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means that registered voters should be given the option of casting votes on the internet. The task prima facie sounds daunting and it is so. But we can rely on the historical efficiency of the Election Commission to implement the project on one hand; and on the other, the number of benefits it will bring to the country on the whole.

On the first issue of the Commission's capability, needless to say, it is important to get the Commission to think in terms of internet voting. Once the thought is accepted seriously by the commission, I am sure, it will not be too difficult for the Commission to implement it - just as it has so smoothly and efficiently implemented electronic voting machines. Of course, in the case of internet voting there is no global precedence, just as there was not precedence of electronic voting machines on such as

large scale. So there is the opportunity to set a global benchmark.

Key Advantages in Internet Voting

On the second issue of benefits, one can safely state that they are far too numerous and important. I will just mention three top issues that can be resolved: a) Literally, millions of so called middle classes who do not come out to vote since they consider the process to long and boring will come out and vote from the comfort of their homes thus possibly changing the whole demographic challenge that elections in India face; b) It will be much safer for people to vote and not be intimidated and c) finally, due to a drastic cut down on physical arrangements such as setting up booths and deploying security forces, the government will save considerable time and money. If these are not compelling reasons, I wonder what are?

As a postscript and from a narrow personal perspective, I may also add that 'internet voting' will give a new thrust to internet use in India and help in higher internet penetration - something that successive governments have failed to achieve, may as well be achieved through the good offices of the election commission. This I would say would be the best "collateral" achievement of the whole exercise.

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Financial Inclusion and Net Banking Solutions- Regulatory issues

With bottlenecks coming in by way of excessive licensing and discouragement experimentation with new technology suffers

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In the modern context, it is imperative that a large number of people who do not have access to capital are brought into the organised sector. Especially in rural areas, with rising incomes and shifting agricultural practices, there is an increased demand for credit, the supply of which is abysmally low. On the demand side, there are problems with financial illiteracy, lack of awareness, fear and cost of approaching banks, inflexible products and liquidity problems. It's not just the banking exclusion; the poor also do not have access to financial products such as insurance, time deposit facilities and housing loans. The role that Information Communication Technology can play in bringing about financial inclusion has been discussed in various forums and is arguably the best way forward.

Technology Innovation and Banking Solutions

The Information Technology

Act governs electronic banking and therefore brings a narrow focus into regulation. For example, it only recognises what is known as the asymmetric crypto system and the hash function. At a nascent stage of development and in the interests of innovation, this aspect should have been technology neutral. Internet banking, which works on digital signatures, requires certification and certifying authorities. Banks ought to have been allowed to apply for a licence to issue digital signature certificates and function as certifying authorities. This again would reduce time and costs. Innovation would allow rural banks to offer tele-banking facilities that work with automated voice recognition systems and voice response systems to allow those with telephones to access banking facilities without having to be literate or travel to the bank. Touch screen banking allows this too, but will need to be far less capital intensive to



reach larger numbers of customers. Technology up gradation and reform could also pave the way for Home banking services, especially for rural areas with rich pockets. The Department of Telecommunications has issued guidelines for registration and operation of 'Other Service Providers'. As per OSP Guidelines, any entity wishing to engage in the provision of Application Services would require a license from DoT. Here is the similar problem that plagues all innovation. With bottlenecks coming in by way of excessive licensing and discouragement, experimentation with new technology suffers.

Many Ways to Simply Banking Services Using ICT

The Income Tax Act mandates that payments greater than Rs 20000 be made only through crossed cheques and demand drafts.² ATM's face similar restrictions under the Banking Regulation Act and therefore cash withdrawals of large amounts are not permitted. Also cash dispensation is restricted to certain denominations and therefore does not allow flexibility among small account holders to withdraw fractions of money as required. In addition is the need to allow electronic cheques. If electronic cheques were allowed and could be

written out, bill payments become much simpler and cheaper.³ The RBI is understandably cautious on pre paid payment mechanisms. Non-banking entities issuing pre-paid payment instruments need to maintain an escrow account with their banks to the extent of outstanding balances in the cards issued by them.⁴ Pre-paid payment instruments can be used for transfer of funds online or through mobile phones. The schemes which facilitate such transfers do require safeguards against misuse. Therefore only banks are permitted to issue such cards. This obviously has a debilitating effect on using this scheme to ensure financial inclusion in a specific village. The RBI also prohibits companies from providing 'internet based electronic purse schemes'.⁵

Internet Banking and key Regulation Matters

Internet banking in India is governed by RBI which aims at regulation and supervision of the internet banking activi-



ties of the banks. The banks are now permitted to offer internet banking facilities based on the board-approved internet banking policy and no longer require prior RBI approval. The Internet Banking Circular lays down



technology and security standards to be observed by the banks offering internet banking services and also the legal, regulatory and supervisory issues in relation to such operations. The products can be offered only to account holders and cannot be offered in other jurisdictions. The RBI's 'Draft Operating Guidelines for Mobile Payments in India' regulate mobile banking to ensure appropriate safeguards and security of financial transactions. The Draft Guidelines lay down technology and security standards to be observed by the banks offering mobile banking services. They also address the legal, regulatory and supervisory issues. Only those banks that are licensed and supervised in India and have a physical presence in India are permitted to offer mobile banking products. These services can be extended by banks only to their own account holders. The banks are required to have a system of registration before commencing mobile based payment services to a customer. Banks that have already started offering mobile payment services are required to review their position and comply with the guidelines within three months of the notification of the guidelines.

Finally, the discouragement to small players comes about largely because of imposing the same transaction cost on small players as on the big ones. Therefore, small payments, small savings and localised financial transactions become unviable. The foremost example is that of interest rate caps and floors for lending institutions. This implies that small loans become unviable for banks and other financial institutions. The first regulatory issue therefore that comes in the way of any attempt at financial inclusion at a village level is the interest rate cap that kicks in whenever small credit or priority sector lending is discussed.

In villages, where liquidity is a serious concern and cash is required almost immediately, there is a trade off between low interest loans and faster credit access and it is but obvious that farmers and labour would prefer higher interest loans available immediately to low interest credit that comes with a delay.



Similarly, mandating interest rates for savings accounts (at 3.5 per cent now) also comes in the way of allowing viable savings institutions that are unable to offer this for small amounts of money collected in poor neighbourhoods.

There is enough argument for doing away with this floor, as the customer would again prefer small savings with very low interest if it comes with an ease in withdrawing money on one hand and depositing small and marginal amounts on the other.

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¹ These OSPs are companies providing 'Application Services'. 'Application Services' are been defined as provision of services like tele-banking, tele-medicine, tele-education, tele-trading, e-commerce, call centre, network operation centre and other IT Enabled Services, by using telecom resources provided by authorised telecom service providers.

² This can easily be extended to include electronic transfer too, a recommendation made by the S R Mittal Working Group on Internet Banking.

Examples of such solutions exist with Microsoft "Money" or Intuit's Quicken.

³ The amount has to be kept separated from the working capital and other funds of these entities. The use of such funds by companies for

any other purpose other than settlement of claims is prohibited.

⁴ The Electronic Purse Circular states that these activities are in the nature of acceptance of deposits which are repayable on demand and therefore in violation of the provisions of the Reserve Bank of India Act, 1934. The RBI has advised banks against associating themselves with

such schemes.

⁵ The RBI, in July 2008, had asked banks to keep their mobile payment services on hold until final guidelines are issued. However, mobile alerts for credits and debit, balance enquiries and other services in the nature of providing information can be continued.

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