Convergence of Mobile Banking, Financial Inclusion and Consumer Protection – Trend*

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Ms Ursula Menke, Commissioner, Financial Consumer Agency of Canada and Chair of the International Financial Consumer Protection Network (FinCoNet), distinguished participants, ladies and gentlemen.

I thank the FinCoNet for including a special session on Financial Inclusion, Mobile Banking and Consumer Protection in today's agenda and inviting me to share the Indian perspective. Further, given the extent of financial exclusion that prevails in India where out of the 6,00,000 habitations in the country, less than 30,000 have a commercial bank branch, only 55 per cent of the population have deposit accounts, and the proportion of people having any kind of life insurance is as low as 10 per cent, the Reserve Bank and the Government of India are in recent times aggressively focussing on financial inclusion as one of the most important drivers of inclusive growth.

2. In a technology-driven financial sector scenario, although intermediation is probably more tiered, it should eventually result in lower costs, greater financial inclusion and customer protection. Customer protection becomes more important and perhaps more difficult due to such an intermediation. Given this scenario, the Reserve Bank makes a conscious evaluation of the customer service and financial inclusion issues while approving any new innovation in the financial sector in general and payment system in particular. The fact that the Reserve Bank had appointed a high level committee on customer service in banks headed by Mr. M. Damodaran and representatives from both the industry and the public to examine the entire gamut of customer protection issues indicates the importance which we attach to customer service and protection. The Committee incidentally has come out with more than 100 recommendations for our consideration.

3. Let me now turn to specific issues I have been asked to speak on, *viz.,* mobile banking, financial inclusion and consumer protection.

A. Bank-led *vs* Non-bank-led model of Mobile Banking

4. We were confronted with the question 'which model of mobile banking should India go for – a bank-led model or a non-bank-led one?' Protagonists of the non-bank led model referred to the success of such models in a few countries like Kenya and Philippines. While acknowledging that the mobile banking models in these countries were perhaps the appropriate solution in the respective jurisdictions, we, in India, came to the conclusion that absence of a bank presence in large parts of the country cannot be solved by non-bank players alone. Having said that, after a careful evaluation of the existing banking infrastructure in place, it is our own perception of the scope of financial inclusion and the relative merits and demerits associated with the two models that India opted for the Bank-led model. It is perhaps this model which has the capability to deliver the minimum of four basic products and services, *viz.,* a savings account with overdraft facility, a remittance product, a pure savings product, preferably, variable recurring deposit, and an entrepreneurial credit product which in our perception are minimum qualifying products that any financial inclusion model should contain. Further, the bank-led model provides *regulatory comfort* as the banks have been in the business of banking including money transfer; systems to adhere to KYC/AML norms and customer grievance redressal are in place and are under the direct regulation and supervision by the Reserve Bank

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of India. At the same time, we did recognise the important role which the mobile service providers (MSPs) could and should play in this payment space given their vast agent network across the country touching the remotest areas where banks did not have a physical presence. We, therefore, enabled these MSPs to be appointed by banks as their Business Correspondents of banks to foster a healthy partnership between the two which could gainfully utilise the expertise of banks and the reach of the MSPs. The new partnerships are beginning to happen and the full impact of this liberalisation is unfolding still.

B. Regulatory Initiatives taken to Promote Mobile Banking

5. The first measure to regulate mobile banking in India were taken in October 2008. Since then, we have progressively liberalised the manner and extent to which banks can conduct mobile banking, alive to the needs of the market, in particular, the unbanked population and the migrant labour force within the country. Today, banks in India are permitted to facilitate funds transfer between bank accounts through a mobile phone. To enable such transfers in a cost-effective manner, particularly for the small ticket transactions, we have waived the need for end-to-end encryption for transactions of value up to ₹5,000 (around US$100).We have also enabled money transfers from a bank account with cash pay-out to the receiver at an ATM or a Business Correspondent with a cap on the transaction value.

6. To enhance the efficiency of the mobile banking system, we had approved a unique initiative, the Inter-Bank Mobile Payment System (IMPS) which provides a centralised interoperable infrastructure and enables money transfers between customer accounts in different banks through mobile phones in real time. This service rides on the existing National Financial Switch (NFS), Interbank ATM transaction switching infrastructure and message format – and, hence, easy for banks to adopt.

C. Present Position of Mobile Banking in India

7. Banks are given one-time approval to commence mobile banking based on criteria set by Reserve Bank. 52 banks have been approved to commence mobile banking services. The volume of mobile banking transactions in July 2011 was 1.74 million with a value of ₹1.51 billion, an increase of 223 per cent over the position in July 2010.

D. Do the Non-banks, Including the Mobile Service Providers have a more Direct Role in the Payments Space?

8. India was conscious of the fact that non-bank operators need to come in directly as well into the payment space given the size of the country. Presently, 17 non-banks are authorised to issue prepaid payment instruments, including mobile-wallets. These include a mobile service provider and a mobile phone company. Funds transfers from these instruments have been permitted *albeit* in a limited way to enable money transfers by the domestic migrant population to their families.

E. What are the Consumer Protection Measures Taken by the Banking Regulator?

9. There is often a debate as to who owns the customer for a mobile financial service. The general trend is to create a win-win partnership for both parties, leveraging their respective capabilities and reach. Since India has accepted the bank-led model, the customers of the banks get full protection for effecting transactions through this delivery channel as in the case of any other banking transaction. The lack of visible transaction costs and efficiency-based pricing means that the proper price signals don't reach the end-users and, thereby, impede an efficient choice of payment instrument. The Reserve Bank plays a crucial role in rationalising the charges in its pursuit of customer participation, satisfaction and adequate resolution of complaints. The customers have recourse to the Banking Ombudsman a customer complaint redressal machinery put in place by The Reserve Bank.

10. The three stakeholders, *viz.*, the telecom operators, banks and merchants have realised the value proposition and the only sustainable business model is where these stakeholders work together to deliver true value to customers and effectively share the costs

saved and new revenues generated. Hence, it is imperative that all the three, while being cognisant of their strengths, do not lose sight of their weakness and find ways to integrate their offerings without losing their individuality. The broad regulatory approach of the Reserve Bank has been to permit such entities to provide payment services that are fee-based without access to funds of the customers. Customer service issues have been pain points in efficient delivery of services. The use of agent networks and the use of SMS channel mainly for transactions have associated customer service issues.

11. In particular, I would like to mention some of the important measures taken by the Reserve Bank aimed at customer protection.

- Mandating online alerts for all card-based transactions irrespective of the value or the delivery channel. This would include transactions effected through the mobile wallets.
- Mandating a second factor of authentication for all card-not-present transactions based on information not available on the card. M-PIN, which is mandatory, serves as the second factor authentication for mobile banking transactions.
- In case of prepaid instruments, including mobile wallets issued by non-banks, an escrow arrangement whereby the issuers do not have access to the funds collected from the purchasers of such instruments. This also ensures that the amount held in the escrow account is protected from bankruptcy of the issuer and the card holder has prior claim over other creditors.
- Payment system operators have been prohibited from entering into any agreement with an agent with an 'exclusivity' clause preventing the agent from doing a similar business with another payment system operator.
- Mandating minimum security standards for mobile transactions one of which is to insist on end-to-end encryption of messages except for small value transactions.

F. How does India Envision the Goal of Financial Inclusion and Inclusive Growth?

There are over 600 million active wireless telephone subscribers in India. Reserve Bank has acknowledged the importance of mobile banking channel as a critical element to achieving inclusive growth in India and has been taking several important steps, the recent being enabling the mobile companies to partner with banks as business correspondents. The twin challenge in our country would be to succeed in reducing the use of cash while encouraging the spread and use of mobile wallet and mobile banking to reap the full benefits of this ubiquitous product. The stance adopted by the Reserve Bank is to restrict deposit taking activity to banks while promoting the branchless banking model for unbanked areas.

I thank the FinCoNet for giving me this opportunity to speak on an issue of topical interest.