



Research Article

ANALYSIS OF THE ROLE OF BUSINESS CORRESPONDENTS IN ACHIEVING FINANCIAL INCLUSION IN INDIA

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ABSTRACT

This paper made an attempt to analyse the role of Business Correspondents in achieving financial inclusion in India based on the secondary data. India has made a significant achievement in financial inclusion from past few years. One of the major reasons for this achievement is Business Correspondent Model or branchless mode of banking. Business Correspondents are retail agents engaged by bank for providing banking services at locations other than a bank branch. They are playing very important role in mobilizing rural saving, deepening the financial inclusion, to bring greater financial stability in banking sector, increase the financial literacy among unbanked people, helpful to implement direct benefit transfer scheme (DBT) and build cashless economy. In 2010, the share of banking outlets through BC was 34174 (50.48 percent) which is increased to 541129 (90.61 percent) in 2019. They opened 319 million BSBDA accounts till 2019; their ICT based transaction is worth 5884 billion in 2019. The major problems faced by BC model in India are low financial literacy among rural customers, difficult to get reliable and skilled BCs, low income profile of the customers, lack of infrastructure, low remuneration/incentives, Security concerns for handling cash at field level and acceptability of ICT based BC model.

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INTRODUCTION

Inclusive growth is very essential for achieving sustainable overall development in the country. Financial inclusion considered as a key instrument for achieving inclusive growth. Today, financial inclusion is a global concern because as per the World Bank Global Findex Report (2017), 69 percent of adults have an bank account worldwide and 21 percent (1.7 billion) adults remain unbanked. Majority of these financially excluded people belong to the disadvantaged and lower income group of the society. Lack of access to adequate formal institutional credit and other financial services induce poor individuals and small enterprises to depend on their own limited saving earnings. This restricts their choice to invest in their small business enterprises and take advantage of growth opportunities (World Bank, 2012: ix).

India has made a significant achievement in financial inclusion from past few years. As per the World Bank Global Findex Report 2017, in India the share of adults with an account raise from 35 percent to 80 percent, share of poorest income quintile having an account increased from 21 percent to 40 percent and share of ownership of bank account of adult women raised from 26 percent to 40 percent between 2012 and 2017.

This is an outcome of RBI and Government of India efforts towards increasing financial inclusion in India. One of the major steps towards financial inclusion in India is branchless banking model or Business Correspondent Model. In January 2006, based on the recommendations of the Internal Group on Rural Credit and Microfinance the Reserve Bank of India permitted banks to engage Business Correspondents (BC) and Business Facilitator (BF) as part of branchless banking initiative towards financial inclusion. Business Correspondent Model primarily intended to reach the financially excluded people in geographically diverse areas, especially in the rural areas.

Business Correspondent /Business Facilitator

Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch or ATM. This ICT based model enables bank to provide limited range of banking services at low cost. It also allows banks to do 'cash in-cash out' transactions in rural areas. In this model Banks have to pay reasonable commission or fees to BCs for their services. Opening of a basic saving bank accounts, collection of small value deposits and payment of small value withdrawals (below Rs.10000), receipt and delivery of small value remittances (not exceeding Rs. 10,000 in each case), furnishing of mini account statements and other account information, recovery of principal/collection of interest in respect of borrower accounts, sale of micro

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insurance/mutual fund/pension products, creating awareness about saving, other financial products, education, advice on managing money, debt counseling and any other service authorised by the bank are the major activities under taken by Business Correspondent.

Business Facilitators Model (BF)

Under Business facilitator model banks may use intermediaries such as NGOs, cooperatives, farmers clubs, post offices, insurance agents, well functioning Panchayats, Agriculture business centres, and Krishi Vigyan Kendras for providing financial services. Retired Government servants like postmasters, school teachers and headmasters were also considered eligible by RBI to act as Business Facilitators. Business facilitators may assigns to provide the services like identification of borrowers, collection and preliminary processing of loan applications, debt counseling, monitoring and hand holding of Self-help groups and follow-up for loan recovery etc.

Objectives

1. To study the progress of Business Correspondent Model in India.
2. To analyse the role Business Correspondent model in financial inclusion in India.

METHODOLOGY

The present study is based on secondary source of data consisting of RBI reports, official website of Ministry of finance, Ministry of Electronics and Information Technology, Pradhan Mantri Jan Dhan Yojana, GOI and reports of World Bank Global Findex reports. Simple statistical tools namely, percentage, growth rate and CAGR used to analyse the data.

Role of Business Correspondent

Mobilising the untapped rural saving

Through Business Correspondents banks were able mobilise the saving from the rural customers. Earlier these customers were neglected due to their low income profile and high transaction cost. Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts as on 01.04.2020 is 38,07,44,095 crore. Out of these 22,51,88,256 accounts holders are from rural/semi urban areas. They have deposited nearly 1,30,000 crores in their account.

Having potential to deepen financial inclusion

Business Correspondents are well known to the local people and they are also using local language with the customers. Therefore, Business correspondents were playing a major role in opening basic saving bank deposit account (BSBDA). As on March 2019, 319 million BSBDA account opened through Business Correspondents.

More Financial stability to banking sector

Due to implementation of Business correspondent model, the coverage and volume of transaction is increasing in banking sector. There by increasing the overall financial stability to the banking sector.

Increasing the financial literacy in the country especially in the rural area

Financial literacy is a primary requisist to ensure better financial inclusion. Therefore, banks are creating financial awareness and marketing their financial products through BC.

Along with providing door step delivery of financial product, they were also giving financial education/counselling to poor.

Help to implement Direct benefit transfer (DBT) scheme and build Cashless economy

In recent years Government is emphasising DBT scheme to increase the transparency, efficiency and reduce corruption in the Government delivery system. To implement DBT scheme having account is a must. Major subsidy schemes namely LPG-PAHAL, scholarship scheme, MGNAREGA etc. Business Correspondents are playing a key role in opening BSBDA accounts and delivering DBT services to rural area customers.

RESULTS AND ANALYSIS

Progress of Business Correspondent in India

Table 01 Share of Business Correspondent in Total Banking Outlets in India

Year	Banking outlets through BC	% to total banking outlet	Total Banking Outlets – Branches	% to total banking outlet	Banking outlets through other modes	% to total banking outlets	Total Banking Outlets
2010	34174	50.48	33378	49.31	142	0.21	67694
2011	80802	69.53	34811	29.96	595	0.51	116208
2012	141136	77.65	37471	20.62	3146	1.73	181753
2013	221341	82.45	40837	15.21	6276	2.34	268454
2014	333000	86.76	46126	12.02	4678	1.22	383804
2015	500186	90.33	49571	8.95	3956	0.71	553713
2016	531229	90.61	51830	8.84	3248	0.55	586307
2017	543472	90.87	50860	8.50	3761	0.63	598093
2018	515317	90.48	50805	8.92	3425	0.60	569547
2019	541129	90.61	52489	8.78	3537	0.59	597155

Source: Compiled from various RBI reports on Trend and Progress of banking in India

The table no. 01 depicts the share of Business Correspondents, branches and other mode of branches in total banking outlets during 2010 to 2019. In 2010, the share of banking outlets through BC was 34174 (50.48 percent) which is increased to 541129 (90.61percent) in 2019. Here there is an addition of 506955 BC outlet during this period. At the same time the number of banking outlets through branches was also increased from 33378 to 52489. But the relative shares of branch banking outlets were reduced drastically from 49.31 percent to 8.78 percent.

The share of banking outlets through other modes are increased marginally from 142 (0.21 percent) to 3537 (0.59 percent). The other modes of branches mainly consist of mobile ATM vans. But, after 2013 the other mode of banking outlets were not given importance and BC model has given more importance. This reveals that BC model is highly successful model and has helped to achieve higher financial inclusion in India.

Table 02 Growth rate of Banking Outlets in India

Year	Banking outlets through BC	Growth rate	Total Banking Outlets - Branches	Growth rate	Banking outlets through other Modes	Growth rate	Total Banking Outlets	Growth rate
2010	34174	-	33378	-	142	-	67694	-
2011	80802	136.44	34811	4.29	595	319.01	116208	71.67
2012	141136	74.67	37471	7.64	3146	428.73	181753	56.40
2013	221341	56.83	40837	8.98	6276	99.49	268454	47.70
2014	333000	50.45	46126	12.95	4678	-25.46	383804	42.97
2015	500186	50.21	49571	7.47	3956	-15.43	553713	44.27
2016	531229	6.21	51830	4.56	3248	-17.89	586307	5.89
2017	543472	2.30	50860	-1.87	3761	15.79	598093	2.01
2018	515317	-5.18	50805	-0.11	3425	-8.93	569547	-4.77
2019	541129	5.00	52489	3.31	3537	3.27	597155	4.84
CAGR	-	36%	-	5%	-	-	-	-

Source: Compiled from various annual reports of RBI

The table no. 02 shows the comparison of growth rates of the banking outlets through Business Correspondent, branches and other modes. The growth rate of BC banking outlet is 136.44 percent in 2011 which was reduced to 5.00 percent in 2019. During this period CAGR of BC is 36%. The growth rate from 2011 to 2015 was very high this means, RBI has increased the branchless mode of banking in the rural unbanked area through BC model in these years. Though there is negative growth by 2018, BC model was optimally utilized and it had reached the saturation level.

The growth rate of banking outlets through branches were 4.29 percent in 2011 and thereafter it increased till 2014 (12.95 percent). Thereafter, its growth rate is continuously declining; this means only few number of bank branches were added during 2010 to 2019.

The growth rate of banking outlets through other mode of banking is also not satisfactory after 2013. It registered a negative growth rate in many years during 2014 to 2019 which means instead of adding more other mode branches banks were actually reduces number of branches in other mode branches. This means that to achieve financial inclusion the RBI and Banks priority has been shifted towards branch mode of banking outlets to branchless business correspondent model.

Table 03 Share of Business Correspondent Model in opening of BSBDA

Year	BSBDA - through Branches (No. in millions)	%	BSBDA - through BC (No. in millions)	%	Total BSBDA (No. in millions)
2010	60.19	81.95	13.27	18.07	73.45
2011	73.13	69.81	31.63	30.19	104.76
2012	81.2	58.63	57.3	41.37	138.5
2013	100.8	55.37	81.27	44.64	182.06
2014	126	51.85	116.9	48.11	243
2015	210	52.76	188	47.24	398
2016	238	50.75	231	49.25	469
2017	254	47.65	280	52.53	533
2018	247	46.08	289	53.92	536
2019	255	44.42	319	55.57	574

Source: Compiled from various annual reports of RBI

The table no. 03 shows the contribution of business correspondents (BC) in opening basic saving bank deposit account (BSBDA) in India during 2010 to 2019. In 2010, 13.27 million BSBDA accounts were opened through business correspondents. It is increased tremendously to 319 million in 2019. Business correspondents share is increased from 18.07 percent to 55.57 percent. Due to the implementation of BC model the banks were able to reach the villages with less than 2000 population. They played a significant role in the success of Pradhan Mantri Jan Dhan Yojana (PMJDY).

The share of bank branches in opening BSBDA is 81.95 percent in 2011. But this has declined to 44.42 percent in 2019. This reveals that the share of banking outlets in opening BSBDA has declined during 2011 to 2019.

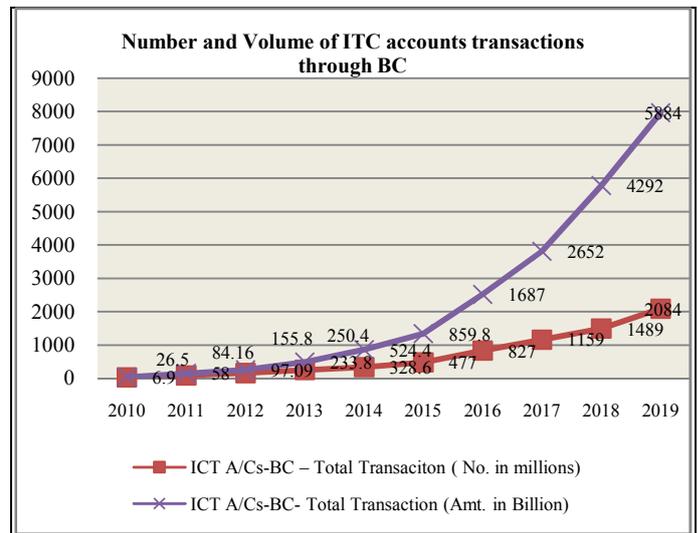


Figure 01 Number and volume of ICT accounts transactions through BC

Source: Compiled from various annual reports of RBI

The figure no. 01 shows the ICT accounts transaction through BC from 2010 to 2019. The total number of ICT based accounts transaction through BC had increased from 26.5 million to 2084 million during 2010 to 2019. The growth rate of ICT accounts transactions through BC is 217.58 percent in 2011 and this declined to 39.95 percent in 2019. The growth rate was initially very high but it declined over the years.

The ICT accounts transaction through BC also increased significantly during 2010 to 2019. In 2010 its total amount of transaction through BC is only Rs.6.9 billion, which was increased to Rs.5884 billion in 2019. This is very important development as it came from rural unbanked areas. Earlier these customers were excluded from banking services due to their low income profile and high transaction cost.

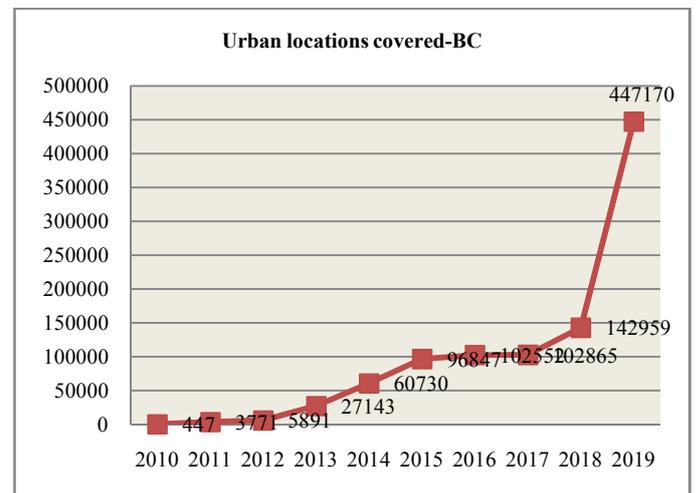


Figure 02 Urban location covered by BC Model

Source: Compiled from various RBI reports

The figure no. 02 depicts the status of Business correspondents in urban locations. Business correspondents were not only employed in rural areas they are also employed in unbanked urban areas, where the financial exclusion is very high. In 2010, only 447 urban unbanked locations were covered through BC. It is increased to 447170 in 2019. During 304211 BC employed to cover less banked urban locations. The growth rate during this period is 212.79 percent which is remarkable. This shows that after the successful

implementation of BC model in rural areas, BC model is also used effectively in the urban areas.

Business Correspondent model: Constraints and Barriers

Low financial literacy among rural customers

In rural area customers were having very low financial literacy and not having the experience to deal with any financial product. Therefore, it is very difficult to convince how the financial services and products would improve their financial health.

Difficult to get reliable and skilled Business Correspondents

The successfulness of BC model depends upon reliable and skilled local correspondents. They are very important because they are delivering door step delivery of financial services in rural areas, they familiar with local public and local language. But in rural area there is a scarcity of educated and skilled youths. Today educated rural youths were migrating more towards urban areas in search of better opportunities.

Low income profile of the customers

The major challenge before banks to reach rural unbanked areas is high operating cost of the branch mode outlets due to the low income profile of the customers in the rural areas. To reach financial inclusion goals through BC in rural area there is a need of increasing total volume of transaction as the value of product is less. If volume is not increased it is very difficult to generate income out of these services.

Lack of infrastructure

In rural areas due to lack of infrastructure namely proper roads, internet connectivity problem, low education among customers and lack of proper identity proof it is very difficult to reach them to provide financial services.

Acceptability of Business Correspondents

Business Correspondent has to gain acceptance from both the customers and bank employees. They act as mediators between customers and bank employees. But both are negative most of the times.

Continues supervision needed to check the misuse of bank money

In many places delay in credit payment, delay in depositing the money by BC was noticed. Therefore, there is a need of continues supervision on BC agents.

Low remuneration/incentives

Many of the BC agents are not delivering the services effectively due lack of monetary motivation. 5000 minimum remuneration plus incentives are given to them per month. Which is very low compared to their physical work.

Security concerns for handling cash at field level

Banks are primarily concerned about the security of cash in the field. In rural remote villages carrying money without any proper security is always a risk for banks and business correspondents.

CONCLUSION

Merely opening an account will not going to serve the purpose of achieving financial inclusion. It is observed that no transaction accounts are in very high number. Therefore, financial inclusion can be achieved in actual sense only by solving these problems through Business Correspondents.

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