

Connecting Billions: The Backbone Enabling Digital Financial Supremacy

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In conversation with Prisila, Correspondent, Asia Business Outlook Magazine. Ram shares his views about the challenges in the digital financial expansion in India and the factors contributed to the accomplishments of Public-Private Partnerships

Prof. Ramachandran was a hands-on senior executive with over thirty-five year's track record of building and leading global consulting practices and high-growth businesses across the financial services and retail industries.

Key policies facilitated the expansion of digital public financial infrastructure in India

The digital public financial infrastructure has been shaped by a series of pivotal policies and initiatives in India, starting with establishing the Aadhar program in 2009. Aadhar is a 12-digit unique identification number provided to residents of India. Information about an individual is maintained in a biometric database that authenticates online verification of identity. The Government established the Unique Identification Authority of India (UIADI) to issue, regulate and address grievances related to the biometric system.

The next stage in developing the digital public financial infrastructure was launched in 2014 with the introduction of Jan Dhan-Aadhaar-Mobile (JAM) Trinity. This policy focused on linking Jan Dhan bank accounts, Aadhaar biometric IDs, and mobile phones to deliver government benefits and subsidies directly to citizens.

The broader Digital India initiative launched in 2015 focused on expanding internet connectivity, improving digital literacy, and delivering government services digitally including financial services. The introduction of DigiLocker enabled residents to safely store their electronic documents on the free space on the cloud, facilitating presence-less documentation.

The final part of the policy was the introduction of the Unified Payments Interface (UPI), launched in 2016 by the National Payments Corporation of India (NPCI) to enable real-time digital transactions between bank accounts using mobile apps. UPI has seen rapid adoption for Person-to-Person and Person-to-Merchant payments. UPI is a Payment Rail that acts as a single interoperable interface to bank accounts, effectively granting mobile access to the payment system, allowing financial transactions to take place instantly, on-demand, and in fiat money inside the formal financial system.

The digital infrastructure called India Stack includes Aadhaar, UPI, DigiLocker, eKYC, eSign and other components on top of which fintech innovation and digital financial services are being developed.

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Policies impacted India's foray into digital payments and usage

In 2018, India recorded about 18 billion digital transactions; in 2023, it is expected to reach almost 115 billion. India is leading the world in digital payments. It has recorded more than 89 million payment transactions in 2022, more than the next four countries combined. UPI has increased at a compounded annual growth rate (CAGR) of 380% and 314% in transaction volume and value respectively. The current emphasis on cross-border payments will truly put India in the pole position for engineering large-scale financial transformation.

At the same time, financial inclusion rates have also significantly increased. According to the G20 report released in September 2023 by the World Bank, India has achieved financial inclusion targets in just 6 years which would otherwise have taken at least 47 long years.

Reserve Bank of India which publishes the Financial Inclusion (FI) Index, capturing the extent of financial inclusion across the country, said it has improved to 60.1 in March 2023 vis-à-vis 56.4 in March 2022. The index measures inclusion factors like access, usage and quality.

For the public, UPI has enabled easier bill payments for utilities, toll payments, and merchant transactions. Global adoption of UPI is also likely to increase cross border payments and settlements.

Factors contributed to the accomplishments of Public-Private Partnerships

The confluence of several factors enabled the establishment of a robust digital public financial infrastructure. "As per NPCI, These included clear vision and objectives, leadership commitment, focus on building platforms based on complementary strengths, risk sharing among stakeholders, consultative policymaking and a transparent procurement process. For example, NPCI has private banks, merchants, Fintech companies, system integrators and software providers as part of their stakeholder group.

"Socially responsible approaches are increasingly table stakes in the design of financial services products"

Challenges in the digital financial expansion in India

India has the fastest fintech growth with an acceptance rate of 87 per cent compared to 64 per cent globally. However, despite increased internet usage and tremendous growth, 190 million Indians are still unbanked.

The 'last mile' problem has to be tackled. This requires rural electrification, internet coverage, access to wider mobile coverage and improving financial literacy. Platforms that are in local dialects is a must. Some of the tier-2 and tier-3 cities still needs to start accepting payments digitally. Local vendors in the outskirts of Jaipur, Varanasi, or Calcutta still prefer cash to UPI payment. This speaks to lack of trust and financial literacy.

More broadly, the Digital Protection Data Privacy (DPDP) ordinance passed in August 2023 needs to ensure that data and technology does not create a stronghold in that it creates mistrust, lack of sovereignty, loss of agency and privacy among the public. Cybersecurity is a significant challenge for all organizations. A robust and auditable governance framework and an independent stewardship structure has to be created.

Institutions like NPCI have been forthright in discussing some of their internal organizational challenges around diffused accountability, span of control and duplication of resources.

"India Stack is the Digital Taj Mahal that the world is admiring now"

Financial institutions must go beyond the traditional mobile/online payments and digital marketing-related activities to truly digitize their back-end platforms using robotic process automation and other generative AI techniques. *Socially responsible approaches are increasingly table stakes in the design of financial services products.* Financial services products themselves have been commoditized and the next few years will see trends towards 'invisible banking', open banking and decentralized finance. Integration of nonfinancial platforms like Amazon, Google and Apple can truly help scale financial inclusion as well as modernize the financial infrastructure.

Significance of open banking and its impact on expanding access to financial products.

Open banking enables tools, products and platforms in an interoperable manner to access data securely across organizations and financial institutions. Traditional banks maintain large amounts of customer data. Once these protocols are established, non-banking financial institutions can access the data and unleash new products and services.

This means customers will not only have access to a broadened set of financial products but will be able to shop in the competitive marketplace.

Financial Innovators will look for 'white space' and 'ignored space' to expand their opportunities.

These could be in the areas of micro-business lending, micro-insurance, women's access to finance, agricultural finance, refugee funding, rural bank penetration and capitalizing on district-level skews in access and reach. Once the gig economy takes root in India in a more formal manner, that in itself will generate innovations in new financial services offerings.

India's financial infrastructure expansion been embraced on an international scale.

India was a late entrant to the world of digital finance. PayPal introduced digital payment in the United States in the late 90's and AliPay kicked off a huge wave in China in the early part of the decade. Today, India has received accolades globally for the robust infrastructure it has built and on its execution. India Stack is the Digital Taj Mahal that the world is admiring now.

There are at least 50 countries who are interested in the India Stack. Several countries including France is adopting UPI. That means one can now go to see the Eiffel Tower and pay via UPI. Other countries like Benelux group, Bhutan, Canada, Japan, Malaysia, Nepal, Oman, Singapore, Saudi Arabia, UAE, UK have already expressed their desire to accept UPI or already doing so. Google has recommended to the US Federal Reserve to adopt a model similar to UPI for the proposed new payment platform in the US.

Indigenously developed Modular Open Source Identity Platform (MOSIP) is now being implemented or tested in several parts of Africa, South America and Asia. It is currently serving millions of citizens in these regions. The platform provides digital identity similar to Aadhar.

India has made available other open source platforms and sandboxes for testing by countries who want to undertake a similar digital public financial infrastructure journey.

From presence-less to paperless, India's public infrastructure is scripting a more innovative, seamless future. Creating an affordable, accessible and abundant platform bit by bit, India is erecting the pillars of a digitally empowered society.