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Digitalization in Banking Sector: The Demand Side Issues and Concerns from Microfinance Domain Perspectives

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Abstract:-The inevitable thrust for adoption of digitalized financial inclusion in banking sector has emerged since 2011 when multinational forums and World Bank have identified larger section of people in the earth remain unbanked and excluded from the mainstream banking system. This unfortunate cohort is found universally in poverty segment, eking out their life with the support of microfinance services in the informal socio economic ecological back ground. In the recent past the implementation of tech based financial inclusion of the target group has witnessed both positive and negative eventualities. While positive factors such as faster delivery of financial services enabling the institutions to effect more financial inclusion of unbanked in the supply side, simultaneously negative fallouts throwing operational issues in the demand side such as fraudulent practices and cyber crimes, have crept in challenging the security of digital services in banking sector. The technology is only means to affect desired end benefits. Its value also depends on value of end realized. But in banking sector the congruence of values of the technology with the welfare values at the end remains debatable.

This apart, demographic profile of the target group also does not provide a conducive ecology for technology adoption leading to macro level concerns like digital divide and widening inequity gap. This sordid situation amply demonstrates lack of preparedness for adoption in the demand side .Otherwise technology infusion in banking sector is too fast to get observed in the informal sector where the prospective unbanked section remain as mute spectator on digital miracles..

As a way forward, towards building a sound preparedness for effective inclusive inclusion in the demand side, a slew of suggestions, made for policy considerations in the paper, include imperative need for capacity building of the target group, pro poor friendly tech based integrated financial products and services, provision of needed infrastructure in the last mile for ensuring sustainable connectivity, arranging cyber security measures and effective regulated mechanism for supervising financial inclusion through microfinance in the last mile.

Key words; financial inclusion, informal economy, Institutional linkages, Eventualities, cyber crime, cyber security, digital divide. Inequity gap, preparedness, capability building, regulated mechanism, last mile connectivity

1. INTRODUCTION

The paper aims to highlight three debatable questions and to suggest a way forward for policy consideration.

1. Why does digitalized financial inclusion need to focus mainly microfinance domain in banking sector?
2. What are the consequential issues of financial digitalization , threatening the demand side in the banking sector?
3. How do these issues lead to create economic concerns at macro level? and
4. What is the way forward towards solving these issues and concerns from policy perspectives?

Based on authors' exposure in banking industry for 3 decades added with the hands on research activities for 2 decades and publication of books on the field of international microfinance, an attempt has been made to descriptively analyze the facts on the queries raised above and to suggest a road map for prudential tech based financial inclusion

1.Significance of microfinance domain

The rationale for highlighting microfinance arena particularly in the context of financial inclusion derive embedded in digitalization is argued under three heads 1) target group for financial Inclusion 2) ecology of informal sector for tech adoption and 3) inclusion through institutional linkages

1.1 Target group for Financial inclusion

The global supply side thrust for the mission 'financial inclusion' has been given , by multinational forums through various initiatives . Initially The Maya Declaration[1] is the first global and measurable set of commitments by developing and emerging country governments to unlock the economic and social **potential of the 2.5 billion 'unbanked' people through greater financial inclusion**. More than 80 such countries – representing over 75 per cent of the world's unbanked population – have supported the Declaration. Each country makes measurable commitments in four broad areas that have been proven to increase financial inclusion. These include: Create an enabling environment to harness **new technolo**gy that increases **access to and lowers the costs of financial services**; Implement a proportional framework that advances synergies in financial inclusion, integrity, and stability; Integrate consumer protection and empowerment as a key pillar of financial inclusion; Utilize data for informed policymaking and tracking results.

In the same wavelength on the goal of universal access to financial services, world bank group president, Jim Yong Kim, said that it was within reach thanks to **new technologies**, transformative business models and ambitious reforms adding that by as early as 2020 instruments as e-money accounts , debit bank accounts, should significantly increase financial access for those who are excluded. .The world bank and the International Finance Corporation observed that close to 200 million micro to medium enterprises un developing economies lack access to affordable financial services.

Further, In this regard, a report on financial access **of the poor in** India , authored by the New American Foundation (NAF)think –tank found that despite the Indian government's ambitious attempts to provide financial services **to poorest citizens,** the desired effect has not been achieved.

All these observations, made by the multinational financial institutions reveal three indications clearly.

First, there is an urgency to push financial inclusion drive to include the unbanked population, Secondly, the target group of this unbanked by and large belongs the poverty segment and micro entrepreneurs and the last the advantages of infusion of technology need to be harnessed. All these points drive a home to find debatable issues on financial inclusion of the targeted poor segment who are found predominantly in informal sector with unique demographic characteristics unlike their counterpart in formal sector. Otherwise with subjective assumption on the easy inclusion of this unbanked poor cohort in the informal economy, financial inclusion mission will not be achieved successfully.

In this context what are the characteristic features of informal sector that influence the degree of resilience required for effecting tech based financial inclusion sustainably in the demand side?

1.2 Financial Inclusion in the informal economy

India's informal sector is the backbone of the economy. It employs the vast majority of the work force in, and the formal sector depends on its goods and services. The nation's quality of life hinges on things becoming better for masses of informally employed people. In the presence of such dichotomy in the economy on one hand and of inequality even in the poverty segment (poor, poorer, poorest) , any tech based intervention cannot be introduced successfully with one size fits for all formula unless demographic futures is prudently taken cognizance of for the said purposes. Further the capability factor of the poor households being the target group for financial inclusion, assumes paramountcy. Further from multi disciplinary perspectives the variance in the capabilities of them could be recognized under the ecology, embedded in following seven capitals that influence the living culture of people in the informal setting.

First comes the **Natural capital** which includes the natural resource stock, or local environmental endowment (including water, wind, soil, forest resources); Most of the poor have no freedom to access these resources without vulnerabilities

Second refers to **Social capital**: This capital covers social resources, such as interpersonal networks, membership in groups, relationships of trust, access to wider institutions of society; The livelihood culture of target group by and large is influenced by **social construct,** besides internal value system. The predominant social capital is found in the form of Self Help Group (SHG) apart from other form of

[1] *https:AFI-Global.org/maya-Declaration. The Maya declaration was launched in 2011 at the Global Policy Forum (GPF) in Reveria Maya Mexico. A total of 62 Maya Declaration commitments have been made, representing more than half of AFI's growing membership, which is currently comprised of more than 100 financial regulatory and policy making institutions from over 90 developing and emerging countries .*

collectives for the poor people to participate in socio cultural economic and financial activities. Human behavior of this cohort is mainly driven by **myths and beliefs** and other indigenous value system. Most of the decisions pertaining to livelihood activities including access to macro finance for income generating activities, are driven by the social capital.

Fourthly, **cultural capital** being third represents the shared values of knowledge, notion, concepts, customs, ideas, habits, and many alternative associated points which may be widespread between the members of a particular society that determines the ways of living. Some factors of human behaviors like language, social practices like kinship, gender and marriage, expressive varieties like music, dance, ritual, religion, and utilized sciences like cooking, shelter, garments are known as to be cultural universals, usually current in all human societies. Culture is totally different from neighborhood to neighborhood, space to space, or nation to nation.

Fifth, **Religion capital** means the organized assortment of beliefs, myths, and world views that related humanity with each other to an order of existence. Many religions have their very personal narratives, and symbols that designate the meaning, and origin of life or universe of their very personal methodology. The observance of religion incorporates rituals, sermons, veneration, sacrifices, festivals, feasts, funerary suppliers, matrimonial suppliers, prayer, dance, music, public suppliers, are totally different factors of human custom. Christianity, Islam, Hinduism, Buddhism, Sikhism, and so on are some widespread examples of religion. Every religion has its private religious chief or messenger.

Both these cultural and religious capitals influence the living style of the poor in the informal segment of economy that determines the course of change or inclusion taking place in the growth and development at macro level+. In India it is unique to find the prevalence of multi culture and multi religion that poses a challenge for introduction of normative principle based intervention in a diversified cultural settings.

Seventh one represents **Human capital.** Human capital includes formal and informal education, local ecological knowledge, the ability to work, and good health; The poor households by and large could be recognized with the Human Development (HD) indicators like Low level technical literacy and skill, Lack of awareness on ecological implications, no risk free health , vulnerable living condition, This HD capital facilitates to judge one's capability for participating in the mainstream economic activities .

Eighth comes **Physical capital**: This capital includes productive assets held by the household (land, tools, oxen) as well as communal assets to which they have access (roads, communication infrastructure such as radio broadcasts); There are small and marginal farmers having less than a hectare of land, and there are also farmers without land but remain as tenant farmers and also land less agricultural labour in the agrarian structure in the informal economy.

Last but not the least is Financial capital: Typically, the most fungible of assets, including cash savings, supplies of credit, or regular remittances and pensions. Most of the poor remain unbanked without direct access to bank credit but invariably accommodated by informal financial system viz., traditional money lender, landlord, chit funds, friends & relatives, pawn brokers. In regard to financial capital , the point which merits the attention is that the level of exposure of the poor households in the informal financial sources influence the level of repayment to formal finance system.

From demand side orientation, the capability profile of the target groups impacted by multiple human related capital factors as discussed above , determines the degree of acceptability, accessibility, adoptability of any tech based intervention including digitalized financial services in the informal sector .This kind of ecology behooves the institutional players in the supply front to set some ethical norms or priorities that ensure sustainable digitalized financial inclusion

In this regard, World Bank's (WB) Consultative Group for Assisting the Poor[2] (CGAP) has identified 10 priorities for inclusion of unbanked poor in the informal economy. According to CGAP observations "Half of working-age adults globally have no access to formal financial services. They typically live and work in the informal economy – not by choice, but by necessity. To create income-generating opportunities for themselves, manage risks, and smooth expenditures they have to rely on the age-old informal mechanisms such as borrowing from families and friends or the money lender, saving under-the-mattress or through rotating savings clubs, accumulating capital in vulnerable livestock, using informal money transfer services. These informal

[2] World bank Consultative Group for Financing for Assisting the poor(CGAP) LINKED GROUP "Priorities for financial inclusion 2013 and beyond January 23, 2013

mechanisms can be very expensive and unreliable. The 10 priorities include

Understand the impact of financial services on the lives of the poor.2 Translate client insights into better product offerings and service delivery 3.Start better understanding traditionally underserved segments.4. Continue pushing for technology-enabled business model innovation5. Create success stories for local-market provider eco-systems 6.Support governments to catalyze domestic financial inclusion7. Strike the right balance between an enabling and a protective regulatory environment. 8. Help forge new global consensus about how to balance financial inclusion and other policy objectives. 9. Ensure smart subsidies towards sustainable market development 10.Work towards an ambitious aspiration

A critical appraisal WB's priorities for Financial Inclusion as stated above reveals that these listed priorities sound encompassing and inspirational. However albeit these goals touch on demand side at surface level , the focus appears to be more on streamlining supply side mechanism . As many as seven redesigned priorities taking cognizance of more insights in the contextual capability characteristics of the demand side in the informal sector as suggested in the concluding part of the paper

1.3 Institutional linkage models for financial inclusion of the poor

Another predominant feature of financial inclusion taking place in microfinance domain in the informal sector, is that the process of inclusion of the poor is effected through social capital mode where women Self help groups play a greater role .In fact these SHGs promoted by NGOs are linked with the banks and cooperatives for conduiting financial services to the poor members through these groups. This linkage system between the SHG and the banks has been patronized by Apex banks (RBI & NABARD) and the state governments.

According to press release from National Bank for Agricultural and Rural Development (NABARD)[3] "The program launched as a pilot by NABARD in 1992 (with a target of linking 500 SHGs in a year's time) has transformed into the world's largest micro-finance program, touching a phenomenal over **41 crore rural poor through 86 lakh SHG's**. The SHG Bank Linkage program is the largest such program for women development with a staggering 85% of the groups belonging to women. Around 8.5 crore rural women have been able to chart their own destinies under this initiative. The program has also been one of the largest ever financial inclusion drives and a major business opportunity for the Indian banking system with over **Rs. 61,500 crore** outstanding bank loans and another Rs**. 16,000 crore** in **savings accounts** as on 31st March 2017. Currently infusion of digitalization is gaining momentum in data management system in SHG in rural area.

Digitalization in SHG

In its new avatar, the SHG program is leveraging technology and more than 1.27 lakh SHGs are being brought onto the digital platform under NABARD's E-SHAKTI project covering over 1.46 million household across 18,500 villages. Complete data of all the SHGs is being hosted on a dedicated website which will benefit banks in taking informed decisions on the credit needs of such SHGs..

Here it is pertinent to note that the poor, more particularly women finds convenient to get included collectively along with other member and also effectively participate in the group in the process of empowerment through bank finance. The technology infusion in the informal sector is smoothly foraying into microfinance domain through SHG system. However a critical observation in this regard points out that the impact of such digitalized system is expected to benefit more to the banking system in the supply side in taking informed decisions on the credit needs of SHGs and also in monitoring the flow of funds to SHGs as well. But the facts on the end use of credit with its consequences on its outcome in terms of income generation , repayment, savings and its impact in terms of graduation of the poor at clients household level in the demand side remain conspicuously absent in the digital services through SHG mode. **This is where shoes started pinching**

In sum, in any study that investigates the values of digitalized financial inclusion, it is an imperative need to focus much beyond financial inclusion on the eventualities of such act of inclusion principally in poverty sector at household level ultimately in the informal settings benefitted by microfinance in the banking sector. Other wise to wit "what has happened after financial inclusion digitally or non digitally to the borrower client at house level in the demand side?" These eventualities are exemplified both at macro and micro level in the succeeding paragraphs.

2. The eventualities and the consequential issues of digitalized financial inclusion

[3] https://www.nabard.org/auth/writereaddata/WhatsNew/1107171211Press_Release_11th%20July.pdf

The phenomenon of digitization in banking sector is reaching an inflection point. The effects of an increasingly digitized world are now reaching into every corner of human lives with some inevitable eventualities both in terms of positive and negative implications.[4]

2.1 Positive eventualities

The positive contingence is witnessed in different forms that are presented below

First one related to Consumer pull: Consumers, and particularly Generation C,[5] are already fully adapted to the digital environment. They naturally expect to be always connected, are willing to share personal data, and are more likely to trust referrals from their closest friends than well-known brands. **Second one pertains to Technology push:** As an indispensible development input , digital technology continues to expand its influence in bringing affordable broadband to billions of consumers. In parallel, low-cost connected devices are being deployed in every industry, and cloud computing, and the vast information-processing machinery it requires, is developing quickly. **Third reveals economic benefits.** The economic benefits to be captured through digitization are real. A wave of capital has poured into the new digitization technologies and companies, and the public markets reward early movers with unprecedented valuations. So to say, the positive eventualities are by and large transparent obviously facilitating the institutions in the supply side.

While digital push globally is exciting, its future in any part of world rests on supporting quality infrastructure inbuilt with risk free framework. The negative eventualities such as fraudulent practices, clandestine messages devalorizing the positive fallouts to the community at large. , A portrayal on negative fallouts of the blind digitalization globally as succinctly brought out by Microsave organization is exemplified in the flowing paragraph.

Fraudulent practices.

Microsave study[6] has brought out the negative fall outs of the digital inclusion in terms of risk involved and occurrence of fraudulent practices across different markets and players in the financial sector which takes the lead in global digitalization.

Fraud at agent office level

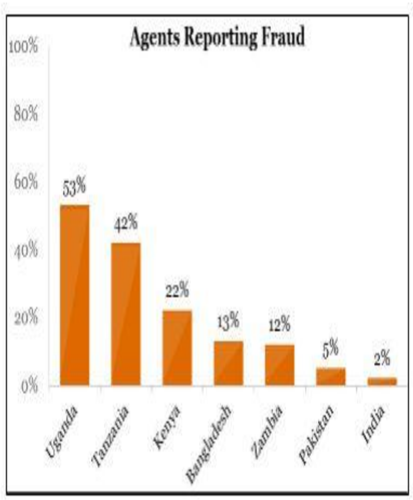
"Since its inception, the Digital Financial Services (DFS) industry has been subject to **a wide range of frauds,** across different markets and players of the ecosystems. The diverse nature and scale of these fraud cases has been evolving across markets. As a result, most digital financial services operators are now deploying in-house, dedicated fraud teams. Supply-side research by The *Helix* Institute of Digital Finance in Bangladesh and Kenya identified fraud as the biggest concern amongst agents, in 2013 and 2014. Our recent surveys in both Tanzania and Uganda highlighted how prevalent it has now become—42% of agents and a little more than half of agents, respectively, indicate that either they personally, or one of their employees, have experienced fraud in the last year. In other markets, such as Zambia and India, it has been cited as one of the top **challenges to an agent's business in 2014.** **I**n response, The *Helix* Institute collaborated with leading specialists to build a Risk and Fraud Management in Digitalized Financial services (DFS) course. The course highlights key risks as well as mitigation/management strategies. Box 1 indicates country wise the trend in fraud cases reported by the agents.

Box1 Agents reporting fraud

[4] Ibid 3 p14

[5] Generation C is a powerful new force in consumer culture. Its term we use to describe people who care deeply about creation, duration, and connection and community. It is not an age group. It is an attitude and mindset. Defined by key characteristics.

[6] Micro Save > Blog > MSB Resource Type > Blog > *Burgeoning 'Typhoons' in...*←Back to blog home May 2016 by Jacqueline Jumah



Source: Compiled from Agent Network Accelerator (ANA) Surveys. ANA surveys were conducted in 2013 in Uganda, Kenya, and Tanzania; in 2014 in Bangladesh, Kenya, Pakistan, and India; and in 2015 in Zambia, Tanzania and Uganda. Country comparison graphs contain most recent data available.

Mobile Modes of fraudulent practices

According to the report, third parties, such as employees of institutions providing outsourced services or unaffiliated fraudsters generally contact agents or customers indirectly through social engineering (typically spoofing/phishing) scams to fraudulently obtain account information. Emerging trends involve both internal employee fraud and fraud by external parties. DFS provider employees can use their position to gain access to confidential customer information, especially in cases where there are no tight checks, and then use this to target customers, gain account access, or otherwise obtain client funds. **Reportedly in one mobile network operator (MNO), employees colluded and stole about US$ 3.4 million** through accessing the company's suspense account which temporarily holds unclassified or disputed transactions. The staff members were then able to generate e-value and redirected the funds for withdrawal through some colluding agents. This was due to lack of appropriate reconciliation procedures and mismanagement of the user access rights for the mobile money system, where staff members were using multiple active system user log-in credentials. In Rwanda, an Multi National Organization (MNO) found one of its staff members orchestrating fraud by redirecting funds amounting to US$ 673,943 for withdrawal through conniving agents over a 12-month period. In South Africa, the collusion between a few employees of a major MNO and a bank resulted in a major SIM (subscriber Identity Module)swap fraud. This resulted in the loss of thousands of Rand.

Hacking into accounts

Beside the above type of fraud, it is reported that others have been able to hack into accounts or wallets, to ultimately obtain funds illegally. Recently, in India, 5 engineering students robbed a private sector bank of tens of millions of Rupees using fake mobile wallet transactions over a period of four months, since December 2015. The students managed to hack into the bank's newly-introduced wallet so that if a customer tried to send funds to another wallet holder, and the recipient was offline, the initiator of the transaction did not end up losing any funds. Instead, funds were pulled from the bank and directed to the fraudster's wallet. This fraud case was uncovered when about US$ 1.2 million had been siphoned off. In Kenya, fraudsters who are typically prison inmates, with illegal access to mobile phones through syndicates, continue to perpetrate fraud through social engineering. **The latest methods** used are through calling or **sending text messages to random numbers**, either in pretence of being relatives requesting for funds or as representatives of different companies: for example, banks or supermarkets, communicating about winners of special promotions. In the latter cases, they request that the subscriber sends funds to a specific mobile wallet to 'activate' their winnings, in order to receive their large cash prizes.

Clandestine messages

Another form of fraudulent practices according to the cited, is sending clandestine messages. The latest random messages being pushed around Kenya target anyone who is about to send funds. These text messages are as "Please nitumie ile pesa kwa hii number, simu yangu imezima", which translates to "My phone has gone off, so kindly send those funds to this number instead". Since sending money is a common activity, when some people receive this text message, **they are duped into believing** it has been sent by the intended recipient. They are misled into thinking that the intended recipient is having trouble accessing their normal wallet/phone, and so are providing an alternative number so that funds can be transferred. The sender then sends funds to the new number. **Many innocent customers have lost money** by responding to these calls or text messages, with those living in the **rural areas most commonly hit.**

These are just a few examples of a multitude of alarmingly creative approaches to defrauding agents and end-users. Among customers, there are also perceptions of fraud vulnerability as identified by Consumer Protection and Emerging Risks in Digital Financial Services report by world bank's CGAP. The general trend is that **frauds that circumvent back-office systems result in large-scale losses** to the providers, while smaller frauds from third parties often target lower amounts from agents or customers.

Skimming fraud

A new pattern of fraud has also emerged recently as evidenced in the case reported in Madras city in India. In this case[7] all the victims who are ironically happened to be software engineers ,had used their cards at a juice shop attached to food court of SP Info tech (Global info city park) Perungudi. The migrant workers had brought skimmers and forced the dinners to use their cards even for the sale of juice and refused to accept cash. The victims swiped the cards and left without knowing of their card details had been stolen

All these negative fall outs from prevailing digital finance system as revealed from the above findings of the microsav study report , leads to management issues from supply side and operational issues from the demand side. As witnessed in the last case pertaining to skimming fraud, one could imagine the challenges being faced by the poor clients having no digital knowledge during digitalized operations when compared to the one that of fully technically qualified IT workers in this regard. This ecology, particularly the informal sector, creates apprehension for the poor to get digitalized financial inclusion. Further ironically exclusion takes place even after ceremonious financial inclusion, in different manifestations like in operative accounts or dormant accounts, group mortality, pertaining to SHG. In the case of the biggest financial inclusion drive in India under the Pradhan Mantri Jan Dhan Yojana (PMJDY) programme, the number of bank account holders has increased manifold in the last three years; however**, 26 percent of the accounts opened remain inactive with zero balance. Lastly, only 30 percent of bank account holders** have digital access **to their bank accounts, making it difficult for the remaining 70 percent to engage in digital transactions"**[8]

All these issues highlighted above cause predominantly two macro level concerns viz., **digital divide** and **widening in inequality gap** in the economy which are discussed in the following paragraphs.

3. Macro level concern of digitalization

3.1 Global Digital divide

Digital divide [9]is an economic and social inequality with regard to access to, use of, or impact of information and communication technologies (ICT). The divide within countries (such as the digital divide in the United States) may refer to inequalities between individuals, households, businesses, or geographic areas, usually at different socioeconomic levels or other demographic categories.

The above fact is presented illustratively in box 2 which is portraying the global trend in digital inclusion as reported by International Telecommunication Union(ITU) in 2014,

Box 2.Global digitalization

Source. ITU measuring the international society 2014

It is revealing from box 2 that out of 7.3 billion people, 58.9% of them still have no internet access there by the fact indicating the magnitude **of digital exclusion** of human being bereft of all benefits accrued from technology infused in banking sector.

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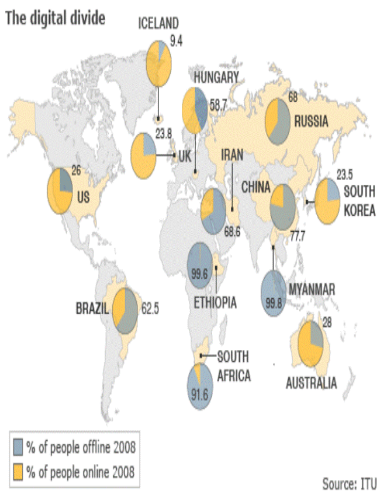
7 The HIndu dated Jan.6,2019

8 http://nextbillion.net/the -longest-last-mile-areiindias-poor-ready-for-digital-financial-servcies/dated November 2017

9 https://en.wikipedia.org/wiki/Digital_divide

The divide between differing countries or regions of the world is referred to as the global digital divide, examining this technological gap between developing and developed countries on an international scale. Box 3 exemplifies global digital divide indicating higher % of people 'on line' is found in western world while in Asia region with the exception of South Korea has significant proportion of total people off line revealing highly **skewed inclusion digitally**.

Box 3 Global digital divide



Source. International technological University itu.edu

Micro level reports on digital divide

Digital divide is evidently seen in micro level studies as reported in world bank CGAP blog[10] To quote "The recent 2017 Fin scope Tanzania report shows that while mobile money use in Tanzania continues to grow, the percentage of financially excluded adults has risen in parallel — from 27 percent in 2013 to 28 percent in 2017. After a decade of significant declines in financial exclusion, these new numbers raise the question of whether the **strongest mobile money markets, such as those in East Africa, might be reaching a plateau in financial access."** Fin Access data provide some basic demographic answers to this question. Compared to the included population, Kenya's financially excluded are more likely to be:1)Rural (80 percent) 2) Older (38 percent are over the age of 45) 2)Female (55 percent)3)Poor (42 percent are in the lowest wealth quintile) 4) Informally employed or dependent (81 percent)5) Lacking formal education (37 percent have no formal education at all) 6)Living in a female-headed household (twice as likely as financially included people).

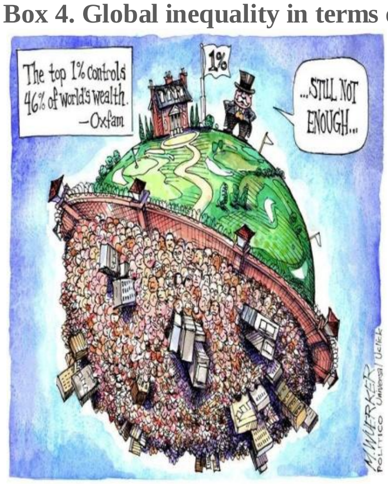
All the facts on digital divide point out this concern is omnipresent wherever digitalization takes place in banking sector. As a corollary to this concern, another apprehension emerges in the form of 'inequality gap' among the people and this aspect is diagnosed below

3.2 Global Inequity gap

The present digital finance or tech based banking scenario, ridden by said issues and concerns amply demonstrates that exclusion anywhere in a threat to inclusion everywhere. Further, adding fuel to fire, exclusion also causes unequal distribution of growth benefits leading to inequality among the people coupled with unemployment and social unrest (e.g. Arab spring). Ironically intra poor inequality is present even in poverty pyramid with more financially excluded poor, predominantly in every part of the globe.

The images[11] in Boxes 4 & 5 Illustrate the magnitude of inequality in different dimensions in the world reflecting the between the insatiable need on one side and unabated greed in other side of the humanity.

Box 4. Global inequality in terms of wealth



[10] http://www.cgap.org Who Are Kenya's Financially Excluded? 09 November 2017William Cook

[11] https://images.search.yahoo.comsearch//images?p=inequality

Box 5 Inequality in Asian region in terms of living standard

In this regard, modernity has given us equality as touchstone in our growth path. If equality seems to be product of western consciousness, let it be so. But it has been recognized that it is not inherent in Indian culture since in traditional society's holds socially sanctioned inequality. Asian Development Bank (ADB) observes "It is disheartening that in a region of such a rapid progress, we still have population of more than 800 **million people living in absolute poverty**.

This along with growing inequality remains over reaching challenge"[12]. This is a kind of eventualities from where people's revolution against governance system particularly in growth and development process in this region.. But moral imperatives which are embedded in human consciousness demand that every society while pursuing justice, need to look after the **most vulnerable sections in the process of inclusion.** This justification is possible only when these exclusionary implications to human society is perceived through deontological perspectives. When economic and social factors have not justifiably delivered the intended good on equal footing to the human society in development or growth process , here is the place where ethical dimensions of human development in such process assumes significance for reducing the exclusionary implications on the society. In the case **of financial sector activities** which are more influenced liberally by free market economy , it is irony that the exclusionary factor remains neglected as vulnerable section remains persistently not included or with ad hoc inclusion . This apart, adding further owes, these marginalized group in informal sector is also living with multiple exclusion socially economically and culturally. This exclusion factor therefore assumes importance in any discourse on equity and distributive justice to humanity.

All these filed level findings indicate the undeniable fact on prevalence of financial exclusion causing **widening the digital divide and inequity gap as well.** Further the financial product designed on 'one size fits for all' approach be it digital or non digital one for that matter, is found harmful with post inclusion negative implication on the welfare of the poor community in terms of inequality factor that renders difficulty in accessing digitally conduited financial products . Even after belated recognition of these facts, the infusion of digitalization is blindly taking place too fast to include the excluded at the cost of welfare of the poor in the last mile. Here it should be noted that technology is only the medium and not end itself in the social welfare development of the society. The values of medium depend on the values of end realized. In this regard, while discussing the congruence of resource valuation with welfare valuation, Amartya sen (1992) states 'the real issue behind this interesting result is the dependence of the valuation of means on the valuation of ends"

4. A way forward

Given the demographic features in the informal economy on one hand and level of preparedness of Microfinance clients for digitalized financial inclusion in the demand side and its consequences in the society at large, conceivably it appears that infusion of technology is too fast to include digitally thereby evntualizing digital divide in the humanity and also widening the inequity gap imminently.

As a way forward, following some subtle observations meriting the attention of policy makers and social science researchers

In the first there is a need for clarity on debatable concept on inclusion in the perspective of contextual eco system, **-**Conceptual clarity on financial inclusion distinctly for developing and developed countries merit the attention of policy makers and social science researchers.(Dr Rengarajan 2018) . Principally, given skewed growth and development among the countries in the globe , uniformly defined inclusion concept with one size fits for all panacea cannot be prudently admitted . From deontological perspectives, a blind adoption of digitalization in banking sector particularly for inclusion of unbanked without considering the actual

[12] ibid 2

demands and their capability of the clients **in the demand side contextually need a rethinking.**

Second, Social acceptance for digital inclusion in informal sector- Most of the excluded community live in informal setting influenced by multi disciplinary demographic characters They typically live and work in the informal economy – not by choice, but by necessity. Any means of inclusion be it tech based or non tech based one that are intended for informal economy, **need to be designed to tailor to the needs of local people** with more demand side orientation eschewing 'one size fits for all' approach. Here the development potential of technology need to be harnessed to conduit **integrated financial products (c**redit plus non credit products) together digitally that help the target clients in poverty segment for their graduation (Dr Rengarajan 2015 &1998)

Third, the process digitalization appears to be too fast to get adopted by the unbanked poor who lack digital literacy . Most of the poor in informal sector don't remember their date of birth. It is too difficult to recollect smartly and also confidentially their pass word, one time password , and decode the symbols used for digital operations in the devices like phone or PC or POS etc. It is therefore strongly asserted to create **a preparedness for digitalization process** in the demand side on a priority bases through suitable capability building programmes for these poor unbanked

Fourth, most of the approaches or strategies, followed for financial inclusion focus on mere **inclusion or access somehow with too much on demand side assumption on utilization of credit at** clients end. Financial crisis as evidenced in housing mortgage loan failure in high income countries like USA and Micro Finance crisis caused by overheating household economy through multiple lending and multiple borrowing is a pointer for present aggressive financial inclusion mission towards revival of microfinance sector. These warning signals should not be ignored in the future. **Regulatory mechanism** need to supervise the functioning of **inclusion without subsequent exclusion through Microfinance** more from demand side perspectives also for serving the said purpose in social sector .Otherwise mere creating institutions numerically and tech enabled pumping the financial services indiscriminately with too much of assumption on adoptability in the demand side would do more harm than good to the poor segment.

Fifth, in the context of wider prevalence of fraudulent practices and cyber crime, the poor people is victimized at large. From the perspective of client / consumer protection, there is urgency for ensuring **provision of cyber security system** for risk free application of digital services both the provider in the supplies side and the user or the clients in the demand side.

Sixth, the continued financially related digital operation through tech based devices like Personal computer, lap tab, mobile, POS, ATM, depends on the immediate **accessibility to the dependable services & repair units/personal** , immediately at the door step for the customer in the last mile. In the case of Mobile mode financial transaction which has come to stay in rural areas, ironically we have more number of mobile phones than toilets at household level .In this context, a mobile service unit or individual skilled entrepreneur in this services at every panchayat level may be useful .

Last but not the least, the task of successful deepening of the digital based financial services in the rural area and sustainable financial inclusion in the informal economy depends on adequate **provision of infrastructure** that is related to **last mile uninterrupted connectivity and tele-communication facility** in the rural areas.

Peroration

Due diligence is required for defining the concept financial inclusion before applying it uniformly in the globe. In this context, it could be prudently conceived that the **casuistry for exclusion differs between the developed countries and developing countries** While former attributes only economic attributes namely low income poor for the said problems while multi disciplinary factors cause exclusionary implication in the latter . As a corollary the developing countries discuss inclusion issue more biased to financial inclusion confining to the micro credit for the unbanked , neglecting the hidden fact on multi faceted poverty ridden with multiple inclusion socially, culturally, politically besides economically , demanding more multiple inclusion besides financial inclusion. To wit, a mere financial inclusion digitally or non digitally for pumping microcredit ,although is necessary but inadequate to challenge the global poverty and inequality issues contextually. Further in unethical competitive financial market in the liberalized economy, self interest and profit maximization assumes significance for the institutions in the supply side and not necessarily on the welfare concern of the poor unbanked clients being the niche for the so called financial inclusion mission in the last mile . Because 'distancing of economics from ethics has impoverished welfare economics " (Amartya Sen 1987)

It is therefore advisable to have clarity on the financial inclusion concept at policy level contextually for each region and arrange to innovate for conducting pro poor integrated products that facilitate to ensure holistic and sustainable graduation of the poor from the poverty line..

This paper is not against literally against fine tech banking sector but given the facts illustrated in the paper advocates strongly to ensure conducive **preparedness for inclusion** in the informal sector **.** Without arrangement of preparedness in terms of physical infrastructure including cyber security system and tech based capability of human beings in the demand side , digital inclusion would remain mystic or illusory only to be associated with the eventuality like wide digital divide leading to exclusion and inequality .Consideration of more ethical dimension **of** exclusion for any inclusion intervention than economic one is a must for any type of mode or source of investment for the said purposes.

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