FINANCIAL INCLUSION THROUGH BUSINESS CORRESPONDENT MODEL

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ABSTRACT

In recent years, India has witnessed a high rate of economic growth, which has resulted in greater personal wealth for many Indians. However, a majority section of the society is still financially uncovered, meaning it does not have access to formal financial institutions. In light of recent research that shows a strong correlation between financial exclusion and poverty and inequality, the Indian government has made financial inclusion an integral part of its planning strategy. The spreading of banking network to the vast rural areas of the country at an affordable cost remains as a challenge to all those who are involved. In India, an effort has been made to achieve financial inclusion by using information and communication technology through a Business Correspondent model. This paper provides an overview of the model and the challenges it might face. The primary data were collected from 55 customers who were holding bank account and use banking services through SBI Business correspondents in Iyam Reddiyapatti, Marungapuri block, Trichy district. An attempt has been made to study the extent of financial Inclusion in the region and the role of BCs in this regard.

Key words: Financial Inclusion, Financial access, BC Model, GOI Policies

http://www.iaeme.com/IJM/index.asp

1. INTRODUCTION

“Effectiveness of Business Correspondent Model in financial inclusion and empowering the vulnerable”

In recent years, India has witnessed a high rate of economic growth, which has resulted in greater personal wealth for many Indians. However, a majority section of the society is still financially uncovered, meaning it does not have access to formal financial institutions. In light of recent research that shows a strong correlation between financial exclusion and poverty and inequality, the Indian government has made financial inclusion an integral part of its planning strategy. The spreading of banking network to the vast rural areas of the country at an affordable cost remains as a challenge to all those who are involved. In India, an effort has been made to achieve financial inclusion by using information and communication technology through a Business Correspondent model. Banks play very important role in the economic development of any country either developing or developed. Banks
are to act desired role for the directional and overall development of any economy. The basic function of the bank is to mobilize the savings and utilize it for the best development.

World Bank is the leading global development partner for governments and regulators for financial inclusion. Taking a comprehensive approach in promoting financial inclusion among the 2.5 billion adults who lack access to formal financial services, World Bank support includes policy advice, data and diagnostics, technical assistance for legal and regulatory reforms, institutional development, risk-sharing, and financing. Led by the Financial Inclusion and Infrastructure Global Practice and its international network of over 170 financial specialists, the World Bank takes a comprehensive approach to working with governments and regulators towards creating financial inclusion.

Reserve Bank of India (RBI) issues directives to all the banks for better regulation and motivation. Banking sector reforms have given a spirit of competition to the banks. The Reserve Bank of India, in January 2006 issued an order to ensure greater financial inclusion targeted at increasing the outreach of the banking sector, through Business Facilitator Mode land Business Correspondent Model. This enabled the commercial banks, including the RRB to use the services of NGOs, SHGs, MFIs and Civil Society Organization as intermediaries to provide financial and banking services through Business Facilitator and Correspondent Model. Under the Business Facilitator Model the intermediaries provide services like (i) identification of borrowers and fitment of activities (ii) collection and preliminary processing of loan applications including verification of primary information/data (iii) creating awareness about savings and other products and education and advice on managing money and debt counselling (iv) processing and submission of applications to banks (v) promotion and nurturing Self Help Groups/Joint Liability Groups (vi) post sanction monitoring (vii) monitoring and handholding of Self Help Groups/Joint Liability Groups/ Credit Groups/ others and (viii) follow-up for recovery. Under the Business Correspondents Model NGOs/MFIs, Cooperative Societies, section 25 companies, registered NBFCs and Post Offices may act as Business /correspondent. In addition to the activities listed under the Business Facilitators Model the scope of activities of Business Correspondent included (i) disbursement of small value credit (ii) recovery of principal/collection interest (iii) collection of small value deposits (iv) sale of micro insurance / mutual fund products/pension products/other third party products and (v) receipt and delivery of small value remittances / other payment instruments.

The objective of this study is to facilitate financial inclusion and hence economic empowerment of the vulnerable rural population, through BC model. Also is to know the extent of awareness a BC creates about saving products and the role of BCs in familiarising various services that are being provided by the financial institutions in the region of study.

2. REVIEW OF LITERATURE
Kumar, Anjali; Nair, Ajai, Parsons, Adam: Urdapilletea, Eduardo (2006), explore the extent to which formal, regulated financial institutions such as banks have been successful in partnering with ‘Correspondents’. The paper illustrates the case of Brazil, where banks recently have developed extensive network of such ‘Correspondents’. The paper concludes that such arrangement results in lower cost and shared risks for participating financial institutions.

Shrikrishna S. Mahajan (2013), aims at identifying the status of financial exclusion of selected slums dwellers and assessing their probable financial inclusion through business correspondent model. As most of the slum dwellers are self-employed or employed in the unorganized sector, they require credit on a daily basis for their livelihood. On the other hand, some of the slum dwellers are paying the principal amount of the borrowed funds regularly to the money lenders. Therefore, here is an opportunity for any bank branch to go for financial inclusion through Business correspondent model.

3. WHY FINANCIAL INCLUSION IS IMPORTANT?
The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings. So far the unbanked population has been vulnerably dependent on informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. A considerable sum of money that is meant for the poorest of poor does not actually reach them. While this money wanders through large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties. Government is therefore, pushing for direct cash transfers to beneficiaries through their BANK ACCOUNTS rather than subsidizing products and making cash payments.

Dr. S.Syamali and V. Parameswari. “Financial Inclusion through Business Correspondent Model.” - (ICAM 2016)
4. BUSINESS CORRESPONDENT (BC) MODEL

On 25 January 2006, Reserve Bank of India (RBI) notified guidelines for outsourcing of financial services by banks through BFIs and BCs. The BCs were allowed to transact with clients, i.e., dispense and receive cash on behalf of the bank, while the BFIs were confined to non-cash operations.

“BC is a bank led model where a technology driven banking agent manager (or individual agents) dovetails with a prudentially regulated well capitalized financial entity (bank). A bank brings trust and robustness whereas a BC brings low cost access, technology and new tailor made products to masses at base of the pyramid and makes banking possible at their doorstep.” - Development Outlook Blog - December 27, 2012

Business correspondents act as the representatives of the Banks. The Banks had appointed Business correspondents (BCs) who are typically section 25 companies floated by Technology service providers (TSP). The agents are also called as Customer service providers/Customer service points (CSP)/Business correspondents (BC) or Banking correspondents Agents (BCA). In this study such representatives are referred to uniformly as BC’s.

Current status of Financial Inclusion in India - State Bank of India

<table>
<thead>
<tr>
<th>Financial inclusion</th>
<th>As on 31.03.2015</th>
<th>30.09.2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of BC outlets</td>
<td>57,575</td>
<td>58,571</td>
</tr>
<tr>
<td>PMJDY Accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. (in crore)</td>
<td>3.33</td>
<td>4.45</td>
</tr>
<tr>
<td>Deposits (Rs. in crore)</td>
<td>1,296.57</td>
<td>2,932</td>
</tr>
<tr>
<td>Total F.I Accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. (in crore)</td>
<td>7.29</td>
<td>8.50</td>
</tr>
<tr>
<td>Deposits (Rs. in crore)</td>
<td>4,415</td>
<td>5,931</td>
</tr>
<tr>
<td>Transactions (BC channel)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number (in crore)</td>
<td>14.17</td>
<td>12.09</td>
</tr>
<tr>
<td>Amount (Rs. in crore)</td>
<td>38,973</td>
<td>29,414</td>
</tr>
<tr>
<td>Financial Literacy centres</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of FLCs</td>
<td>212</td>
<td>219</td>
</tr>
<tr>
<td>No. of Outdoor activities conducted</td>
<td>28,879</td>
<td>32,697</td>
</tr>
<tr>
<td>No. of persons participated in outdoor activities</td>
<td>17,39,313</td>
<td>21,62,818</td>
</tr>
<tr>
<td>No. of persons converted to customers</td>
<td>2,62,271</td>
<td>3,54,049</td>
</tr>
</tbody>
</table>

Source: SBI Corporate websites

From the above table, it is clear that the number of BC outlets has increased considerably from 57,575 outlets as on 31/03/2015 to 58571 outlets on 30/09/2015. It is further observed that the increase in the number of BC outlets by the SBI has resulted in an increase in the number of accounts and deposits during the same period.

5. STATE BANK OF INDIA

SBI has adopted the Kiosk Banking, it means an internet based technology works on PC/Laptop, web camera, fingerprint scanner and printer, this technology supports biometric authentication and real time online with Bank’s CBS system.

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6. HOW THE SYSTEM OPERATES

The above picture shows the delivery of services from Business correspondent

7. STATUS OF FINANCIAL INCLUSION IN IYYANREDDIYAPATTI VILLAGE AREA:
A study was conducted to assess the level of awareness and usage of various financial products in IyyanReddiyapatti, Marungpuri block, Trichy district which is served by a BC appointed by SBI. The data was collected from 55 respondents directly through an Interview schedule. The study focused on the SBI bank customer who were holding accounts with SBI and were being served by the BC’s.

The study has thrown light on the products promoted by BC. The awareness and usage level of such products by the customers and the problems in BC model of banking.

Demographic Profiles

<table>
<thead>
<tr>
<th>Gender</th>
<th>No. of Resp</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>17</td>
<td>30.9</td>
</tr>
<tr>
<td>Female</td>
<td>38</td>
<td>69.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education</th>
<th>No. of Resp</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) illiterate</td>
<td>28</td>
<td>50.9</td>
</tr>
<tr>
<td>b) &lt;SSLC</td>
<td>19</td>
<td>34.5</td>
</tr>
<tr>
<td>c) SSLC</td>
<td>6</td>
<td>10.9</td>
</tr>
<tr>
<td>d) HSC</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>e) Graduate</td>
<td>2</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: Primary Data

A good majority of 69.1 percent of the respondents were female. More than half of the respondents were illiterates while those who had studied below SSLC has constituted another 34.5 per cent.

On the occupation front a majority of 63.6 per cent of the respondents were found to be laborers. Secondly 34.5 per cent of the respondents were in to farming. In all 76.4 per cent of the respondents have reported that the family income was below Rs.3000 pm.

Figure 1 Level of Knowledge and Usage about Personal Banking services

Source: Primary Data

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It is observed that the level of knowledge about personal banking was high among a majority of 40 per cent of the respondents. While the knowledge level has been found to be VERY HIGH for 4 per cent of the respondents it was moderate for only 2 per cent of the respondents. The study revealed that 53 per cent of the respondents had used at least one of the personal banking services.

**Figure 2** Level of Awareness and Usage Saving Deposits (Irregular deposits)

![Histogram](attachment:image1.png)

Source: Primary Data

The above figure indicate the usage of saving deposits (irregular deposits) is at high level, comparing other saving products like FD and RD. Because of irregular income the savings pattern is also observed to be irregular. Though the number of saving account is high the amount saved through such accounts is remaining very low. This needed immediate attention of the various stake holders. The reasons for unable to save as stated by the respondents are lack of proper employment, Poor wage/high cost of living, Very low yield in Agriculture etc., The study found that SBI BC agent has faced some problem viz., network problem, finger print mismatch etc., SBI has not included banking products such as IOD, Remittance in BC model.

**Figure 3** Level of Awareness and Usage about Recurring deposits

![Histogram](attachment:image2.png)

Source: Primary Data

The above figure shows that only 15% of the respondents were aware of the recurring deposits products. To increase the awareness and usage level it is suggested that BCs and banks should concentrate more on creating awareness among villages by conducting literacy programs. The usage of RD is found to be only 1.8 per cent out of 55 respondents. This is because of low economic status and irregular income pattern. With Irregular income pattern the respondents were unable to spare for savings.
Figure 4 Level of Awareness and Usage about Fixed deposits

Source: Primary Data

The figure indicates that awareness level is very low on FD services. The BCs are not able to educate the people in this regard while the customers themselves mostly were without proper regular income. To improve this bank should guide and educate the BCs in motivating the rural poor’s in this matter. The usage level of FD services has been observed to be only 4% and this very low status is because of poverty and poor economic conditions. Further, it is observed that the rural people were unable to come out of the glitches of exploitive local money lenders.

8. CONCLUSION

Banks need to scale up their efforts substantially towards educating the clientele in their respective vernacular languages regarding the benefits of banking habit. Banks may also use print and electronic media to give wide publicity about implementation of BC model. The services of the BC and their obligation towards the customers, in the vernacular language. The study has brought to light that the BC has not educating the customers on the various options available to suit the needs of the customers and thus dependency on the branch officials to clarify the doubts of the customers. Such time delays or lack of clarity on the part of the BC will reduce the interest of the prospective customer.

The SBI need to have a fresh and an urgent look in the matter of adding new services to the BC model of banking. The BC to be a fully functional channel of financial inclusion he/she should help the potential customer to become aware of his latent need for financial products and the availability of the right product for him. This BC model can be especially powerful when serving the unbanked poor because of its ability to reduce banks’ cost-to-serve and reach low-income workers at the place where they live.

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