

## Financial and Technological Innovation Needed for Growth Inclusion in India

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- Financial products are not to blame for the financial crisis; the lack of regulation caused the meltdown
- Financial, institutional and technological innovation is essential in connecting more people in India to the banking system
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Mumbai, India, 14 November 2011 – Financial innovation in India is key to making growth inclusive by connecting hundreds of millions to the banking system, said panellists at the World Economic Forum 's India Economic Summit.

Panellists repeatedly stressed the importance of changing the public perception that innovative financial services were the cause of the 2008 financial meltdown, which led to the global recession.

“ What happened in 2008 was the lack of transparency and faulty regulation around those products, which allowed an overconcentration of risk. And it was more the lack of transparency than the innovation itself, ” said Rich Ricci, Co-Chief Executive, Barclays Capital, United Kingdom.

To make financial inclusion possible, ecosystems should be conducive for the innovation of new services. This calls for continuous communication between regulators and the financial institutions that are producing them so there are no excesses.

“ Banks are public trust institutions. We must create complete stability in our models, ” said Rana Kapoor, Founder, Managing Director and Chief Executive Officer, YES BANK, India.

Panellists discussed the feasibility of expanding models such as bank branches, banking correspondents (BCs), microfinance and outsourcing, and concluded that, ultimately, a hybrid of models is needed to reach out to the masses spread throughout the country. But for the models to succeed, they have to be efficient and built on low cost structures.

In addition to financial innovation, institutional innovation is needed, which would entail approaching potential customers and identifying what challenges are prohibiting them from accessing financial services. All the information gathered should be carefully tracked in a database and later used to improve services and provide clues on how to target more people.

Another method to achieve financial inclusion is to develop new technological innovations targeted at smartphones, including creating phone applications that provide a variety of services, from remittances to insurance coverage. For this to succeed, telecommunication companies must partner with banks and phone manufacturing companies, said Kapoor, whose company YES BANK is currently partnered with Nokia and Oxygen Software.

“ We need people who understand how to innovate and create entrepreneurial models without everybody building the same market tension, ” he said.

In focusing on technology, improving processes and cutting cost, it is important for banking institutions and microfinance companies to also target the segment of the population that is hardest to reach.

“ There is enormous work that ’ s left to be done. And it ’ s the collective failure on the part of all of us – whether it ’ s the financial institutions, the regulator or the state – that you have a country that ’ s at the cusp of being a superpower, but 60% of people do not have access to financial services, ” said Ramesh Ramanathan, Chairman, Janalakshmi Financial Services (JFS), India. “ We need an immense amount of innovation to solve that problem. ”

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