

Ignoring the Unbanked: Reserve Bank of India's Mobile Payments Guidelines

George F. Thomas, Radix Consulting - 09 Dec 2008

This article argues that the Mobile Payment Guidelines released by the Reserve Bank of India is worrying due to the fact that the unbanked population of India is excluded - the very segment of the population that needs these services the most.

The release of the final Mobile Payment Guidelines by the Reserve Bank of India (RBI) is extremely disturbing because the unbanked population of India is excluded. The guidelines define 'mobile payments' as 'information exchange between a bank and its customers for financial transactions through the use of mobile phones'. The guidelines allow only banks that are licensed, supervised and have a physical presence in India to offer mobile banking services, as well as restrict the service to only those with bank accounts or credit card accounts in India. This last restriction makes it absolutely crystal clear that financial inclusion is not a goal of these guidelines, since the unbanked population of India is being ignored.

The purpose of financial inclusion is the delivery of banking services at affordable costs to vast sections of disadvantaged and low-income groups. It is argued that as banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population, without discrimination, is the prime objective of public policy. Financial inclusion is now a common objective for many central banks among the developing nations including the RBI, as articulated in a public speech by Dr Rakesh Mohan, deputy governor of RBI at the Annual Bankers Conference on 3 November 2006, where he stated: "Likewise, enabling access to a greater number of the population to the structured and organised financial system has explicitly been on the agenda of the Reserve Bank since 2004. Unlike several central banks, which focus solely on inflation, many developed and emerging economies, including ours, focus also on growth. There is currently a clear perception that there are a vast number of people, potential entrepreneurs, small enterprises and others, who are excluded from the financial sector, which leads to their marginalisation and denial of opportunity for them to grow and prosper."

With 41% of the population in India unbanked, according to RBI's statistics, financial inclusion could not have been top of mind when these guidelines were developed. The 41% equates to approximately 410 million people that do not have access to banking services - this is a number greater than the entire population of the US being financially excluded from mobile payment services.

With regard to mobile payment services, it is clear that mobile network operators have the technology and distribution expertise to reach many of India's unbanked consumers much quicker than banks and thereby providing major benefits for the people by facilitating domestic and international remittances, payroll distribution, bill payment and point-of-sale (POS) transactions. Yet they are excluded as a potential solution for the unbanked. Why? The RBI can provide the right level of regulation over mobile network operators and third-party organisations to offer the service in India efficiently and safely.

In my opinion, the RBI needs to answer some very pointed questions. Why are banks the only entities permitted to offer this service? Why are there no mechanisms that make it easy for the unbanked to move money around the country? What are the financial inclusion plans for the unbanked? What is the mobile payment strategy in India?

The following excerpt from the guidelines demonstrates that there is no coherent mobile payment strategy in India: 'To meet the objective of a nation-wide mobile banking framework, facilitating inter-bank settlement, a robust clearing and settlement infrastructure operating on a 24x7 basis would be necessary. Pending creation of such a national infrastructure, banks may enter into bilateral or multilateral arrangement for inter-bank settlements, with express permission from the RBI, wherever necessary.' It will take a considerable period of time for this network to develop; mobile network operators could offer broad payment services with their vast networks in months rather than years. The banks, at best, can offer mobile payment services to customers of their own bank.

The RBI seems to hold the same belief that is very consistent with the views of bankers from Europe and the US. These bankers believe that funds transfers should be the exclusive domain of banks because they are heavily regulated. These bankers also believe that they should be the only entities permitted to perform such services. However, the European Central Bank and the Federal Reserve disagree that this is the sole domain of banks, and have fostered innovation and competition by allowing non-banks to offer funds transfer services (e.g. PayPal, Obopay or the EU Payment Services Directive). Banks in the US have done nothing to offer a competing service to PayPal, which has just celebrated its ten-year anniversary. We are still waiting for the bank-led solution for funds transfer in the US.

The irony of the guidelines is that the unbanked is the segment of the population that needs these services the most. While it is true that a central bank is the bank for a country's banks, this does not mean, however, that it should protect banks at the expense of the public good. One of the statutory obligations of a central bank is to promote and supervise payment systems that are in the best interests of the public good. In the opinion of this author, it is the RBI's responsibility to help widen the spectrum of payment services throughout the country and these guidelines will not meet that responsibility.

[Back to top](#)

Posted by:	Post
09 Dec 2008 - 11:57 Corporation, India	mobile telephony penetration in India is around 20-25%. so how would extending mobile payments to non bank service providers improve the percentage of unbanked ? post offices and organisations like western union money transfer already provide funds transfer facilities for millions of unbanked Indians in rural areas. so I am not clear what exactly is your concerns around the new policy
11 Dec 2008 - 18:01 Corporation, United States	According to a recent Boston Consulting Group study, 26 million people in India have mobile phones but do not have bank accounts. Mobile phone growth is increasing much faster in India than access to bank accounts. Mobile Network Operators (MNOs) have been extremely successful in Kenya and the Philippines in offering mobile payment services to the unbanked, the results have been dramatic. MNOs could do the same in India at a low cost. MNOs have the technical expertise to offer the service and the distribution channels for cash-in and cash-out services that can reach more of the population than many of the banks. So, my question is why restrict

	competition when there are players that could help improve, domestic and international remittances, bill payment, point-of-sale purchases and payroll distribution?
16 Dec 2008 - 12:12 Central Bank/ Monetary Authority, India	As it is RBI has taken several measures towards financial inclusion in order to take care of the issues raised by the author. There are also some measures like the one initiated in the State of Andhra Pradesh on Govt. payments being routed through bank accounts using the services of Banking Correspondents. Similar schemes are being extended in Rajasthan and Karnataka. Actually, RBI's policy aims at avoiding liabilities being held by any one other than regulated entities, in view of the issued faced in the banking sector, particularly, NBFCs and Urban banks.
17 Dec 2008 - 02:02 Corporation, United States	Comment by the Author: It is encouraging to see that positive steps are being taken for financial inclusion. RBI could do more by developing regulations that would cover the activities of non-banks to foster greater participation in the use of mobile payments. The regulatory regime placed on non-banks would ensure that the risks of non-bank involvement are minimised thereby avoiding potential liabilities.
26 Dec 2008 - 10:16 Bank, United Kingdom	I appreciate the view of the author that mobile banking should cover the entire spectrum of the public. But with the growing problem on money laundering and terrorist financing, there is a need for a foolproof mechanism to check these maladies. As the author suggests, if unbanked population has to be covered, first of all Know Your Customer(KYC) norms have to be put in place to check terrorist financing and money laundering so that this facility is not misused. In India, with no controls put in place by the mobile service providers on KYC front at present, it is but logical and only after this is ensured that we may think of extending mobile payments to the entire population.
27 Dec 2008 - 17:19 Corporation, United States	Response by the author: Money laundering and terrorist financing is a risk that can be managed, in fact procedures can be put in place that will be more secure than cash transactions. I am not suggesting that non-banks engage in mobile payments without the proper regulatory supervision and procedures for AML/CFT. Non-banks should be required to ensure that the right KYC procedures are in place and can employ sophisticated automated monitoring capabilities to identify suspect transactions.
28 Dec 2008 - 12:34 Bank, United Kingdom	Thanks for your reply. Performance of KYC on non-bank entities like mobile users is an herculian task in India. As per available statistics there are about 300 million mobile users in India constituting 4th largest in the world. Strict regulatory controls by way of KYC/AML checks should be exercised to cover one and all for mobile banking.
30 Dec 2008 - 04:37 Government, India	The facility should be viewed as part of service offering thru Technology advancement rather than thinking about unbanked population of India. Since this is a start up operation, the unbanked population will derive the benefits of this service over a period of time.
19 Jan 2009 - 15:06 Financial Technology Provider, United States	The author does well by bringing to light the exclusionary tact by the RBI concerning India's unbanked that stands in the way of growth of the economy and extends to deter individual growth. The RBI should work to include the unbanked and integrate them with any technology available, including mobile as it is readily accessible to the unbanked. The RBI should work with the Mobil Network Operators to develop a mechanism to implement mobile banking regulations to achieve the goal of securing the banking system in order to include this enormous unbanked population and it must be done expeditiously.
04 Mar 2009 - 09:20 Bank, India	In a country where awareness to newer systems take time - like the present penetration of the mobile phone into rural India - it is very much prudent on the part of RBI to have it introduced in a restricted manner and then to include others in the net gradually. Who else other than RBI knows about the customers of the country more?
05 Mar 2009 - 12:47 Financial Technology Provider, United States	Comment by the author: I agree that awareness of new systems takes time. Mobile phone users in rural India are more comfortable with the MNO and its agents then they are with banks because they deal with them all the time to buy minutes and in some cases exchange minutes to each other and then cash out those minutes, an informal way to move money. So does RBI wait until all banked customers have proven that it will work? We can see that mobile payments are a huge success for the banked and unbanked in Kenya with 5 million subscribers in less than 2 years. So successful, that banks want to shut it down, I don't believe the government will let that happen.
17 Mar 2009 - 13:31 Financial Technology Provider, India	As many foreign banks in jeopardy, people are recommending strict rules for bank itself. Giving permission to institution other than banks will not help us in long run.

<p>19 Mar 2009 - 10:20 Other Financial Institution, India</p>	<p>Couple of thoughts.. Agreed that in India the number of mobile subscribers (at 360 Milion+) is far greater than the number of bank accounts (160 Million +). But, the number of bank account may not include the accounts in the largest financial services network in the world - Indian Post offices - and the plethora of cooperative banks at the state, district, taluk and village level.</p> <p>Surely, since these are financial transactions, they have to be secured and governed and only a well regulated institutional set up can do the job. I guess, the focus should be on to bring the Post offices and Cooperatives into the electronic payment areana and make use of mobile handsets as a channel for initiating/completing the transactions.. That probably is the best way to go.</p>
<p>20 Mar 2009 - 09:39 Financial Technology Provider, United States</p>	<p>Comments from the author: The comments submitted on 19 March are very progressive and bring a very logical approach to the issue. Your recommendation makes a lot of sense but it seems to me that the way the regulation is written, those that use the post office services would not be included, since they are not traditional bank customers.</p> <p>The commenter from 17 March points out the failure of the banks and regulators internationally brought about a great calamity. This is true because of greed and the regulators being asleep at the wheel. It does not mean that MNOs will suffer the same fate and the regulators need to do their jobs whether the institution is a bank or a payment service provider.</p>
<p>16 Sep 2009 - 02:06 Corporation, United States</p>	<p>Comment from the Author: It is great to see that the Prime Minister's Office is taking appropriate action to promote financial inclusion in India. Read how the PMO is planning to open mobile banking to the poor http://economictimes.indiatimes.com/articleshow/4984774.cms</p>