



**Round Table on “ Technology Solutions for Financial Inclusion”
– Background Note**

Information and communications technology is opening up the opportunity for achieving financial inclusion in a relatively short time and at affordable cost for most of the population. An important part of the plumbing for financial inclusion is the payments system. Irrespective of the nature of the financial service being provided, payments are involved in some way or the other. Be it savings, loans, remittances, insurance, pension or capital market products, payments in one form or other is involved. Apart from this, payment services are required for day to day transactions such as paying bills making purchases availing of services and minimising the use of cash for such transactions. Making government payments to beneficiaries such as pension payments, NREGA payments, cash transfers in lieu of subsidies (now being thought of) directly into bank accounts has many advantages of ensuring proper delivery of the full amounts and preventing leakages. Hence all concerned have a huge stake in ensuring an efficient ubiquitous inter-operable low cost but secure payments system.

Many electronic payment solutions including mobile payments are being explored across the world for facilitating branchless banking. In some countries like Philippines and Kenya , mobile payments schemes for low value payments have been put in place without bank accounts. In other countries such as India, a bank led model has been favoured irrespective of the channel of delivery.

In today’s round table, three issues are being discussed.

Session 1: Cards, Mobiles or Biometric ?

First, what are the pros and cons of various solutions such as biometric solutions (with or without cards), card-based solutions and mobile phone based solutions. Which are more suitable for financial inclusion and what are the pre-conditions that are required to ensure that they are efficient and secure?

Branchless banking started in India with bio metric smart cards with FINO and Little World showing the way. The Aadhar –viz the UID number with its ability for on line verification and de-duping capability can ensure that identity is uniquely defined and authenticated biometrically. We are already familiar with cards – pre paid and debit cards -for various types of payments. With the rapid penetration of mobile phones, crossing 650 million subscribers in India, the question is naturally being raised as to why these phones cannot be used for making and receiving payments especially when today financial applications are being developed even for low-end mobile phones. Obviously mobile phones have immense potential to extend financial services to both banked and unbanked population.

But are mobile phones the most appropriate catalyst for promoting electronic payments in India? Where do biometric solutions (with or without cards), other plastic cards take precedence? What is appropriate for the Indian context taking into consideration the need for distributing government payments, remittances, and the needs of providing all other financial services such as savings, loans, insurance, pension and capital market products

Session 2: Bank led / non bank led models - Partnerships and delivery channels.

What are the pros and cons of a bank led model vs a non bank led model? What are the risks if any if mobile payments solutions are allowed to be offered that do not involve a bank account at one or both ends. The Kenyan and Philipines models can be

discussed in this context. The regulatory issues relating to safety of public funds (the issue of float) financial integrity (KYC /AML) can be discussed in this context.

Distribution partnerships are the key to the successful rollout of electronic payments systems as has been borne out by the successful global examples. In India the BC model is perceived as the branchless banking model. What are the type of partnerships important in the Indian context? Is there a case for separating simple payments and remittance solutions from those enabling comprehensive financial services? What are the regulatory issues? Can retailers/agents service multiple issuers ?

Session 3: Operational Risks and Consumer Protection.

What are the issues relating to technology and operational risk which are important for both the provider of the service as also to the consumer? Business continuity issues (in terms of technology and delivery channel) interoperability, cost of services etc could be covered in this session. What kind of grievance redressal mechanism should there be in place ?