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Exploring the Factors Affecting the Adoption of Mobile Financial Services among the Rural Under-banked and its implications for Micro-finance Institutions

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Abstract

Around two and half billion adults worldwide do not have a savings or credit account with either a traditional (regulated bank) or alternative financial institution (such as a microfinance institution). On the other hand, penetration of mobile technology had been substantial in the past few years and is expected to increase in the future. Around one billion people in emerging markets have a mobile phone but no access to banking services and it is said that by 2012 this population will reach 1.7 billion. Financial institutions, which have had difficulty providing profitable services through traditional channels to poor clients, see mobile financial services (MFS) as a form of 'branchless banking', which lowers the costs of serving low-income customers. The main objective of this study was to determine the factors affecting the adoption of MFS (including mobile banking and mobile payments) among the rural under-banked population that would help the micro-finance institutions like credit cooperative societies to reach to more people with better quality of services.

Keywords: Mobile Financial Services Micro Finance Institutions Adoption of MFS Mobile Banking Mobile Payments TAM

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ABSTRACT

Around two and half billion adults worldwide do not have a savings or credit account with either a traditional (regulated bank) or alternative financial institution (such as a microfinance institution). On the other hand, penetration of mobile technology had been substantial in the past few years and is expected to increase in the future. Around one billion people in emerging markets have a mobile phone but no access to banking services and it is said that by 2012 this population will reach 1.7 billion. Financial institutions, which have had difficulty providing profitable services through traditional channels to poor clients, see mobile financial services (MFS) as a form of 'branchless banking', which lowers the costs of serving low-income customers. The main objective of this study was to determine the factors affecting the adoption of MFS (including mobile banking and mobile payments) among the rural under-banked¹ population that would help the micro-finance institutions like credit cooperative societies to reach to more people with better quality of services. Existing studies on adoption of MFS had been primarily based on TAM and the dimensions were more focused on the urban banked population having adequate access to multiple channels of banking and financial services. However, there has been a serious lack of research in determining the dimensions of MFS adoption among the rural under-banked population. This study had been conducted through interviews and focused group discussion in two distinct underdeveloped states of India.

The study revealed that the demand for the core service (i.e. banking and financial services) along with the hardships faced by the population in availing such services through existing channels of delivery as prime drivers for adoption of mobile enabled financial services. Hardships faced by people availing financial services through existing channels included lack of accessibility, very high rate of interests for loans, corruption at various levels, complex procedures and eligibility norms, low quality of service for the socially and financially backward population. On the other hand, lack of trust and low technology readiness was found to be the prime bottlenecks in adoption of such services. Such bottlenecks could be removed / reduced through increased awareness and usage among the peers. Though the factors like perceived risk and concerns about privacy and security of the MFS were found to be pronounced in the existing studies that were conducted on population having adequate accessibility to various alternative channels of financial services, the same was not observed in the case of the rural under-banked population. It was also found that the micro-finance institutions having a larger presence at the grass root level through the banking agents would be more effective in imbibing trust among the people on MFS by spreading awareness through the existing agent network.

¹ Under-banked people would have at least one bank account with very less transaction both in terms of volume and value which may be either due to lack of accessibility to banking and financial services and/or lack of demand of such services.

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