

Banks Alternate Delivery Channels (ADC) and its impact on Financial inclusion

Dr. A. Karthigeyan
Faculty,
Department of Banking Technology
Pondicherry University
Pondicherry, India
karthigeyan.a@gmail.com

R. Mani
Research Scholar,
Department of Banking Technology
Pondicherry University

Abstract

The Financial Inclusion emphasize on the concept of providing financial services to the underprivileged or socially disadvantaged sects of the country. Providing mere financial services like opening a savings bank account does not mean the success of financial inclusion and the success lays in make them to use the service by length and breadth to attain all their financial needs. The practice of financial inclusion is not only benefiting the needed poor and also it creates opportunity for the banks to tap the untapped sector formally in to the financial system. In recent times the way of banking itself undergone a sporadic change, technology plays a major role in every use of banking. It also eases the process of supply side to attract the demand side. On this background the study evaluates the effectiveness of alternate delivery channels of banks and its impact on financial inclusion in India.

Key words: Financial Inclusion, Delivery Channels

1. Introduction

1.1 Financial Inclusion

“¹Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all members of the society in general and vulnerable groups in particular, at an affordable cost in a fair and transparent manner by mainstream institutional players”

The financial inclusion is not a new concept in India. It has been initiated since the nationalization of banks in 1969 and 1980 following that the major steps taken towards the introduction of Regional Rural Banks (RRBs) in 1975. In 1991 the banking sector reforms

¹ Financial Inclusion and Banks: Issues and Perspectives”, RBI Monthly Bulletin, November 2011.

created the way forward for concept of Financial Inclusion in India and also it ensures the banking services to the diverse mass by increasing the number of branches comparatively.

First phase of financial inclusion is initiated by the Reserve Bank of India (RBI) under the chairmanship of S.H. Khan; he introduced the idea of 'no frill accounts' to attract the large mass to open an account with zero balance. In 2005, K.C. Chakrabarty committee simplified the KYC norms for opening of bank account it also created a spurt in opening a bank account among the unbanked masses. In 2012 the Basic Savings Bank Deposit Account (BSBDA) updated version of no frill account has been introduced with facilities like instant debit card, internet banking and cheque book with overdraft facilities with an affordable cost. Another important and most successful initiative on the line is Pradhan Manthri Jan Dhan Yojana (PMJDY) in the year 2014 has changed the outcome of the financial inclusion done so for it has increased the number of savings bank account holders 33.66 crore account holders out of these more than 80 percent are actively accessing the financial services offered by the banks.

Second phase of financial inclusion started in 2006-07; the RBI in its credit policy included the unorganized sectors under the banking umbrella and constituted a committee to analyze the demand and supply side to increase the financial inclusion. During 2007-08 the committee submitted two important recommendations one was maintenance of fund with National Bank for agriculture and Rural Development (NABARD) for cost incurring on development and promotion. Second is to adopt newer technology to enhance banking services to the next level. In the year 2008-09 there is a target fixed for the banks including RRBs to open at least 250 new household accounts each from the rural and urban branches. Here again the newer concept to use the retired professionals from both central state governments has been appointed as Business Correspondents (BC) or business facilitators or credit counselors from bank unreachable areas.

The Kissan Credit Card (KCC) has been introduced in the year 1998 on the recommendation of R.V. Gupta committee. The purpose of this KCC is to avail agriculture credit to the farmers and it has been extended to the fisheries and animal husbandry sectors in the year 2019. The Micro finance is the concept which offers micro level credits to the low income people on their door step. In the year 1992 the Self Help Group (SHG) model has been introduced as one of the initiative under financial inclusion. Moreover SHG, Bank Linkage Programme (SHG-BLP) has been transformed in to the holistic programme for

making financial, social and technological hub of rural India. The evolution of financial inclusion so far in India has been depicted as below by reviewing extensive research works and RBI publications on financial inclusion and their various committees' recommendations.

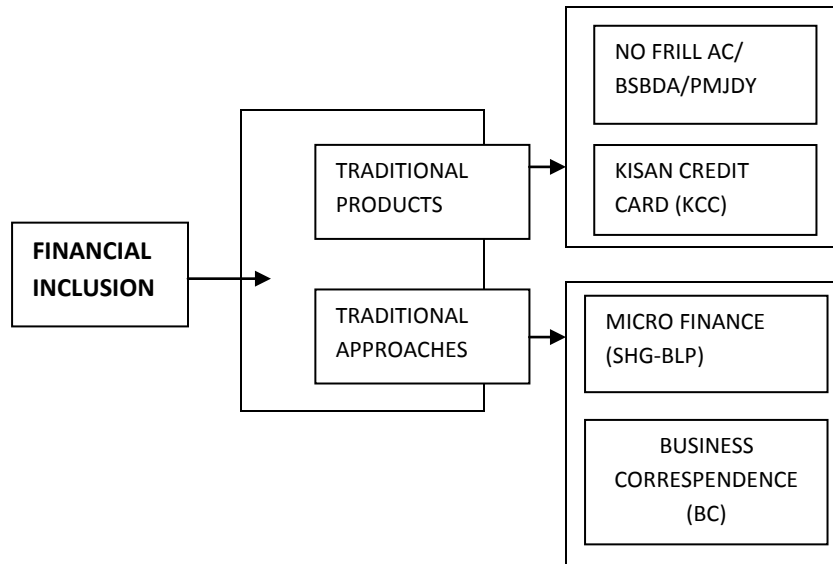


Figure1: Evolution of financial Inclusion

1.2 Bank's Alternate Delivery Channel (ADC)

The banking is a key indicator of any economy especially in a developing economy like India. The banking industry of its kind getting regular changes, once it started with 'brick mortar' banking by using manual ledgers and then it transformed to 'click banking' by using technology in banking especially after introduction of core banking solution (CBS) and now it has been shifted to anywhere anytime banking called as 'Digital banking' it offering varieties of financial services through alternate delivery channels like mobile phones, internet, and credit/debit cards through POS or any digital payment and settlement systems. The alternate delivery channels provide access to savings, credit facilities and all kind of transaction for individuals as well as business entities without visiting the bank branch or meeting the bank officials directly.

The below diagram depicts the alternate delivery channels of banks payment and settlements in India. The alternate delivery channel has been divided in to three major heads, like Electronic clearing it has been done electronically either by visiting branch or by self. The indicators are Real time gross settlement (RTGS), National electronic fund transfer (NEFT) and Immediate payment service (IMPS). In case of card payments it is subdivided as

credit cards, debit cards and prepaid payment instruments (PPIs) and also it includes Automated teller machine (ATM) and Point of Sale (POS) study evaluates the a game changing march towards the way of banking and also helpful for achieving the financial inclusion. The study argues that the digital banking can easily include the financially excluded by availing all banking services on digital platform.

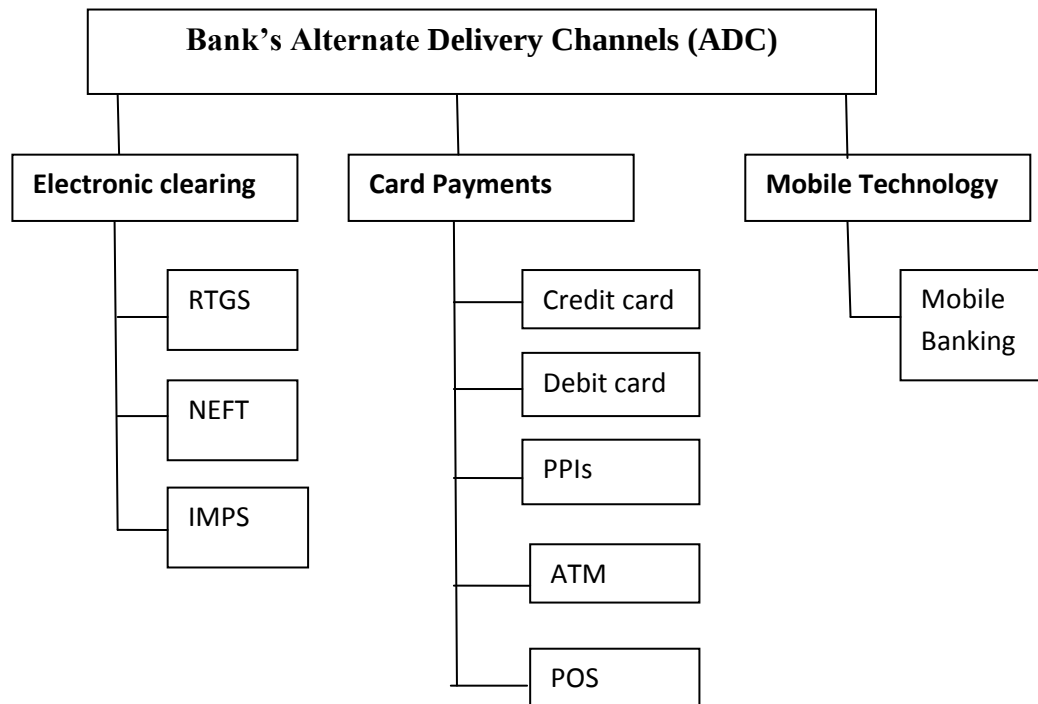


Figure2: Bank's Alternate Delivery Channels (ADC)

The objective of using financial services made available via digital mode is to attract more users and in turn it increases the financial inclusion. The developing economies like India having more youth population attracted more towards the using of digital platforms to do banking. To add more value to this statement the usage of mobile phones is increasing year on year. The usage of technology is also increasing in all sorts of day to day activities.

2. Literature Review

There is a large variety of studies related to financial inclusion is available from existing literatures and most of them concentrates on the traditional way of increasing the financial inclusion by increasing the number of branches or by opening a savings bank account or by issuing a credit facilities to the unbanked peoples. The present study evaluates the effectiveness of alternate delivery channels in attracting the financial users and its impact

on financial inclusion. Peterson K. Ozili 2018, Aijaz A. Shaikh et al 2017, Vanessa S. Tchamyu et al 2019, Badar Alam Iqbal et al 2017, Madhurima Deb et al 2016, Olaniyi Evans 2018, Prema P. Nedungadi et al 2018, Sindhu Singh et al 2017 these are the some of the studies which is closely related with the present study especially Peterson K. Ozili 2018 studied the impact of Digital finance on financial inclusion and stability is closely related to present study.

2.1 Problem Statement

The financial inclusion has the objective of including the excluded masses by availing financial services to them. The Central Government and the RBI working full fledged to attain 100 percent financial inclusion by providing many ways of financial services at affordable cost by opening 'no frill account'/ 'Basic Savings Bank Deposit Account' (BSBDA)/'Pradhan Manthri Jan Dan Yojana' (PMJDY) to bring the unbanked masses to the banking network. On the other side of looking mere opening of bank account is not the only objective of financial inclusion instead getting access to the fullest and make them use of it regularly relies its real success. On this background the study stands itself to identify the impact of banks alternate delivery channel as a key to attract more users towards the banking channel and in turn it leads to achieve financial inclusion.

2.2 Objective

Based on the above literatures reviewed, the study aimed at analyzing the effectiveness of banks alternate delivery channel and its impact on financial inclusion by using various digital payment and settlement products.

2.3 Data and Methodology

The study uses secondary data from various sources like RBI, World Bank reports, and Global Findex. The study uses Percentage analysis, Trend and Year-on-Year Growth to analyze the impact of financial inclusion.

3. Analysis and Findings

The study separate its analysis in to two parts one is about the effectiveness of traditional non digital payments and settlements through paper clearing using Cheque Truncation System and the second is about the alternate delivery channels or digital mode of payments and settlements through electronic mode.

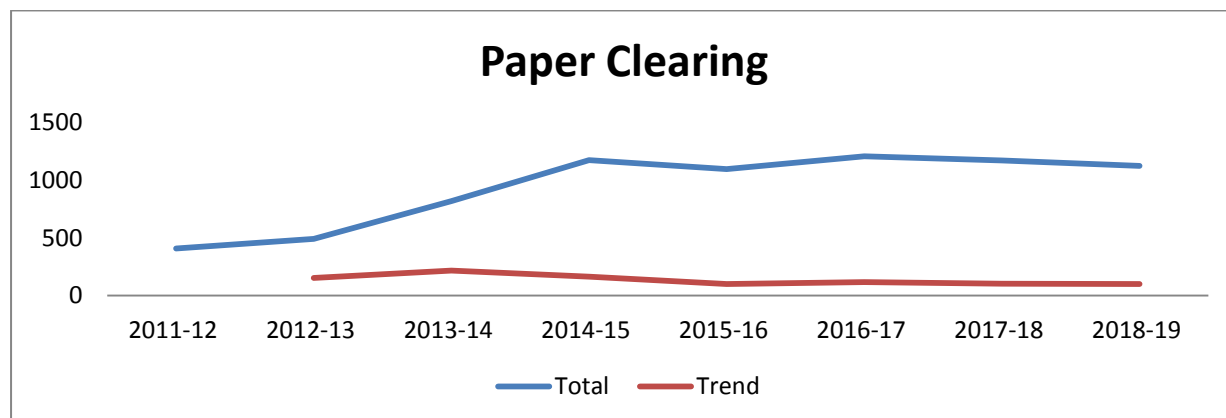
3.1. Traditional Delivery Channels

Table1. Payment and settlement through paper clearing

(In Millions)						
Year	CTS	CTS Trend	NON MICR	NON MICR Trend	Total	Trend
2011-12	180.04	-	226.96	-	407	-
2012-13	275.04	152.77	215.31	94.87	490.35	152.77
2013-14	591.4	215.02	225.9	104.92	817.3	215.02
2014-15	964.9	163.16	208.5	92.30	1173.4	163.16
2015-16	958.4	99.33	138	66.19	1096.4	99.33
2016-17	1111.9	116.02	94.8	68.70	1206.7	116.02
2017-18	1138	102.35	32.6	34.39	1170.6	102.35
2018-19	1111.67	97.69	12.09	37.09	1123.76	97.69

Source: RBI (Settlement and Payment and Information Systems)

Figure1. Payment and settlement through paper clearing



Cheque Truncation system (CTS) is the method of creating electronic image of the physical cheque for making the payment to the beneficiary. Even though there is a quite involvement of technology the CTS is consider as traditional paper clearing method. It also reduces the risk of physical flow of check, the cost and time involved in the operation of clearing. The migration of CTS from Magnetic Ink Character Recognition (MICR) the practice of using MICR has been discontinued by RBI later 2008. The above table 1 shows

there is a decline in the overall trend in payment and settlement using paper clearing starting from 2012-13 to 2018-19 there is almost 50 percent drop in the usage of traditional payment and settlement systems of banking. In case of CTS there is a considerable increase from Rs 180.04 million to 1111.67 million with a year on year trend of 152.77 percent to 97.69 percent during the study period 2012-13 to 2018-19. The increase is because there is a convenience in clearing the outstation cheques without delay and also it reduces the cost and removes reconciliation related issues.

3.2 Bank's Alternate Delivery Channels (ADC)

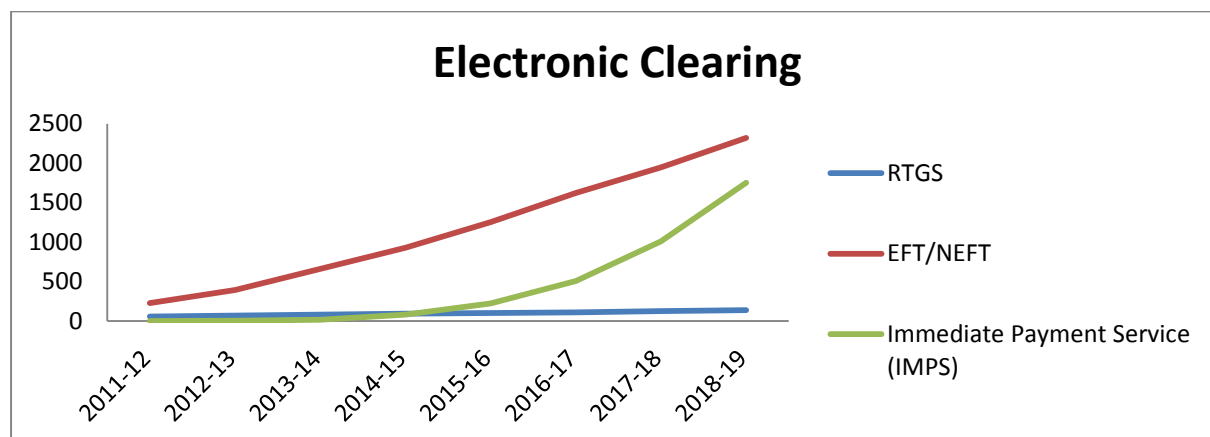
Table 2. Payment and settlement through Electronic clearing

(In Millions)

2.Electronic Clearing	RTGS	Trend	EFT/NEFT	Trend	IMPS	Trend
2011-12	55.05	-	226.1	-	0.07	-
2012-13	68.52	124.46	394.13	174.32	1.23	1757.14
2013-14	81.11	118.37	661.01	167.71	15.36	1248.78
2014-15	92.78	114.38	927.55	140.32	78.37	510.22
2015-16	98.34	105.99	1252.88	135.07	220.81	281.75
2016-17	107.86	109.68	1622.1	129.47	506.73	229.49
2017-18	124.46	115.39	1946.36	119.99	1009.8	199.28
2018-19	136.63	109.77	2,318.89	119.14	1752.91	173.59

Source: RBI (Settlement and Payment and Information Systems)

Figure 2. Payment and settlement through Electronic clearing



The Alternate Delivery Channels (ADC) of banking naturally means that the financial services are accessed directly by the customers by using the digital mode provided there is a bank account is linked. Most of the products are user friendly which helps customers to access the services directly without visiting the branches. The table 2 shows the level of usage of ADCs, almost all the products are performing well during the study period 2012-18. The Real Time Gross Settlement (RTGS) year on year trend shows 109.77 per cent in the year 2018 and it is 118.37 in the year 2012 almost during the study period it maintains 100 per cent increase in all years. In case Electronic fund transfer (EFT)/ National electronic fund transfer (NEFT) stands at 119.13 per cent from 167.31. During the study period there is a decrease in percentage of amount transacted it may be because it has the maximum limit on transaction and the process also done on batches not on real time. The immediate mobile payment service (IMPS) incomparable it was around 1248.78 per cent increase in the year 2012 it is because it has been introduced in 2010 by National payment corporation of India (NPCI) and in 2018 it reaches 173.58 percent. When compare to RTGS and NEFT, there is no restrictions on service timings it is 365 days, 24/7 with affordable cost.

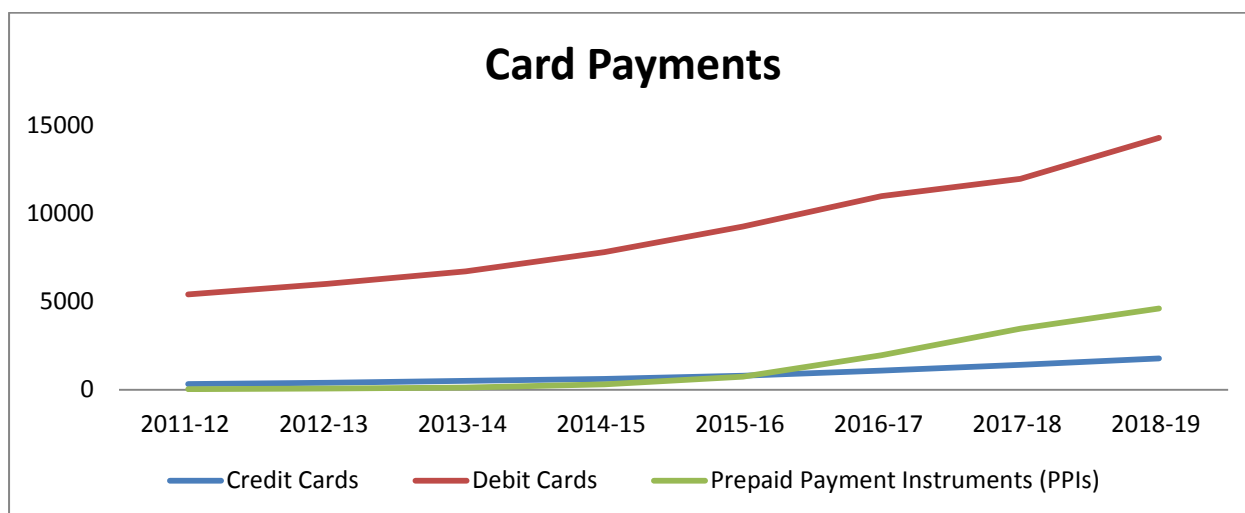
Table 3. Payment and settlement through Cards

(In Millions)

Year	Credit Cards	CC Trend	Debit Cards	DC Trend	PPIs	PPI Trend
2011-12	322.15		5409.45		30.6	
2012-13	399.13	123.90	5999.21	110.90	66.94	218.76
2013-14	512.03	128.29	6707.1	111.80	133.63	199.63
2014-15	619.41	120.97	7804.57	116.36	314.46	235.32
2015-16	791.67	127.81	9247	118.48	748.02	237.87
2016-17	1093.51	138.13	10962.36	118.55	1963.66	262.51
2017-18	1412.97	129.21	11945.65	108.97	3459.05	176.15
2018-19	1772.36	125.44	14273.9	119.49	4604.34	133.11

Source: RBI (Settlement and Payment and Information Systems)

Figure 3: Payment and settlement through Cards



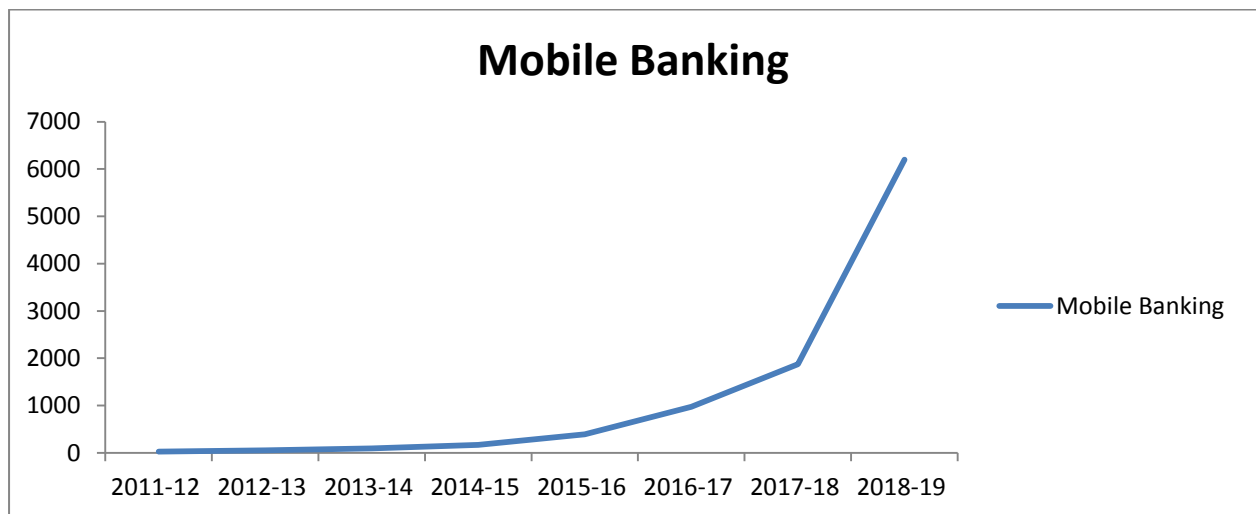
The usage of credit and debit cards stood respectively 125.44 per cent in the year 2018 and 128.28 in the year 2012. In case of debit card it is 119.9 per cent in the year 2018 when compared to 111.9 in the year 2012. It shows the increasing trend in all the years from 2012-18. In case of prepaid payment instruments (PPI) there is an increase in the overall trend 199.62 in the year 2012 to 133.11 in the year 2018. Notably in the year 2016 it was 262.51 percent which was the highest of all the years it may be because of demonetization impact.

Table 4. Payment and settlement through Mobile Banking

(In Millions)		
Year	Mobile Banking	Trend
2011-12	25.56	-
2012-13	53.3	208.52
2013-14	94.71	177.69
2014-15	171.92	181.52
2015-16	389.49	226.55
2016-17	976.85	250.80
2017-18	1872.26	191.66
2018-19	6,200.32	331.16

Source: RBI (Settlement and Payment and Information Systems)

Figure 2. Payment and settlement through Mobile Banking



During the study period 2012-13 to 2018-19 there is an incomparable increase in the usage of mobile banking for payment and settlements. It is around 177.69 per cent in the year 2012 and 331.61 per cent in the year 2018 it is around 150 percent increase in the use of mobile banking for payment and settlement through mobile technology. Overall the study results shows that the level of usage of digital payment and settlement systems are in increasing trend especially the usage of debit cards and mobile banking services shows increase in all the years which represents that there is a further penetration in use of banking services especially digital banking products when compared to the traditional paper clearing products. Hence from this the study draws attention towards achieving financial inclusion is possible only with the help of these alternate delivery channels to attract more users' especially young users.

4. Conclusion

The technology in banking is once a choice of to do banking services now it has been emerged as an inevitable partner of length and breadth of banking. Especially after the emergence of digital mode of transactions by using mobile phones, internet, and credit/debit cards through POS which simplified the process of banking and it also increases the usage of digital banking products when compared to the traditional banking products. This study first of its kind linked the Banks' Alternate Delivery Channel (ADC) growth with the financial inclusion. During the study period all the digital payment and settlement indicators shows there is a increase in the level of usage especially debit cards and mobile banking services performed well in all the years. It shows there is a deep penetration in the use of digital

banking products from 2012-18 and in turn it will increase the financial inclusion in India by the next level.

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