

Advancing Digital Financial Services: Addressing Ecosystem Gaps

Importance of 'Digital' in Financial Services



McKinsey&Company | Source: McKinsey Global Institute analysis

Financial Services can enable individuals, households, communities and businesses save, expend and invest and the very same services via a digital medium can empower. With over 21% of the country's unbanked population in India the scope to grow in the digital space in India is enormous¹.

Digital finance has the potential to increase the Gross Domestic Product (GDP) of all emerging economies by 6 per cent, totalling \$3.7 Trillion 2025² – that is more than 1.5 times of India's current GDP. More

importantly the transformation digital finance can bring about in developing economies is manifold. Firstly, digital finance has become the linking pin between customers and service providers. With over 61% of adult population now using mobile phones in India, accessibility is no longer a key barrier. Secondly, the switch to digital platforms can lower the transaction and implementation cost of providing a service at a traditional bank by 80 to 90%³, further incentivising servicing the middle and lower income groups. Thirdly, digital services with their non-reliance on brick-and-mortar models present service providers with the opportunity to come up with new services with distinctive business models.

What is holding us back? The current ecosystem gaps

With undisputed potential that digital financial services have to offer, what is it that holds emerging economies like India back? The key determinants of a digital economy are (i) Digital Infrastructure, (ii) Digital Readiness and (iii) Enabling Environment⁴. A culmination of these three factors along with the use of digital services can lead to positive economic impact.

With the Digital India Program launched by the Government of India in 2015, with an estimated cost of INR 1,13,000 crores – the vision was to transform India into a nation that is digitally empowered. The primary focus of the initiative is to create digital infrastructure, encourage digital delivery of services and digital literacy. And while various milestones have been achieved, there is a still a long way to go. India still ranks 91st among 139 countries on

¹ <https://www.brookings.edu/blog/techtank/2015/09/09/inclusion-in-india-unpacking-the-2015-fdip-report-and-scorecard/>

² <https://www.mckinsey.com/global-themes/employment-and-growth/how-digital-finance-could-boost-growth-in-emerging-economies>

³ MG Digital Finance for All, Full Report, September 2016

⁴ extracted from Copenhagen Economics (2010), The Economic Impact of the a European Single Digital Market, http://www.epc.eu/dsm/2/Study_by_Copenhagen.pdf

the Networked Readiness Index 2016, compiled by the World Economic Forum (WEF) with only 15 out of 100 households⁵ even having access to internet.

Digital readiness is another area of major concern and is identified as a major concern. The 2016 FII Survey⁶ found 49 percent of a representative sample having exceptionally low levels of Digital literacy mainly owing to lack of trust, cumbersome interface and unawareness of procedures as the key reasons for the lack of stickiness. Also, 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 transactions⁷.

Although the infrastructure and the behavioural shift is still in its nascent stage in India, the nation has achieved a lot of milestones in terms of the regulatory environment. In 2016, Brookings published a report as a part of the Financial and Digital Inclusion Project (FDIP) – scoring India at 71%. The key dimensions for the report were country commitment, mobile capacity, regulatory environment and adoption. While India scored only 44 per cent for take-up of digital services, it scored a perfect 100 per cent and 94 per cent for country commitment and regulatory environment respectively.

How do we fix this?



The need of the hour is to offer products and services that have strong value propositions to all users. The cost and utility of the service should justify the said service as a preferred alternative to existing systems. Secondly, the agents must be equipped with well-trained agents to ensure smooth day-to-day operations⁸. This clubbed with better integration and interoperability is capable of tackling supply-side constraints. Additionally, attention needs to be paid to data privacy and security and customer protection to establish trust and accessibility – identified as some of the key demand side constraints.

⁵ <http://www.livemint.com/Politics/xLnErGf2Mq9xDQYj3VHWml/Building-Indias-digital-highway.html>

⁶ <http://finclusion.org/country/asia/india.html>

⁷ <https://nextbillion.net/the-longest-last-mile-are-indias-poor-ready-for-digital-financial-services/>

⁸ http://www.microsave.net/files/pdf/1367585756_Financial_Inclusion_Through_E_M_Banking.pdf