

The Role of Technology in Financial Inclusion

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Distinguished guests, members of the Association of Professional Bankers, ladies and gentlemen,

As a professional association in a vital and a vibrant industry your effort to talk about financial inclusion which has become a buzzword internationally is timely and very much commendable. Therefore, it is indeed a privilege for me to have this opportunity to express some of my thoughts about financial inclusion...probably from a different perspective. As a non banker but as a technocrat who has been associated with the banking industry for many years, let me take you through some of my beliefs in “The Role of Technology in Financial Inclusion”

The challenge for Bankers

Bankers have a bigger challenge today than ever. Challenges have come not only in serving customers but also in the survival and growth in this highly competitive environment. Shareholders and Stakeholders have become more demanding...as much as customers. Revenue growth which drives shareholder value has become a major challenge to all banks. Emphasis on cost containment and the general belief of market maturity, further aggravate the top line challenge. In the light of this competitive situation there are a few important questions to be answered. Are our markets serviced fully?, are our markets matured ? or have we exploited market opportunities adequately? I am sure the

answer would be a big 'NO'. I believe that untapped markets are still available out there for innovative banks to exploit and earn a good amount of profit.

Fortune at the bottom of the Pyramid

Prof C K Prahalad in his book *The fortune at the bottom of the pyramid* explains how corporate organizations can cater to the masses in the bottom of the population pyramid and still become profitable. Majority of the world population comes under the poverty line receiving less than US\$ 2 per day. There is no exception for Sri Lanka. The general tendency of established corporate organizations and the powerful global and national brands is to cater to the top notches of the pyramid serving only to the higher ends of the market leaving the responsibility of serving the poor in the hands of the respective governments. Should this be the case? No! There are many opportunities available to earn substantial profit in the bottom of the pyramid too... We can of course earn profits while executing our social responsibility. There are many success stories to support this. HLL's iodated salt, Aravind eye hospital the world's biggest eye caring facility treating the poor FOC and still profitable, Amul Dairy Products are some of the good examples from our neighbor.

Poverty eradication through FI

One way to define Poverty may be.... depriving masses of their participation in the main stream economy by denying access to resources, economic activities and policy dialogues. Not only in rural areas... Poverty exists equally badly in urban areas too. Yet, the gravity of the problem and implementing various

poverty eradication measures are more serious and complex in the rural sector. As you are aware, with the inclusion of computer literacy and broadband usage in to the national performance measures, some of the key social indicators of Sri Lanka have gone down drastically and we are lagging behind many similar nations in the region.

A couple of times in the recent history of our motherland, we witnessed the ill effects of excluding the youth from the main economic stream. More than providing welfare to the poor, what is needed today is participatory type poverty eradication projects with the objective of helping the poor to stand on their own feet and get them engaged in income generating activities in a sustainable manner. As bankers you have a vital role in fueling the economy by supporting these people.

Technology and Wealth Creation

Before I come to my main topic of the role of technology in financial inclusion let me quickly go through a few examples to show you the importance of technology in economic development.

According to the great management Guru, Tarek Khalil of The University of Miami, who is an expert in Management of Technology, in early 1900's over 85% of US workforce was in agriculture. Now it's less than 3% and still US is the world's biggest agro producer!

Look at Japan or the other high powered East Asian economies. Singapore, Korea, Malaysia and Taiwan...and not to forget India and China for that matter. They all made use of technology extensively in their economic development. I am sure those who witnessed Dr Mahathir Mohomed's inspiring speech at the CIMA summit a few years back would recollect how Malaysia facilitated technology transfer by inviting foreign firms to commence factories in Malaysia. He emphasized the importance of e-governance and adoption of technology in everything they do; and today they have proved success by bringing Malaysia to the top of the list.

Technology should bridge the gap between poor and rich, rural and urban. It should not widen the gap. Now a days we increasingly talk about digital divide! Who created this? Is it something created by poor people? The statistics show a high digital divide in Sri Lanka, and of course many programs are underway to bridge this gap. Are.... YOU AND I..., being the members of the privileged society, not responsible to correct this?

As we learn, Technology and Innovation (defined as change of technology) are the only way forward for economic progress. It's only technology that can create wealth to individuals, firms and nations. Forget technology! We can continue to talk about the basic economic problem of limited resources to satisfy the unlimited wants for decades and centuries!!

FI from the perspective of a Technocrat

From the technocrats' perspective, FI is nothing but reaching millions of people out there regardless of geographic and socio-economic boundaries and servicing them while earning substantial profits. Thanks to the technology innovations, today Banks can extend their reach to millions of people using existing infrastructure facilities with marginal investments in new innovative technologies. Substantial investments with long pay back periods in rapidly evolving and changing technological environments are essentially questionable. But, the good news is that a massive communication infrastructure is already in place in Sri Lanka with a growing talent pool inviting you to use them and deploy your innovative technologies through them at a nominal cost in servicing your customers.

Bankers! Be aware of the 9 myths

So my dear friends, what is holding up in using technology in your march towards Financial Inclusion? I believe that it is worthwhile discussing some of the myths in servicing the rural markets in your efforts of financial inclusion through technology.

Myth # 1: Low Buying Power:

You may be thinking that there is no sufficient buying power which exists in the rural markets. But, the actual fact is... in terms of collective buying power they are in par or ahead of the top notch markets. Remember,... 70% of our

population is still in this market segment and they pay premium prices for their consumer goods. They pay a premium price for their consumer goods as they do not have the luxury of enjoying the discounts offered for bulk purchase or economies of scale. It is worthwhile investing in technology to tap these virgin markets efficiently and cost effectively.

Myth # 2: Rural people always look for cheap products.

Many global brands of MNCs witnessed how the increase of affordability could change the consumer preferences and behavior. They also prefer the best brands of personal care products, FMCGs and consumer durables. We have many success stories in the field of white goods where they penetrated the rural markets by making the products affordable especially under use and pay methods. There is no exception for financial products too.

Myth # 3: Not enough market size

Though you may think so, undoubtedly this is where the head count is high. There are more or less untapped markets for both deposit and lending products. They are willing to pay premium prices for lending products. The best example may be Gramin Bank. The rural people's expectations on investments may be relatively low but it is not difficult to motivate them to mobilize deposits and inculcate investment habits. There is no exception for industrial investments too. Your problem may be how to reach them...but let that problem be answered by the innovative technologies available to you at your door-step.

Myth # 4: Rural people do not require banking and financial services due to their conventional life-styles.

This is not true either. Micro-banking products such as Gramin Concepts are performing extremely well in both developed and developing countries....including Sri Lanka. What is lacking for the rural community is the “Opportunity, Direction and Guidance”.

Myth # 5: Poor people are not credit worthy and they do not have re-payment capacity.

If you can play a participatory role in their lives, you would see that most of them are more credit worthy and loyal than the conventional corporate customers. Just put the amount of money that has been defaulted by the corporate sector and a few of very much privileged customers in the urban sector in to one side of the balance and the amount of money that has been defaulted by a few thousands of rural customers to the other side of the balance... I am sure you will be amazed to realize who is more credit-worthy. So, what matters is a small pat in the back of the rural customer and some direction and guidance. Plays a little fatherly role in their lives...and I am sure you would hit the fortune in no time.

Myth # 6: Rurals do not understand how to use technology:

There are many real-life examples ahead of us, especially from India how fishermen’s wives use Satellite Technology to guide their husbands to areas where a school of fish is available. In Sri Lanka too, you can ask any of the

Mobile Network Operators about the penetration of Mobile Phones in the rural areas. They are fast adopters of new technology. It's a matter of making the Technology available to them. Also, remember, it's always less costly to service the rural people.

Myth # 7: No means to reach the rural masses – (No Technology available... even if available, it is very costly):

This is another myth. My dear friends, you must be asking the question!...yes! It is good to service the untapped rural masses but is it practical to reach them? The good news is, there are technologies available, just a phone call away which can be used to reach the masses, even in the most remote areas, using existing infrastructure....of course at an affordable cost. What is necessary is your decision to go there.... Your resolution to go there.... We need to ask from ourselves the big question. Are we utilizing the technology infrastructure that is available to us today at optimum levels? Do we really want to service the rural sector? If you have the will...you have got the skill...

Myth # 8: On-line Real-Time servicing in the rural sector is impossible:

It is of-course a possibility..... and we have living examples....even in Sri Lanka. Look at How HSBC – the Global Local Bank is reaching the rurals and servicing them on-line real-time basis through Post Offices using Innovative Technology that runs on “existing telecommunication infrastructure”. Today's technology allows you to service your customers at their door step all around the country, on-line, real-time basis at a minimum cost.

Myth # 9: We have already invested in latest technology and therefore we are ahead of others.

As suggested by Prof. Clayton M Christensen of Harvard University, a costly technology in which you invest now can be totally obsolete with a disruptive technology that would be introduced shortly and to be used by competitors. Therefore, it is necessary to be more vigilant and proactive in technology adoption. Continued adoption of innovative technologies is necessary in achieving and sustaining competitive advantage. Technology Innovations come only through Commitment, Dedication, Focus and Perseverance. It is essential to continually invest money as well as quality time and quality resources in search of innovations. Therefore, it is always beneficial to develop a strategic partnership with a Technology Leader who is committed to innovate where you will be able to adopt innovative technologies not only faster but also at a reasonable cost.

Technology and the new Winning Factors

As emphasized in the model of world class manufacturing it is now increasingly accepted that the traditional winning factors of price, quality and delivery are no more winning factors in this digital age. They are only qualifying factors. Bankers are also not exempted! The new winning factors are speed, flexibility and innovation. Use of proper technology is mandatory to address all these three factors. In your efforts in financial inclusion the role of technology is more vital in addressing the new winning factors.

I trust it's worth paying attention to the following statement by Vernon Hill, CEO of Commerce Bancorp in 2004.

“Innovation never stops, the minute you think that you have it right, you are finished”

How technology can support FI

At the outset, FI is delivery of banking services at an affordable cost to the less privileged low income groups without geographic boundaries. Use of technology is inevitable in this exercise. Increasing outreach, up scaling the accounts handled, low cost and fast delivery, transaction processing, reconciliation, relationship management.. all these areas demand use of technology extensively in order to meet the main objective..

Undoubtedly user-friendly technology can remove some of the barriers which constrained people to access the formal banking system.

Is technology available here?

Yes, it's available and very much affordable. Online real time based ICT solutions are available to service the rural masses at their door steps. It's not barefoot banking. It's banking bearing fruits. Look carefully, you may probably be able to use your existing infrastructure with slight modifications and improvements in reaching the masses. If not, it is possible to adopt state-of-the-art technology at an affordable cost. These state of the art low cost innovative

solutions are fully secured and comply with international standards of information security. This easy to implement, easy to use solutions are time tested and proven. On-line Banking through EDC/POS devices, PDAs or ordinary mobile and fixed line phones using existing wired and wireless communication infrastructure such as CDMA, GPRS, GSM are some of the good examples which open your eyes.

Ladies and Gentlemen, my dear friends, as an individual with a passion for creating innovative and affordable technology, let me wish you all the success in your efforts in uplifting the lives of the people of our country through financial inclusion.

Thank you!

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