

Use of information technology for financial inclusion in Rural India

KAZI IMRAN MOIN AND QAZI BASEER AHMED

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ABSTRACT

Financial inclusion means extending banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. Extending banking to the rural areas where there are no bank branches, consistent power supply or communication links such as telephones or internet is a very difficult task. Information technology (IT) is playing an important role in banking industry. The banking industry has achieved significant success through IT. Information Communication and Technology (ICT) solutions will continue to help banks in providing seamless systems to capture customer data, ensure unique identification and facilitate financial transaction services using remote connectivity through mobile devices. With the help of IT the financial inclusion can be completely achieved from an economy as well as localization perspective at reduced costs and greater accessibility. In this paper, the technology use for financial inclusion and its impacts on rural India have been discussed.

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Financial inclusion as “the process of ensuring access to financial services, and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”.

About 70 per cent of the population (770 million people) live in villages. The vast majority of this group approximately 65 per cent of the population is employed in agriculture. Agriculture employs large sections of the population that is semi-skilled and semi-literate and sometimes unskilled and illiterate. Small and marginal farmers, unable to access financial loans to grow their businesses, have been forced to get loans from local agents at extremely high interest rates (Zeller, 2003).

Non-farming household’s dependent on unskilled activities, including landless labours, construction workers and farm product processing workers, are also underserved by formal sources of finance due to low income.

The basic idea of the financial inclusion initiative is to extend banking services to the un-banked rural

Table 1 : Percentage of households without essential financial instruments

	Without bank accounts	Without life insurance	Without health insurance
Rural	59.59	68.30	98.58
Urban	36.67	45.40	94.72
All India	52.41	61.10	97.39

Source: IISS Survey

population. The rural communities that reside in remote regions were the target beneficiaries of the scheme. Information technology should enable banks to provide services that have the following business requirements:

- Banking services such as deposits, withdrawals and funds transfer are to be provided.
- Each customer must be identified uniquely by some means especially fingerprints. Biometric authentication using fingerprints proved to be more secure than Personal Identification Numbers (PIN) authenticating.
- Both online and offline transactions must be possible.
- Balance enquiry and mini-statement showing last ten transactions must be possible at all terminal locations.
- No transaction should be lost in the entire system.

Financial inclusions and role of IT:

Technology providers are developing innovative

Correspondence to:

KAZI IMRAN, College of Computer Science and Information Technology, LATUR (M.S.) INDIA
Email : kaziimran1111@rediffmail.com

Authors’ affiliations:

QAZI BASEER AHMED, Sir Sayyed College, AURANGABAD (M.S.) (M.S.) INDIA
Email : kazibaseer@gmail.com