21st Century Banking Technologies in Micro Finance Banks

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Abstract:-

Microfinance is the primary method for decreasing poverty in most emerging economies, including India, as part of the financial inclusion drive. Microfinance is an important mechanism for small, marginalized, low-income persons in our society to channel their savings. This research aims to find out how microfinance and financial institutions use ICT (information and communication technology) (FIs). Tables, graphs, and pie-diagrams were also created to investigate the workings of financial institutions.

Keywords: - Microfinance, MFIs, ICT, Financial Institutions, Leverage

Introduction:-

The Indian government has been working hard for several years to get the economy back on track by attaining balanced economic growth. Agriculture and related sectors employ more than half of the population, and this segment of the population is classified as low-income. Unfortunately, they are also living in poverty. Following independence, the government prioritized the restoration of the financial system, particularly in terms of making access to the financial sector more convenient. The Indian economy is separated into two groups, affluent and poor, based on income. Worst of all, the economic population is primarily made up of those who fall into the latter type. Our financial industry is separated into two categories: organized and unorganized. Due to the ease of access to these types of institutions, low-income individuals generally fulfill their financial needs from the unorganized sector. They lack access to the organized sector. This could be related to the fact that some institutions are more difficult to get into. The government has launched a number of efforts to improve access to the financial market for this group of people from time to time. One of the concepts that aids in the fight against poverty is social banking. Microfinance is one of the services given under this umbrella, and it is primarily aimed at persons who do not have access to traditional banking services. Poorer, geographically isolated, and socially excluded people are the target group. Microfinance in India dates back to the mid-nineteenth century. Many banks were nationalized for microfinance between 1969 and 1980. National banks for agriculture and rural development (NABARD) and regional rural banks were established. They are built to provide social banking services to the society's marginalized populations. They were unable, however, to eliminate the presence of local money lenders (Morduch & Rutherford, 2015). Microfinance was then transformed into an economic development instrument by non-governmental organizations (NGOs). MFIs have begun to include ICT into their activities in order to gain access to more clients. Both variables, namely ICT and financial institutions, are working to ease the operations of microfinance institutions in order to leverage the workings of microfinance institutions.

ICT's Role in Microfinance:-

Microfinance is a method of providing financial services and products to small business owners, entrepreneurs, and, in particular, people from low-income groups who are trapped in poverty. Microfinance institutions are responsible for these microfinance services. Donations are the main source of income for many organizations. They must focus their operations on two goals: the first is to assist society, and the second is to meet their financial obligations. Information and communication technology (ICT) has become an integral component of almost everyone's life. It has now begun to influence MFIs as well, due to its popularity and innovative position in practically every sector of our society. It is regarded as a critical tool for leveraging and maturing India's microfinance business. It is important to note that it benefits MFIs by not only assisting them in expanding their reach to potential clients, but also by giving financial aid by attracting various donors. ICT is bridging the gap between customers, thus becoming the helping hand for MFIs, as they must perform multidisciplinary functions, such as serving people at the bottom of the social pyramid, uplifting the weaker section, enhancing the skills of the deprived section, and generating credit facilities at the same time. based on (Arifujjaman & Rahaman, 2007). At the micro, meso, and macro levels, ICT has been found to have some effect on poverty. As a result, the government periodically launches various projects aimed at increasing ICT usage at all levels of society in order to attain digital balance. Bharat Sanchar Nigam Limited (BSNL) has surpassed BSNL as the leading broadband service provider in rural India. Many schemes, such as Jan dhan Aadhaar-Mobile (JAM) in 2005 and UIDAI (Unique Identification Authority of India), have worked logically by creating a biometric-enabled unique identity for each individual that can be used anywhere, at any time, because it provides a common database facility for various other documents side by side. It allows users to verify their information online (E-KYC). Almost every Indian citizen now has an Aadhaar card in their wallet. Mobile banking, UPI (Unified Payments Interface) for electronic payments, and, to a considerable extent, private sector engagement, such as ICICI's FINO, which has provided data management help to a large number of MFIs, ATMs, smartcards, and other institutions. These have enabled individuals in the lower socioeconomic strata with all-encompassing access to microfinance services. MUDRA (Micro-Unit Development and Refinance Agency Bank), the digital India project, the DIGI DHAN mission, and the eSHAKTI portal have all achieved significant progress in the MFI industry in India. However, the use of ICT in MFIs is required to expand its access domain.

Financial Institutions' Role in Microfinance:-

A financial institution is the physical structure of the network within which the flow of financial services occurs. These are the businesses that meet people's financial demands by disbursing loans in a variety of methods and accepting various types of deposits from consumers. They also execute a variety of ancillary services such as investments, mutual funds, currency management, and numerous agency tasks. It consists of a well-connected network of banks operating globally, throughout the country, and within the country at the central, state, district, block, and village levels, among other places. As a result, it is an excellent system for the flow of financial products and services. The RBI and other banking and regulations acts govern and administer these institutions. Financial institutions include the Reserve Bank of India (RBI), commercial banks, various developmental banks, regional rural banks, non-banking financial firms, and cooperative banks. Microfinance institutions are the newest entrants to the market. These are developed as a result of the financial assessment's exclusion of the country's lower-income citizens. They currently collaborate with other financial institutions to operate as a go-between for financial institutions and clients, taking loans from banks and disbursing them to SHGs (Self Help Groups) and other individual members. Different financial institutions' roles are listed here in order of their level of involvement in various MFI-related activities.

● The Reserve Bank of India (RBI) serves as India's central bank, overseeing all banking institutions directly or indirectly. The RBI has created numerous policies in the realm of MFIs and designated it as a priority sector lending institution. The RBI agreed to infuse Rs. 75,041 crores in March 2020, in addition to all previous measurements, to reduce liquidity bottlenecks in the banking sector and de-stress the financial market. Small finance banks (SFBs) that engage in small banking activities are also permitted by the RBI.

● The National Bank for Agriculture and Rural Development (NABARD) is the leading microfinance institution. This institute was the first to establish the concept of SHGs (Self-Help Groups), which began with a 500-SHG trial and has now grown to a total value of Rs. 50.77 lakhs as of March 31, 2019. This institute also promotes initiatives such as ‘Digital India' and ‘eShakti' in order to expand its reach and usher in a major shift in the microfinance sector.

● SHG: Self-Help Group is a community-based network of largely female members working toward a sustainable livelihood, generating financial resources, and giving social and economic help. They've been linked to the banking programme and are now referred to as SHG BLP (Self-Help Group through Bank Linkage Programme). SHGs are also recognised as NABARD's brainchild. SHGs exclusively networked 12 crores of households, according to a 2019 NABARD report, with an annual loan of Rs. 23,000 crores. This is regarded as a significant success in the field of microfinance.

● Commercial banks are banks that are primarily used to conduct business transactions. These banks, however, also engage in microfinance. More over half of SHGs have a commercial bank account for their funds (NABARD report, 2019). Loan disbursement increased by 20% in 2019, with SHGs accounting for 63.8 percent of total bank loan outstanding in 2019. They also succeeded in lowering the level of NPA in absolute terms, which is noteworthy.

● RRBs: Regional rural banks are institutions with a strong connection to the rural community. This is why they are regarded in the microfinance market as a front-driver. These institutes were the first to establish the JLG (Joint Liability Group) concept, sometimes known as the business promotion model. Microfinance through RRBs has increased from Rs. 28.07 lakhs to Rs. 30.79 lakhs, representing a 9.6% growth.

● NGOs: Non-Governmental Organizations (NGOs) that are registered as a trust or society work closely with MFIs to provide unique support, such as training, internal audits, social capacity building, and encouraging the operation of SHGs. According to a 2019 NABARD report, Hand-in-Hand has expanded to become the largest NGO, with 1.66 lakh SHGs matured.

● Microfinance institutions that act as businesses are known as non-banking financial institutions (NBFCs-MFIs). With a total loan outstanding of Rs. 68,868 and a 42 percent growth rate, these enterprises provide microcredit as a group.

MFIs must contact with the largest sector of society and provide financial services to them through various SHGs. As a result, in order to compete with the expanding number of players in this field, MFIs must build a long-term business model. As a result, the fundamental purpose of MFIs is not to broaden their reach. They must also generate profitable results. The cost of a fund's spread, on the other hand, is too high, making the dual purpose difficult to achieve (MFIN report, 2016). Furthermore, microcredit is given without any type of security, posing serious risks. As a result, urban finance, which includes entrepreneurs, small businesses, and other small businesses, is attracting more attention these days.

Literature Review:-

Microfinance is an important method for providing financial services to people from all walks of life. It provides services like as disbursing funds to people from all walks of life, but only half of the population can take advantage of them. As a result, multiple studies have been undertaken to determine how microfinance penetration would expand as ICT and diverse financial institutions become more widely used. Many researchers, such as

Joseph Kasumbha Ssewanyana (2009), looked into the use of ICT in the microfinance sector in Uganda; Erasmus Fabian Kipesha (2013) looked into the impact of ICT on microfinance institutions in Tanzania; Guganeshan and Suthaharan (2016) looked into the relationship between ICT and microfinance in Sri Lanka; and Jean Bosco Halimane (2017) looked into the impact of ICT on microfinance institutions in Tanzania. All of these research on microfinance and ICT took into account the same factor: the impact of ICT. The microfinance sector's performance improved as a result of cost reductions, increased client reach, financial stability, profitability, and financial efficiency, and thus improved the interaction between customers and the sector. These researchers did point out several limitations, such as installation fees, the need for well-qualified employees, network challenges, and a lack of proper implementation of government rules. Researchers in Punjab, such as Zora Bi and Pande (2011), conducted a study comparing the performance of microfinance institutions and commercial banks, and discovered that banks in the microfinance sector benefit from the inherited advantage of the business model associated with commercial banks. Rita Jain (2018) investigated NABARD's function in microfinance and discovered that gender equality was achieved through linking it to microfinance services via several SHGs. Dr Devendra Singh (2019), who indicated that there is a beneficial outcome from the collaboration of various banking institutions on the development of the microfinance industry, backed up all of the findings. Sangeeta Arora and Sapna Arora, 2012; Tejbir Kaur and Rajdeep Singh, 2014; Zaei et al., 2018; and Ahtesham and Mittal, 2019 focus on various dimensions, such as micro-credit and women empowerment, poverty reduction, and socio-economic factors for the availability of microfinance to farmers in Punjab, and the facts explained that the availability of microfinance to farmers in Punjab The purpose of this study is to look into the role of financial institutions and information and communication technology in improving the microfinance sector in India. This study is unique in that it took into account the collective role of all financial institutions and digital platforms (ICT) through various schemes implemented to date, and it used the most recent data available on the functioning of the microfinance sector in India from the NABARD report for the year 2018-19. This study employed both qualitative and quantitative research methodologies, as well as a mix of primary and secondary sources. Furthermore, both variables, i.e. ICT and financial institutions, are seen as modern ways to expand the reach of microfinance services to a wider range of people.

Sharif Mohd (International Academic Journal of Accounting and Financial Management, Vol. 5, No. 4, pp. 116-128.) in his paper titled" A Study on the Performance of Microfinance Institutions in India mentioned that "Microfinance's importance in developing nations like India cannot be overstated; it plays a critical part in the socioeconomic upliftment of the poor and low-income population. Poverty reduction has been a top priority at both national and international development levels since the 1990s. The government has adopted a number of efforts within this framework. Microfinance has gained popularity as a viable instrument for poverty alleviation and socioeconomic development".

Need:-

In many developing countries around the world, financial inclusion is becoming a subject of concern, as finance is viewed as society's lifeblood. As a result, every unit of population's accessibility is crucial to its proper circulation. As almost all developing economies face the same difficulty of a substantial financially excluded population, most governments strive for economic equality among their citizens in order to bridge the gap through financial inclusion. A comparable problem arises in India. The majority of India's population lives at the bottom of the economic ladder and is denied a variety of financial perks.

Objectives of the Study

The overall goal of this study is to determine how the microfinance vehicle can engage individuals digitally to work economically, and how various institutes can channel these people's savings into investment and employ them constructively. Aside from this broad goal, the research's specific objectives are as follows:

- To investigate how microfinance makes use of information and communication technology (ICT) (ICT).
- To learn more about how microfinance works with different financial institutions (FIs)

Research Methodology

Sample size, research design, and analysis the descriptive research design was used to achieve the study's research aims, with microfinance as a dependent variable and information and communication technology (ICT) and financial institutions as independent variables. This research is based on secondary information. Secondary data is compiled with the goal of connecting other financial institutions with microfinance, such as commercial banks, NABARD, RBI, SHGs, and various NGOs. The most recent statistics from the NABARD report for the fiscal year 2018-19, as well as data from other journals, books, websites, and magazines, were used.

Table 1

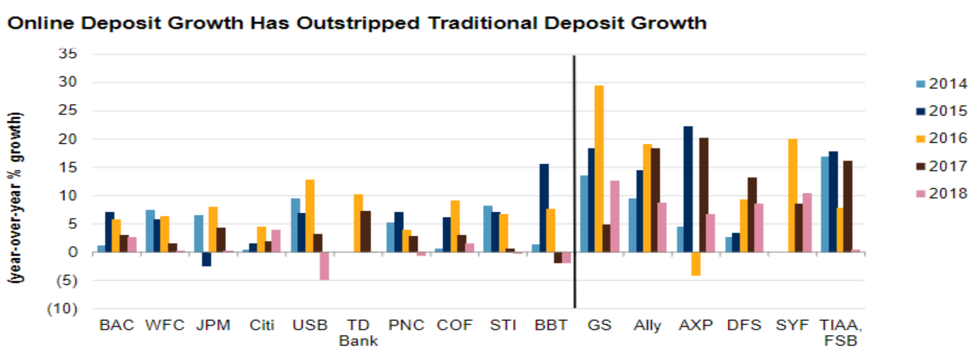

Table 1:- It shows the trend of increased in online deposits over traditional deposits

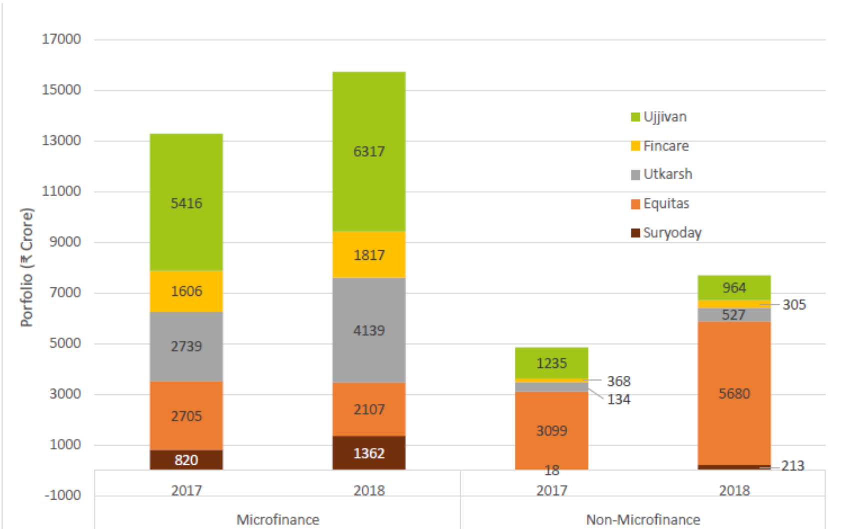

Table 2 : Trends in Microfinance and non-microfinance portfolios of five SFBs

Table 2:- Microfinance still forms a sizeable portion of the loan book for SFBs; this is likely to contribute in keeping the portfolio-level lending rates higher than that of other bank groups. Table 2 shows the microfinance and non-microfinance components for the five SFBs for which this data was available. Microfinance book formed 67% of the total loan book for these five SFBs. The increase in the non-microfinance component has been through the provision of new products, with MSME, vehicle and gold loans being the most common ones.

Conclusion:-

In India, microfinance is still in its infancy. So far, a great number of SHGs have been built, all of which are linked to various financial institutions in order to alleviate society's ills. For this, the digital platform is heavily promoted, and it is discovered that the use of ICT is highly advantageous not only in terms of reaching the greatest number of consumers, but also in terms of maintaining the existence of various MFIs. Not only does the use of ICT improve service effectiveness, but it also improves service efficiency, cost control, savings, and market share. The financial institutional network has also been successful in expanding the flow of capital to a large extent. Although, from time to time, some obstacles are discovered that can be addressed by combining the efforts of the government and various non-governmental organizations. And the overarching goal of a balanced economy will be met soon. There may be various flaws in this study due to time and financial constraints. Researchers should do a detailed study of microfinance following the COVID-19 pandemic, as well as examine ICT and its instruments in the context of microfinance, and conduct a comparative study between two or more nations.

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