

Inclusive finance India

SUMMIT



“The Prime Minister’s focus on financial inclusion is an opportunity for a ‘race to the top’ to position India as a leader in the global cashless and digital economy movement.”



Inclusive Finance India Summit

An Exclusive Interview with

Ajay Banga

President & Chief Executive Officer
MasterCard



Offline Interview with Prof. M. S. Sriram, Visiting Faculty, Centre for Public Policy, Indian Institute of Management, Bangalore.

M. S. S.: There is much buzz around digital financial inclusion. How do you see payments technology increasing financial access to the poor in the near future?

A. B.: Mastercard shares a common goal with the Jan Dhan Yojana programme – to make sure that every Indian, regardless of income level, has the access to the financial network. Those still excluded are trapped in a cash economy and subject to higher costs and increased crime and corruption. It isn't right for them, nor for India's economy.

It is heartening to see that over 20 crore individuals have a bank account today. But I want to emphasize that financial inclusion is a journey that happens in a series of steps. The most fundamental of these is to have a digital identity and an account to receive and hold funds. This is the foundation on which other financial actions are based – from paying bills electronically to building up one's credit history to borrowing, investing, and buying insurance. Each step builds on the others.

But the journey doesn't end with simply having an account – the account has to be used.

Only then are people financially included. And this is a challenge in many countries including India, where large segments of a population may have an account but still use cash to pay for things like utility bills, school fees, and remittances. Several things help encourage people to use their account: (1) government delivery of social benefits to an account via electronic or digital means on a regular basis, (2) ease and convenience for consumers, and (3) an acceptance infrastructure for electronic payments. Technology plays a vital role in all three of these.

Our work in India is foundational to our global commitment of bringing 50 crore people and 4 crore small merchants and micro-entrepreneurs into the financial mainstream by 2020.

M. S. S.: How do you envisage the opening up of mobile based transactions? While some transactions are happening and there is traction, the mobile based transactions



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are a very small part of the electronic transactions as of now, but fast growing. Should the poor, be leapfrogging directly to mobile based transactions rather than go through opening of bank account and getting used to electronic cash/wallets?

A. B.: Mastercard stands willing and able to help deliver on the financial inclusion promise, particularly through the lens of the ‘JAM’ trinity (Jan Dhan Yojana, Aadhaar and Mobile). By leveraging India’s nearly 1 billion strong mobile user base we can enable a mobile device to be a safe and secure payment form factor either at the POS, online or in-app.

For mobile based inclusion to actually become a reality, there are significant investments needed in technology, mobile networks and consumer education. This means working together across industries to make an impact and achieve last mile connectivity, including emerging players like the payments banks and small finance banks.

M. S. S.: One of the biggest challenges in “cashless” transactions is having small and scattered merchant establishments in remote areas willing to transact in a cashless

mode. Mastercard has had long experience in growing the acceptance points as well as the card inventory manifold. Would this experience be useful to penetrate deeper into the inclusive markets? What in your opinion are the impediments in having acceptance network?

A. B.: Absolutely. The acceptance part of the equation is mission critical. If people have electronic or digital ways to pay for things, they need places where they can use them.

We’re working with local governments and business leaders to make direct investments to help grow acceptance and literacy in the Small and Medium business community. Here in India, we’ve partnered with organizations such as the Confederation of All India Traders to educate their 6 crore members about electronic payments and are working with them to deliver a national e-Commerce marketplace called “e-Lala”. Our joint pledge is to add 1crore more POS terminals at member businesses across India, including in smaller cities.

We are also working at a policy level with regulators on their proposal to encourage acceptance and provide incentives for electronic

payments. Incentivizing acceptance is key, and effecting behavior change to accept cash over digital is the biggest challenge.

M. S. S.: What do you think the Unified Payment Infrastructure launched by NPCI will do to the inclusive finance business?

A. B.: Regarding the Unified Payment Interface and other payment infrastructures, one of the key areas which need to be ensured and enshrined through government policy and rule setting in the area of digital payments and inclusion, is the concept of interoperability. In the recently released vision by the Reserve Bank of India (2015-18) there is a welcome thrust on the area of convergence which can only be ensured by interoperability amongst multiple players and varied models presently emerging in the Fintech space in India.

The other major area impacted by a lack of interoperable systems is around safety and security - one of the major deterrents for consumers using cash over digital alternatives. In order to develop the payments sector in a competitive and efficient manner, we suggest a common set of guidelines and system

protocols which create interoperability between all global and local stakeholders to bring the most cutting edge solutions for consumers, in a frictionless manner.

M. S. S.: There is a fear that the “cashless” transactions that happen on the card/digital platform get captured as data to be mined. Some activists believe that this would possibly lead to algorithm based push marketing - luring and pushing the poor into a consumerist mode and also deeper into debt. Are there any caveats on how the data from the poor can be and should be used?

A. B.: The promise of the digital world rests on the integrity of the system. We must all trust in its safety and security. And that trust hinges on many things, none more foundational than the responsible and sensible use of data. That's point number one. But, for those who are already connected – included – in this rich stream of information and commerce, the discussion and debate is about privacy and security. We regard these as rights in both our physical and digital lives. However, those who are excluded suffer the brutal reality that they already lack privacy and security in both

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the physical and digital worlds. We’re using technology to try and fix that and at the same time, create greater choices for people to live more of their lives on their own terms, whether they’re at the top of the pyramid, the base of the pyramid, or somewhere in between.

M. S. S.: What is Mastercard’s view on Financial Inclusion in India? With all the talk on Direct Benefit Transfer and other electronics transfer, would this make us a cashless society in the medium run?

A. B.: The Prime Minister’s focus on Financial Inclusion is an opportunity for a “race to the top” to position India as a leader in the global cashless and digital economy movement. The Government’s commitments align very well with our own to bring 50 Crore people into the financial mainstream. We have already worked with and helped governments in Nigeria, Kenya, Mexico, South Africa and Brazil in their financial inclusion goals, to name a few.

Some of the key success factors to promote a vibrant payment ecosystem are safety and security, competition, interoperability and choice for consumers. This will help build a strong foundation for a ‘less-cash’ society.

A collective effort is needed amongst banks, merchants, consumers, government, and network platforms like Mastercard to realize the bold goal of a cashless India. We are also working in the community and making direct investments to grow acceptance and literacy in the SME segment, to bring them into the formal economy. Mastercard is committed to working with governments around the world and in India to provide the cashless solutions that enable digital economies, combat corruption and create growth, opportunity and inclusion for all members of society.

M. S. S.: Does Mastercard see the excluded as a potential market? Where is the revenue going to come to service the investments made by players like Mastercard in technology and network if the government is going to compete through institutions like NPCI (which is a not for profit enterprise)?

A. B.: Those who are excluded from the financial system are a market for us, but it’s a market where we make enough money to make sure we can sustain our efforts, but we won’t be making profits as compared to our other segments for the next 5, 10 years, or longer. For us, it’s about doing well and doing good.

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