M-Banking in India – Regulations and Rationale*

K. C. Chakrabarty

Ms. Moono Mupotola, Manager, African Development Bank Group, Mr. Somak Ghosh, Group President, Development & Sustainable Banking, YES Bank, distinguished guests, participants, members of the print and electronic media, ladies and gentlemen.

I am delighted to be present here at the International Banking Summit on 'Regulation of Cross-Border Mobile Payments and Regional Financial Integration' and share my thoughts on the subject of mobile phones as a powerful tool for enabling financial services. I thank YES Bank and African Development Bank for extending the invitation to me.

2. Technology has, for better or worse, undeniably brought about a change, hitherto unimagined, in our life styles. The transformation brought about by technology in the area of delivery of financial services has, thankfully, only been for the better. Internet Banking complemented by Core Banking Solutions implemented by banks, mobile banking, card-based electronic transactions at any bank, ATM and merchants locations (both physical and through e-commerce sites) have offered a variety of channels to bank customers to conduct their payment transactions.

Mobile as a Medium

3. In this context, the question that often gets debated is: how and why is a mobile device the most appropriate delivery channel of financial services? Besides the technological capability to transmit financial information in an efficient, secure and cost-effective manner enabled by development of mobile-based applications for banking, the most significant fact about this idea is the ubiquity of the mobile phones. The number of mobile phones in the country are said to be nearing a billion. Hence, banking and financial services, which have already come a long way from the branch-level services to the customer's home desktop and laptop, can now be reached to a much larger section of the society, including the financially excluded, through the medium of the mobile phones. Besides the reach of mobile, there is another reason why mobiles are the most appropriate medium. What is after all a banking transaction? What purpose does the traditional cheque serve? In India, if you forget to carry your cheque book for withdrawal of funds, they provide you with what is call a withdrawal slip. A cheque or a withdrawal slip is a personalised direction to your banker to put through banking transactions on your behalf. The authentication is achieved through your signature. But this traditional method is expensive. A mobile phone achieves the same purpose and enables you to send personalised secure instructions to your banker to undertake transactions on your behalf. If your bank has achieved seamless integration with the core banking solution (CBS), then the transaction gets automatically registered. But these transactions using mobile are far less expensive than its traditional alternatives. More importantly, you hold the key since mobile is in your pocket and you need not depend on bank timings or the rush there to undertake banking transactions. This is perhaps the most important advantage of the mobile over other alternate payment methods. The mobile phone can, therefore, empower the common man to conduct his payment transactions any time and from anywhere. It is, therefore, no wonder that mobile payments and mobile banking are being hotly debated in various forums, in India and abroad.

Bank-led Technology-Neutral Approach

4. The Reserve Bank recognised the potential of the mobile phone as a channel to conduct financial services quite some time back and the first set of guidelines

* Address by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at International Banking Summit on Regulation of Cross-Border Mobile Payments and Regional Financial Integration at Mumbai on March 29, 2012. Assistance provided by Shri K Sivaraman and Ms. Radha Somakumar in preparation of this address is gratefully acknowledged.

were taken way back in October, 2008. But the Reserve Bank consciously opted for a bank-led model although our approach remains technology-neutral. Mobile phones as a delivery channel have a great potential if the security and cost aspects are addressed for it has to serve a large number of transactions that are small in size. It has to be remembered that use of mobile for banking in financial inclusion cannot become a viable proposition on a standalone basis if the purpose is to achieve meaningful financial inclusion. To make it viable and attract volumes, it has to be provided as a package along with other products and services. This can be achieved only by entities that can provide add-on services like emergency and entrepreneurial credit, saving facilities, other products and services such as insurance, besides remittances. This is where a mainstream regulated entity like a bank fits in. True, some of these alternatives are being provided by a few NBFCs but their scale and reach are not comparable with banks. They can serve niche markets but are not viable in the long run. But, they indeed will facilitate financial inclusion. So, the Indian model will remain a bank-led model with banks partnering MSPs (mobile service providers) and other entities to achieve the national goal of inclusive growth. In our endeavour to enable enhancements in mobile banking both in terms of the nature of services offered and the value of transactions to be permitted under mobile banking, we have been in constant dialogue with the stakeholders and intervened to liberalise the mobile banking guidelines in a phased manner.

Steps taken by RBI in Mobile Banking

5. The mobile banking guidelines have been modified in December 2011, to permit banks to facilitate funds transfer both for personal remittances and purchase of goods and services without any ceiling. In other words, banks are now free to decide on the limits, based on their own risk perception. In respect of small value transactions, fund transfers up to ₹5,000/- can be effected through the mobile phone without the need for end-to-end encryption.

6. In order to provide domestic money transfer facility especially to migrant population who do not have access to formal banking channels, domestic money transfer guidelines have been issued in October 2011. Remittance from a bank account for cash pay-out to the beneficiary not having a bank account at an ATM/BC outlet has also been facilitated up to ₹10,000/- per transaction subject to a monthly cap of ₹25,000/- per beneficiary with the remitting bank obtaining only the full name and address of the beneficiary. Similarly, cash pay-in facility has been permitted up to ₹5,000/- per transaction subject to a monthly cap of ₹25,000/- per remitter for transfer of funds to a bank account. Remitter has to provide only minimum details (name and address). Bank need not take any document or proof of address.

7. The interbank mobile payment services (IMPS) operated by the National Payments Corporation of India (NPCI) with the approval of the Reserve Bank has enhanced the efficiency of mobile banking by enabling real time transfer of funds between bank accounts and providing a centralised inter-operable interbank settlement service for mobile banking transactions with confirmation features.

Current Status of Mobile Banking in India

8. Presently, 65 banks have been approved for conduct of mobile banking out of which 47 banks have commenced offering these services. Transactions in mobile banking have been showing an uptrend. During February 2012, more than 2.8 million transactions for close to ₹1,961.23 million were transacted; a 300 per cent increase in volume and more than 200 per cent in value terms as compared to 0.7 million transactions for close to ₹616.19 million during February 2011. A little over 12.23 million bank customers have so far registered for mobile banking services. These numbers are not really heartening if we consider the following facts:

i. At the end of January 2012, the total wireless subscriber base was 936 million, which included 313 million subscriptions in the rural areas.

ii. Only 55 per cent of the people of India have deposit accounts.

It is evident that mobile phones have reached more households than basic banking services. Banks have not really made a significant penetration even among their existing customers to extend mobile banking services. However, for me, the most important concern is that there is a significant percentage of financially excluded population and the potential of the mobile phone to extend them financial services is still to be tapped.

9. The Reserve Bank has always been conscious of the need to bring every citizen of the country within the ambit of the banking system. Appreciating the difficulties of banks to viably operate bank branches in every village, we had permitted them to appoint business correspondents (BCs) to address this. On demand from the industry, we have also permitted 'for profit' companies to be appointed as Business Correspondents, which would enable a healthy fusion of the expertise of banks and the communications and agency network of non-banks, specially the MSPs. Though partnerships between banks and MSPs are happening, the pace is far too slow and the process needs to be expedited.

Some Generic Issues

10. While on the subject, let me discuss some generic issues relating to e-money on which we are often quizzed.

i. Is e-money in India overregulated when elsewhere there is higher level of tolerance towards anonymity of e-money transactions? Non-banks in India can issue only semi-closed prepaid instruments, which do not provide for cash withdrawals. Is KYC requirement justified in such cases, when any usage of the card will only result in credits to the bank accounts of the merchants?

ii. Today, an overseas credit/debit card could be used to withdraw cash from any ATM and can be a potential source for money laundering and the international laws come in the way of sharing complete information about the source of the funds? In the light of such threat, is the Reserve Bank and the Government too obsessed with KYC and AML issues?

11. As you know, e-money or the prepaid payment instruments, whether in the e-wallets, m-wallets, prepaid cards or paper coupons, have been brought under regulation for the first time with the enactment of the Payment and Settlement Systems Act, 2007. The Act itself came into force from August 2008 and as mentioned earlier, the first guidelines on e-money were introduced in April 2009, and since then they have been liberalised in a significant way. We have allowed issue of prepaid instruments up to ` 10,000 for exclusive use for purchase of travel tickets without the need for KYC. It must, however, be remembered that there are certain statutory requirements under the Prevention of Money Laundering Act which need to be met. However, within the existing statute, the Bank is constantly reviewing the position to identify the areas which impair the growth of e-money to initiate remedial measures. We have been on record that e-money is a more secure way of payments and needs to be promoted to ensure that our objectives of moving towards a cash-less society.

Should MSPs be Allowed on a Standalone Basis?

12. On the question of MSPs being allowed to do money transfer service on a standalone basis, perhaps such a measure would help in providing an alternative mode to the existing Money Order/Instant Money Order being offered by the services, though it would be difficult for me to say which one would be a cheaper option. The Department of Posts also has over 0.15 million post offices for delivery of services, though the IMO is extended to just a little over 3,000 post offices. The MSPs have the technology and an impressive agent network to deliver the service with efficiency. It was against this backdrop, that the non-bank entities have been permitted to enable prepaid card to card transfers. The model would, therefore, benefit the financially excluded population both in urban and rural areas to send or receive money in a convenient way.

13. It is still not clear to me as to why the demand for standalone MSP model is persisting when we have allowed a far superior model where collaboration rather than competition is expected to result in a win-win situation for all? Why should the stakeholders insist on an inferior alternative? Are there any insurmountable problems in the collaborative model? If yes, what are they?

14. I am aware that some of the issues that come up in this regard relate to (i) who owns the customer?

(ii) who controls the transactions? Has there been any worthwhile attempt to resolve them in a mature way? I would urge upon the banks and MSPs to get their acts together very quickly. On behalf of the Reserve Bank let me assure you that we stand committed to the success of this collaboration and would remove all genuine obstacles!

Enabling Cross-Border Payments through the Medium of Mobile Phones

15. Should mobile-initiated cross-border transactions be enabled? To my mind there cannot be a uniform standard for this. The issue is country-specific and each country has to take its decision based on need, issues and threat perception. As far as India is concerned, even during the worst forex crisis, the country was careful about the quality of inflows. Secondly, we have had rules that required all forex flows to be routed only through banking institutions or others specifically authorised to undertake forex transactions. Given this background, even if we had to agree, mobile phones can only be used to trigger the transfer of funds from overseas by a non-resident to the beneficiary's bank account in India. The banks will have to be responsible for ensuring quality of funds, KYC, *etc.* We have, in fact, permitted banks to enable cross-border bank account-to-bank account remittance through the medium of mobile, subject to clearance from the local regulator. At the beneficiary end, we have enabled loading of funds received from overseas under the money transfer service scheme (MTSS) scheme on to a prepaid payment instrument issued by a bank, which could include a mobile wallet, to the recipient of the funds.

Conclusion

16. Before I conclude, let me reiterate that the mobile phone is a potent tool to facilitate financial services and thus financial inclusion. It has the potential but the security and cost aspects have to be addressed. The medium of mobile has to sub-serve smaller transactions and must become cheaper. The Reserve Bank has, for well considered reasons, opted for a bank-led model as it is a complete model for delivery of a wide range of services. Just as you cannot have tele-medicine without a doctor, you cannot have mobile banking without a bank! The BC model would help to complement mobile banking, as customers need to approach BCs/ATMs only for hard currency requirements and conduct other banking transactions from anywhere from their mobile phones, provided of course, there are no tele-connectivity issues! As mentioned earlier, it is the social responsibility of everyone, who has the resources and the power, to contribute to the success of financial inclusion. While we have the guidelines to M-power financial services, it is necessary for us, the Reserve Bank, banks and the MSPs in particular, to take this forward in the fourth gear by convincing the common man not only on the power of the mobile phone for doing financial transactions but also the safety and security aspects of mobile banking, to provide a level of comfort. I believe there are success stories of mobile banking in states like Bihar, thanks to the initiatives of the certain NGOs and banks, which has enabled not only financial inclusion but made less literate people mobile banking-savvy. This needs to be emulated through adequate publicity and education to achieve M-powerment in a significant way.

I thank you all for giving me this opportunity to address this august gathering. I hope some of the issues that I have raised will be discussed in this Summit and some solutions found. I wish you all the best.