Role of Business Correspondent's Model in Financial Inclusion

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Abstract

Financial inclusion is a tool for combating poverty. It is estimated that globally over two billion people are excluded from access to financial services, of which one third is in India. Access to various financial services enables the poor people to participate in the growth of the economy. Many banks are forced to adopt financial inclusion rather than their own interest. The banks have encountered various problems while adopting financial inclusion Viz. improper repayment, need for additional work force, more time consumption, heavy work load, high cost etc. The main objectives of this study were to know the measures taken by the banks and Business Correspondent in the financial inclusion, to examine the difficulties involved in the adoption of financial inclusion and also to enhance the extent of financial inclusion.

Introduction

Even after nationalization of banks, with more than 53000 Commercial bank branches. 15000 branches of Regional Rural Banks and more than 1000 co-operative bank branches in the country could not reach the poor in terms of building confidence to have the access to banking facilities and services (Mohammad A.G. 2008). This resulted in more than 600 million Indians being kept out of formal banking services; they could not even open a bank account (Neelakant Patri 2012). More than 75 million households depend on informal financial services like traders and moneylenders, where they are charged by exorbitant rates of interest. This led to considerable hardship and impoverishment of borrowers later this result into debt trap, bonded labor, and illegal and forced transfer of entitlement on properties (Panda D.K. 2010). Only 10% of poor in India have access Insurance facilities for their lives, 9.6% of population has non life insurance coverage, more than 50 million household in India are landless and need financial assistance to start economic activities (Chakrabarti K.C. 2010).

To include the excluded people from services of formal financial institutions, branch free banking agencies play a major role in terms of creating facilities to people of savings. Borrowings and other socio-economic developmental activities through productive utilization of people's money. The financial inclusion is the powerful strategy of the government to include the excluded people from the financial services of formal financial instructions.

The idea of financial inclusion first started in a small village called Mangalam in Pondicherry on December 30, 2005, where it was decided to open accounts for all adult population there by achieving 100 percent financial inclusion. This raised the problem of distance to bank branch. Thus came the idea and inevitability of using Agent facilities, Information and Communication Technology (ICT) in banking operations.

Banks operate through a number of channels for delivery of financial services; branches, ATMs and the internet are the popular channels where the literates and people who are living in the vicinity can have access these facilities. With the vision of achieving milestone of financial inclusion (banking unbanked poor people), Government of India issued a new set of guidelines to launch third party banking from 2006 onwards. This includes increasing the sphere of formal banking sector to include the unbanked. Two categories of intermediaries; Business Correspondents (BCs) and Business Facilitators (BFs) are created for this purpose. According to the guidelines, the BCs are permitted to carry out transaction on behalf of the bank as agents, the BFs can refer clients, pursue the clients' proposal and facilitate the bank to carry out its transactions, but cannot transact on behalf of the bank.

As per the RBI regulations the Business Correspondents includes: -

1. NGOs / MFIs set up under Societies / Trust Acts,
2. Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States,
3. Section 25 companies that where stand alone entities or in which NBFCs, Banks,
4. Telecom Companies and other corporate entities or their holding companies and other corporate entities or their holding companies do not having equity holdings in excess of 10%,
5. Post offices and Retired bank employees,
6. Ex servicemen and Retired Government employees,
7. Individual owners of Kirana / Medical / Fair Price shops,
8. Individual Public Call Office (PCO) operators,
9. Agents of Small Savings scheme of Government of India / Insurance Companies,
10. Individual who own Petrol Pumps.
11. Retired Teachers,

The stakeholders of the Business Correspondent Model like Technology vendors, Customer Service Points are not permitted to charge fees to clients for services offered by them. The banks revenue may come from the extension of services; savings, credit and payments. The Banks are under contractual relationship, make payment of service charges to the BCs and Technology Vendors and CSPs.

Banks have considered NGOs and MFIs as BCs. In some cases, banks have given importance to appoint Individuals as BCs like; village grocers, dealers in agricultural inputs and retired bank officials. The individual BCs may have the strategy of expanding banking services, but organizational BCs like NGOs and MFIs can deliver the services of Banking, encouragement and promotion for social entrepreneurship, Income Generation Activities (IGA), insurance coverage and also the social services like; Rehabilitation, Education, Empowerment, Living Environment and Community Development etc. through which financial inclusion and sustained growth of poor in India can be achieved.

Scenario of Financial Inclusion in Karnataka

There are 6383 villages with population of 1000-2000 based on data obtained from Government of Karnataka. 297 villages are already having banking services., 24 villages are now in urban area and 33 villages could not be identified. 6029 villages have been identified as unbanked and 3395 unbanked villages in State with population over 2000, Karnataka has achieved 46.5 percent under the financial inclusion through banking services provided to 1571 villages out of 3395 unbanked villages with population over

2000 (March 2011). Government had the Action plan to cover 7853 unbanked villages. As success of financial inclusion depends upon financial literacy, a significant part of the financial inclusion has been achieved through Business Correspondents. Most Banks have formed Financial Literacy and Credit Counseling Trusts to ensure effective counseling through the FLCCs, so that the process of financial inclusion is achieved in a holistic manner.

A SBM was given a target of covering 247 villages in Karnataka in 2010-11 and 2011-12. Its subsidiary Bank Cauvery Kalpatharu was given a target of 217 villages in these two years. Although the bank reached out to 118 such villages by the end of 2010-11, its subsidiary was able to cover only two villages. The subsidiary bank's progress has been slow mainly because it failed in implementing the Core Banking System (CBS), technology driven Banking Correspondent (BC) model (Mavinkurve 2012). Bank has taken advantage of the relaxed guidelines issued by the Reserve Bank of India to appointed "for-profit" BCs and reached 48% of total targeted villages.

Benefits of inclusive Financial Growth:

Benefits of Inclusive Financial Growth

1. Growth with equity
2. Financial Transactions Made Easy
3. Safe saving along with financial services
4. Inflating National Income
5. Becoming Global Player

Statement of the Problem

Financial inclusion is an important process to attain the goal of inclusive growth. Government of India and RBI has made sustained efforts to increase the percentage of formal financial services in unbanked areas across the country. Relaxing branch authorization and introducing business Correspondents in Unbanked areas is one amongst the regulation by RBI. Researcher will conduct a study with the questions of; through Business Correspondents Model what extent banks reached unbanked areas? How effective this model compared to other bank linkage models in banking of unbanked sectors in Karnataka. With these researcher collecting and reviewing articles, working reports related to Business Correspondents Model. Reviewed literatures specifically on BC models.

Limitations of the Study

The study is not done in comprehensive it is restricted to only business Correspondents Model. The study is purely on secondary source. Due to time constraint the data could not be collected through primary sources.

Need for the study

After reviewing the literatures written on Business Correspondents Model and financial inclusion researcher has identified some issues. Business Correspondents Model has been emerged as an effective model to extend financial services to the poor who are excluded from the formal financial services. It links new clients, new Self Help Groups in to banks. Encourages socio-economic development activities. Business Correspondent Model is considered to be a best mechanism to achieve financial inclusion and also to inclusive growth.

The stakeholders in the financial inclusion drive have made a beginning to unlock the opportunities for formal banking services. Local banking correspondents (business correspondents) have started emerging as a new way of delivering banking in un-banked areas. Compared to the brick and mortat branches, the BC model has seen rapid growth. While the branch expansion in rural areas with population of more than 2000, registered a growth of 7.64 per cent in 2011-12, number of business correspondents witnessed nearly 10 times that growth.

The evolution of the BC model has helped the banks provide banking services to customers without having a branch of theirs. Some banks are disbursing social security scheme funds through the BCs.

To analyze the issue related to BC model at the base level, a micro level empirical study is needed. Such a study will fill the gaps in the process of knowing the field level realities and would help in improving the conceptual and regulatory frame work of the BC model. As there are only few working reports from, RBI and other banking agencies are available. Hence evaluation of role of Business Correspondent Model in financial inclusion, present scenario of financial inclusion in the villages covered by BCs, the cost effectiveness of Business Correspondent model and evaluation of BCs practices and challenges at gross root level is not properly addressed by the researchers. So this study is more relevant from the point of view of poor peoples' access to formal financial services and socio-economic development. The study is undertaken with following objectives.

Objectives of the Study

The study has an overall objective of evaluating practices of Business Correspondents model as a strategy for socio-economic development through financial inclusion. The specific objectives of the study are:

- To evaluate the role of Business Correspondent Model as a strategy for financial inclusion
- To analyze the cost effectiveness of Business Correspondent Model in terms of financial inclusion of unbanked regions.
- To study the role of Business Correspondent Models in terms of Income Generation activities
- To compare the role of Individual and Institutional Business Correspondent Models in financial inclusion and socio-economic development of the clients.
- To assess the forward and backward linkages of Business Correspondent Model in financial inclusion.

Nature and Sources of data

The data relevant for the study will be gathered through secondary sources.

The secondary data will be gathered through a comprehensive survey of the research works carried out at academic and official level, various research projects brought out by academicians, the report prepared by the Bank officials; Government Committee and reports of National conferences.

Approaches adopted by RBI & Indian Government:

Approaches adopted by RBI & Indian Government

- 6 millions No Frill Accounts.
- Board approved Financial Inclusion Plans (FIPs) of banks for 3 years, starting April 2010.
- 40 % net bank credit to the priority sector.
- National Pilot Project for Financial Inclusion (NPPFI).
- Nationwide programme on financial inclusion: "Swabhimaan".

Tools of Financial Inclusion and the Methods to achieve them

To address the issue of financial exclusion in a holistic manner, it is essential to ensure that a range of financial services is available to every individual. The services are:

(i) A no-frills banking account for making and receiving payments.
(ii) A savings product suited to the pattern of cash flows of a poor household,
(iii) Money transfer facilities.
(iv) Small loans and overdrafts for productive personal and other purposes, &
(v) Micro-insurance (life and non-life)

Institutions and Financial Inclusion

Financial Institutions, both large and small have an important role to play in financial inclusion. With their organized structure and effective management larger financial institutions could act as mentors for small financial services firm by ensuring a strong financial backing.

1. Commercial Bank:

Commercial banks could act as an important part of the process to achieve full financial inclusion. Especially with simplified savings bank accounts (including no-frills account), relaxed KYC procedures, primary sector lending and even microfinance.

2. Cooperative Banks:

The Urban and Rural cooperative banks could cater to populations that are generally neglected by the commercial banks. Their position allows them to reach out to the people far easier than the more formal commercial banks. Since they are operated by the members of the banks themselves, there would be more involvement from the people of such cooperatives.

3. Regional Rural Banks:

Through priority sector lending, KCCs and GCCS the RRBs could ensure a steady flow of credit to the rural poor especially the marginal farmers. The RRBs like the commercial banks can deal with the agencies like NGOs who are interested in helping out the poor and the weaker sections.

4. Non-Banking Financial Companies (NBFCS):

The NBFCs could include both large and small financial firms which provide financial services. They could offer specific financial products to the poor and low income people such as micro-insurance, micro-credit, etc. The NBFCs could create financial awareness among the people by not only offering alternative financial services but also spreading financial literacy by providing financial advices.

5. Micro Finance Institutions (MFIS):

Micro Finance Institutions or MFI are created with the specific aim of extending financial services to the poor and the weaker sections of the populations. A MFI could be independent or as in most cases are promoted by NGOs, government agencies, NBFCs, commercial banks and other institutions. Micro Finance Institutions have so far been the most successful at ensuring basic financial services to the unbanked sections of the populations. Along with the SHG movement, the MFIs has enabled the wealth generation in many under developed rural as well as neglected urban areas in India.

6. Post Office Saving Bank:

These along with their extensive network could offer wide variety of small and micro financial services to the people. The Post Office Savings bank could utilize their staff to deliver door – to – door service to the people.

7. Non – Governmental Organizations (NGOS)

NGOs could provide financial assistance to the poor and the weaker sections through NGO promoted MFIs or by providing financial advice. NGOs working the poor and the economically deprived can more closely analyze their spending patterns and credit requirements. Commercial banks and other large financial agencies can work closely with NGOs ensure that the dealings with the poor and the weaker sections turn out to be a fruitful activity not only for the people but also for the lending agencies.

Conclusion:

Financial exclusion still exists on wide majority parts of rural India. The importance of credit facility to agriculture remains unutilized for the actual purpose for which it is being granted. The policy moves and measures from banking institution should be more effective and liberal in grant of credit and loans with a careful management with the upcoming years there is a strong hope that the vision and mission of financial inclusion will be successful and a large group of customers would enjoy the benefits of banking services.

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