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Digital Microfinance in India Not Impossible – A Conceptual Study

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ABSTRACT

In India, the conception of microfinance is not recent. The key goal behind the introduction of micro finance institutions was the development of convenient credit facilities for the vulnerable. Since 1992, NABARD, through SHGs, NGOs, corporate societies, RRBs etc., has taken initiatives to grow this field. This business, though, may only be unorganized. In addition, in the private sector, microfinance organizations have played a crucial role in offering micro-credit to micro-poor citizens in both rural and urban areas. MFIs also used different templates to disburse loans and obtain repayments from their clients. Many of these models is more or less cash-based. The launch of the demonetization movement and the digital India campaign placed the working of MFIs under pressure. The disbursement of cash loans and redemption collections in this business has been severely impacted. The Indian economy has turned around. The author has attempted to clarify in this article the working of MFIs in the pre-digitalization era and the current problems confronting this industry in the post-digitalization environment.

Keywords: Microfinance, Demonetization, Digitization, Digital tools

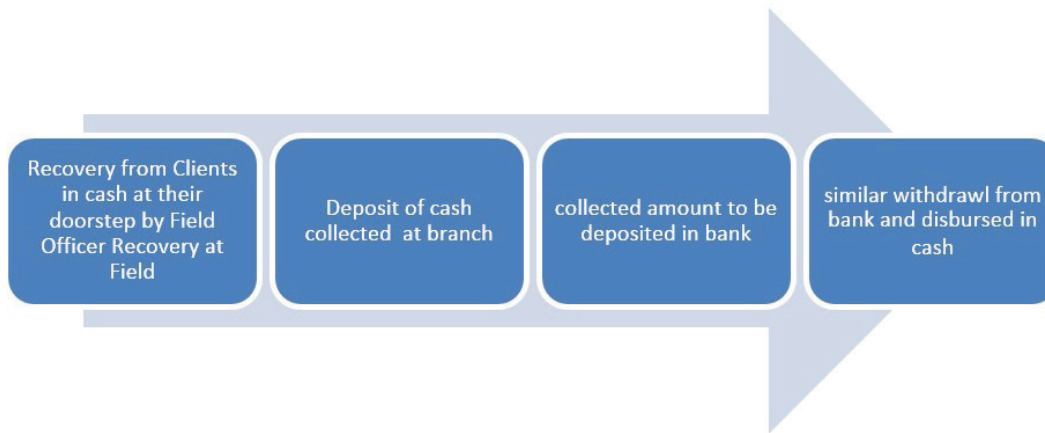
1. INTRODUCTION

In India, the conception of microfinance is not recent. After 1992, NABARD has taken steps through SHGs, NGOs, corporate societies, RRBs etc. to grow this sector, but this sector can only be unorganized. In this market, MFIs have sought strong prospects with a profit-making goal. The fact that India has its highest population in rural areas was well-known. Approximately 58 percent of India's population relies on the agricultural sector for its survival, according to a census estimate, and 28 percent of the population lives below the poverty line. MFIs also recognized this need for the rural market. They began to provide cash-based micro loans in rural areas through forming communities. The party was responsible for retrieving the loans. Since the expense of supplying loans was high, the MFIs paid the borrowers a high interest rate. In certain examples, the interest rate was as large as 48% p.a. Other MFIs in this field were attracted by

this method of earning. These MFIs were financed at a lower interest rate by banks and offered high-rate micro-credit in rural areas. MFIs offered coupon packages to draw more buyers. They soon had lakhs of buyers. Yet numerous borrowings from various MFIs from a single customer shifted the game until 2010. The rest of the investors were not in a condition to repay the balance of the loan. Over indebtedness in AP can be estimated from the fact that in Andhra Pradesh, the average outstanding debt per household was ₹65,000,000 compared to the national average of ₹7,700. (CGAP, 2010). The creditors were unwilling to repay the portion of their loans that contributed to major suicides and caused them tremendous financial pressure. Non-digitization has been one of the key reasons behind these crises. Some major MFIs called SKS MICROFINANCE LTD. (now, BHARAT FINANCIAL INCLUSION), SATIN CREDITCARE, UJJIWAN and EQUITAS attempted, but at low speed, to apply digitalization in this sector after 2010.

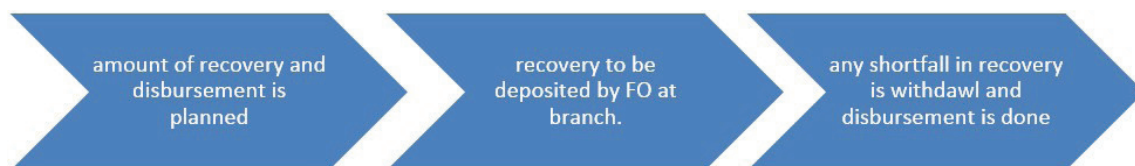
2. MODELS USED BY MFI DURING PRE DIGITALISATION

The model in Figure operates exclusively on the cash economy. The Field Officers have the notion of retrieving the deposits from their client from their doorstep in the morning. The balance of the recovery is obtained by the division and the deposited amount can be credited to the fund. The balance will be disbursed for loan purposes. All the cash remaining will stay with the bank branch tonight.



Model

This second paradigm mostly follows the cash-only schemes. The Chitty chief needs to determine how much money is raised and disbursed in a day. The role of Field Officer is to have the service he or she is entitled to by midday. If the sum of recovery reaches disbursements, the balance can be used to create savings where Bank needs to take steps whenever disbursements surpass collected sum.



The field officer will make sure that the postman meets the plan by calling the distribution manager. Further details on survival should be given to the Division Manager. This agent is liable for depositing the received payments in the regional office during processing. You would be sitting in a balanced way.



3. PROBLEMS FACED BY MFI DUE TO NON-DIGITALIZATION

2.1 Cash Risk

Managing repayments on loans calls for strong focus in cash management. The banks receive credit entry from consumers and bring it to the closest branches. There is a major possibility of manipulation of the IFIs.

Lack of Multiple Products

Diversification may not have been feasible under a conventional Multi-purpose cooperative or participating bank. These smaller MFIs are supposed to only offer low cost credits to their consumers in order to survive. However, MSIs is having a rough time to diversify their capital markets into different financial categories. The 2010 Andhra Crisis has rendered a duty of diversification to be in place.

High cost

Handling of high currency, recovering of debt, keeping of cash and dealing with deposits and withdrawals requires a time gap in the operations. In this way, it needs long-term preparation and work. All of these kinds of operations also tend to have operating expenses.

Time Consumption

There is a long procedure for acceptance of financial loans and it requires 15-20 days. Customer records could be incomplete. Therefore, the method will be long and require a lot of time.

Lack of Proper Records It is necessary for certain people to make a large amount of loans from various Mutual Fund Service (MFS) providers if such one is not given by the mutual fund administrator. The situation of Andhra Crisis in the pre-digitization is the classic illustration of the need to be vigilant with all forms of debt repayment.

Limited Growth

It is reduced in degree owing to the lack of digitization.

Demonetization

Any government decisions including demonetization of currency can be detrimental for microfinance institutions if they fail to allow bank transfer. MEIs from India have faced related problems and difficulties. India allows for the use of alternative currency and less than five percent of loan money is remitted to the government. If we agree this fact, it follows that such policy frameworks can seriously place a strain

on MFIs as they decrease investments and may lead to nonperforming assets.

Post Digitalization Period: Digital Tool for MFIs

Digital India project may be considered as a lifeline for microfinance organizations. These methods may be used by microfinance institutions (MFIs) to address social and economic problems. These resources are as given below:

Mobile Device: Quite soon, the cell service use has risen in India. According to available statistics, the industry of mobile banking in India has crossed one billion in February 2015. MFI are utilizing numerous handheld devices such as iPads to render their interface interactive. Data base of such students would be without any mistake. There is also the method of data transfer using smartphone applications. Many citizens may apply for a loan without needing to go through tedious process. By doing this, finding a prospect is easy.

Micro ATM: There is a rise in the probability of managing currency because of less human interaction with cash. It is not possible for any financial company to set up branches and ATMs in every city district in Singapore. The Specific Identity Authority of India (UIDAI) was established in 2012 to handle the increasing population of Indians. Biometric ATMs combined with biometric technologies for authentication are adding to the growth of micro finance. A biometric micro-ATM interface which is named “Aadhaar Enabled Payment System” enables customers of MFIs to withdraw money at close their ATM computer.

Personal Digital Assistant: PDA was used to know knowledge quickly and there are multiple apps, which will make your life simpler. In determining the financial lives of the Microfinance Organizations, MFI success is a significant parameter. The efficiency of the financial intermediation have been enhanced thanks to the introduction of computerize data management system.

Management System: There is a way to monitor success and follow-up arrangements with repayment plans of the customers. The system of technology has revolutionized how MFIs perform their duties.

Social Media: Social media has provided MFI with large number of clients and also provides the a great forum to host discussions among MFI.

Internal Network: Intranet plays a crucial role in ensuring knowledge flow between neighbouring organizations. It will use the internet to exchange details and expertise through different platforms.

POs Terminal: POS terminal may also be used for credit transactions.

Mobile Wallet: Mobile Applications like Paytm, Mobikwik, Freecharge, Bhim are launched in India where they are offering cash-transfer services to their customers. The FDIs will use this as their streaming media.

Digital challenges before the MFIs

Partnership with financial service provider: A digitalized environment for the MFI's to live in this modern world is required. This poses a big issue for businesses as they would have an arrangement with the internet service provider.

Training of workers: Training staff so they can perform effectively throughout the sector. Global exchange students would need to be educated on utilizing electronic devices such as tablets, smartphone

apps, apps, internet usage, printers, computers, etc. which is a difficulty in itself.

Infrastructure development: Infrastructure growth is needed for MFI's to be more digitalized. For this function, there is a need of providing internet access such that the applications can be used routinely. There is a great need to develop the infrastructure since it is really weak in rural and remote regions.

Cost of Software and budget: The expense of digitization will be expensive to bear. This is because MFI is not responsible for the expense of digital transitions.

Adoption by Customers: The method of updating modern financial instruments would not be simple as it would entail to reassure consumers about making over technical switches in daily transactions.

4. CONCLUSION

MFI's charge to customers in digitization was quite a major hurt. They were trained for the highly treacherous global business conditions. The key issue is that there must be an acceptable form for electronic analysis. Using the new technologies, these microfinance companies are able to easily find and satisfy the desires of their clients. Asset managers should use the internal robotic tool to handle debt portfolios to assure excellence in loan management. Help build a sound atmosphere for the whole population. Accelerating the emergence of modern technologies requires a phenomenal social help to thrive.

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