of the NPCI: The participants wanted to know whether any competition will be permitted vis a vis activities undertaken by NPCI. It was clarified that an efficient payment system presupposes competition unless otherwise warranted.

The summary given above is based on the discussions and the takeaway reports from participants and do not reflect the views of CAFRAL which provided a platform for this roundtable.