



Challenges in Business Correspondent Model - An Empirical Study

THIRUMA
VALAVAN A

Ph.D. Scholar, DEPARTMENT OF BANK MANAGEMENT, ALAGAPPA
UNIVERSITY, KARAIKUDI, TAMIL NADU

ABSTRACT

The salient features of BC model include identifying the borrowers, collection and verification of loan applications, creating awareness on various financial services, products and transactions, post-sanction monitoring, collection of small value deposits, micro insurance products, etc. The best advantage through BC model is, on the one hand banks get vast exposure to the rural population without its physical presence in terms of branches while on the other the unbanked people belonging to the remote areas get easy access to basic banking facilities at their doorstep by the person among themselves. It also promotes and nurtures SHGs/JLGs wherever relevant and works as a potential contributors in creating awareness about various financial operations. BCs are nothing but the representative of banks who provides banking services through use of ICT based solutions in his own or nearby villages. Banks give remuneration and or transaction based commission to them against their service.

KEYWORDS : Business Correspondent (BC), Financial Inclusion Plan (FIP), Financial Literacy, POS (Point of Sale) Machine, Self Help Group (SHG), Joint Liability Group (JLG)

OBJECTIVES OF STUDY

In this study we discuss working of BC in Manamadurai Taluk, Sivagangai district, Tamil Nadu. The objectives of study is to find out viability of BC model as part of FI plan, how BC works in village and what are all the problems faced by BC while working in village. Pros and cons in implementation of BC model and study on the expectations and realities of all the stakeholders like, BC, bank and villagers.

METHODOLOGY

Canara Bank has the major business in Manamadurai Taluk, Sivagangai district, Tamil Nadu. Therefore, Canara Bank branch was selected for primary data collection. Two villages of Manamadurai Taluk, which have population of above 2000 were identified and selected for the study. Accordingly 2 BCs were selected one each from 2 villages and 20 of the respective BC's customers and 10 non-customers were selected for data collection. Therefore, Manamadurai Canara bank is taken for the study.

INTRODUCTION

The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. The United Nations defines the goals of financial inclusion as follows:

- access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
- sound and safe institutions governed by clear regulation and industry performance standards;
- financial and institutional sustainability, to ensure continuity and certainty of investment; and
- competition to ensure choice and affordability for clients.

BUSINESS CORRESPONDENT (BC) MODEL

It is not possible for banks to open brick and mortar branches in every village as it is not economically viable. Banks have to find out alternate ways to cover all the villages under financial inclusion. They have adopted Mobile van facility, ultra small branches and BCA model for providing financial services to financially excluded rural population.

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, Reserve Bank of India has instructed banks to use the service of

- Non-Governmental Organisations (NGOs)
- Self-help groups (SHGs)
- Microfinance institutions (MFIs)
- Civil Society Organizations (CSOs)

as intermediaries in providing financial and banking services through Business Correspondent model.

BACKGROUND

The report presented here is based on the report of NABARD, regional office, Gujarat to find out the impact of "Business Correspondent (BC) Model under Financial Inclusion (FI) Drive". The BC has been appointed under financial inclusion plan. The villages which are above 2000 population are included in financial inclusion. Manamadurai Canara bank is taken for the study.

AREA SELECTION FOR DATA COLLECTION

The study aims to find out working of BC model in Manamadurai Taluk, Sivagangai District, Tamil Nadu with special reference to Canara bank Manamadurai Branch

SELECTION OF BANK

For collection of primary data Canara bank, Manamadurai was selected. In Manamadurai Canara Bank is having major Business share. As on 18th September 2015, Aggregate Business of Canara Bank stood at Rs. 145 crores, Rs. 97 crores Advances and Rs. 48 crores deposits. Second place is occupied by State Bank of India. Other Banks in Manamadurai are, Indian Overseas Bank, Central Bank of India, Indian Bank, City Union Bank, Sivagangai District Co-op Bank, Pandyan Grama Bank-Manamadurai, Pandyan Grama Bank - Rajagembeeram, Pandyan Grama Bank - Idaikattur, Bank of Maharashtra - Rajagembeeram, Oriental Bank of Commerce - Milaganoor, Canara Bank - Melanettur. Since, Canara Bank, Manamadurai Branch is the highest share holder of Business in Manamadurai Taluk; the Branch was selected for primary data collection.

SELECTION OF VILLAGE AND BC

Villages have 2000 or above population were selected for data collection. 2 villages of Manamadurai Taluk were selected where 2 BCs have been appointed by Canara Bank, Manamadurai under BCA model. The service provider is M/s Intergra Micro Systems. Mr. GR. Somanathan, Secretary, MARUTI (NGO), BC of Mangulam Village, and Mrs. Deepika Manoharan, Agriculturist, BC of Therkkusanthanur were interviewed for the study.

SELECTION OF CUSTOMER AND NON-CUSTOMER OF BC

Customers are using services from BC while Non-customers are not using BC services. From every village 20 customer availing BC facility and 10 customers not using BC facility were selected.

COLLECTION OF PRIMARY DATA

Primary data has been collected to find out of different pattern opted by the bank. Pros and cons in implementation of BC model and study on the expectation and realities of all the stakeholders like, BC, Bank and villagers. 4 Questionnaires were prepared for BC's customers,

non-customers, BC themselves and for bank branch.

Other details were collected from District Collectorate, Sivagangai, Sivagangai District Lead Bank Office and Circle Office of Canara Bank at Madurai. Data was collected by asking open ended questions and try to get details. Additional information was collected from Mr. Bangaru Giri, AGM, NABARD and LDM through interaction.

SECONDARY DATA COLLECTION

Secondary data has been collected from different literature about financial inclusion and business correspondent model. It has also been accessed from different RBI reports, speeches, research work, etc. and from internet.

DATA ANALYSIS

The data collected are analyzed and summary statistics are presented hereunder.

FINDINGS OF STUDY

IMPACT OF BC MODEL ON BANK BRANCH

All the Bank branches of Manamadurai Taluk are included under financial inclusion. In Manamadurai total 7 villages has been covered by Canara Bank BC service. The Bank is adopting KYC norms for persons who want to open account through BC. They are asked to submit photo identity and address identity proofs.

SUGGESTION BY BANK BRANCHES

According to Bank if they can be provided with mobile van facility they can improve in FI plan. Cash limit, which was given to BC, should also to be increased. They also ask for improvement in devices which will help BC face lesser problems. There is need for awareness even among bankers and establish forum where banks will have continuous interaction with BCs.

IMPACT OF BC MODEL

Banks have selected BCs who are engaged with them in the past. The selected BCs are well aware of bank services. Banks gave training to BCs after selection. In training they learn how to use POS device and how to solve basic device related problems. All the BCs who are selected are serving in their own village. They are available 24 hours in their village and provide services all 7 days of week. Some BCs have been engaged to cater two villages but they have not started working in other village due to transaction problems in POS device.

FUNCTIONING OF POS DEVICE

BC open an account of customer through POS device which is directly connected to branch server through internet. BC gives receipt to account holder for their each transaction. After opening of account with BC customer get smart-card. Smart-card is one of the way to access account which was opened by BC, other cards include, RuPay Debit Card and Aadhaar Card. BC has also got one smart-card for his identification. After inserting both BCs and customer's smart card BC can access account.

BCs got webcam and fingerprint identifier along with POS device. For opening of account BC take photo and fingerprint of customer. This identity used as the proof for opening of account. When account holder want to access his account, fingerprint is required for identification.

REMUNERATION GIVEN TO BC

BC is getting Rs. 5000 pm (less applicable Tax) as fixed salary. They have also committed to do atleast 25 transactions per month, for doing more than 25 transactions, they get Rs. 1.25 per transaction. It means that when customer does any transaction through POS device like deposit or withdrawal, he will get Rs. 1.25, But there is a transaction amount ceiling of Rs. 5,000 per customer per day. But BC will not get any transaction commission if the POS device is not working properly. BC is also getting about Rs. 500 pm as conveyance charges.

SMART-CARD

Smart card is used for accessing the account to make any transaction. A handful of customers, not able to operate, which means that, customers are not able to access their account, through POS device. First, acquiring smart cards by customers is a problem, while accessing it being the next one. The main problem for not properly using smart

card is POS device problem and network connectivity problem. BC has been given Rs. 10000/- to Rs. 25000/- transaction limit per day.

AWARENESS ISSUES AMONG CUSTOMERS

The villagers are not aware about the services provided by banks and BC. Because of their illiteracy they do not understand the concept of financial inclusion. Very few people are aware of BC model and FI. Due to lack of time they do not got chance to understand concept. They are working whole day in farm or any other occupation which they are engaged. Sometimes they are aware about services but cannot adopt it because of limiting factor of availability of time.

It shows that the requirement of more awareness camp like financial literacy is needed. It is important to give awareness to people about FI. They should trust in BC model by their own. They should understand importance of savings. It is possible only if they get awareness.

SATISFACTION OF CUSTOMER

BC's are concerned with money. They hold money of villagers. It must require having trust in BC. If trust factor is not in BCs then BCs cannot work properly in village. Trust can be earned by the satisfaction of work. If BC satisfies needs of villagers they can easily trust him and also support him for smooth functioning of BC.

The problems are mainly related to smart card availability or inadequate infrastructure accessibility. The BC's are working well in their villages; they are able to satisfy needs of their customers which show healthy growth of FI.

IMPACT OF NON-CUSTOMER

Non-customers are the persons who are not using the service provide by BC. Some villagers are not using BC services because of various reasons. The non customers are mostly engaged with agriculture and other occupation like agriculture labour, etc.

The non-customers are also holding account in other banks. They are totally eliminated from formal financial sector. The reason for exclusion is lack of time and do not possess enough savings. We can also count illiteracy of people as another reason for not opening of bank account.

REASON FOR NOT HAVING ACCOUNT BY VILLAGERS

There are many reasons for not opening account through BC. A major of non-customer populations are not availing BC service because they do not trust the concept of BC. They are aware of BC services but somehow they are very possessive and concerned with their money. These groups of people do not trust anyone quickly. A few people think that this facility is not convenient for them. This group of people is mostly migrating from one place to other place frequently. They are not staying in one place for long time. It is difficult for them to come to village for only accessing the account. Few others are not joining with BC because of limit fixed for transactions. These group of people are have some more amount of transaction occurs. They are taking crop loans or getting some government subsidy. These people have larger amount for withdrawal and BC has limit on cash for their transaction.

Reason for Not Availing BC service by Non-customers

- Account holding in main branch
- Availability of time
- Due to device problem
- Document problem
- Not enough savings

MAIN ISSUES AND CHALLENGES

The study of Business correspondent model shows some facts about BC model in villages. We have seen some findings about the model. Here we discuss about constraints that why FI plan still not so successful. The results of the findings are detailed here.

DEVICE

First of all the POS device has not been given to all the BC and the POS devices which was given to the BCs are faulty. POS device do not work properly. Device has two parts which identify customer. One is web cam and another is fingerprint identifier. Fingerprint identifier is sometimes not working it requires cleaning on regular basis.

SMART CARD

Smart card is another issue. BC opens the account of customer through POS device. Once the account opened it require smart card for operating it. For operating of customer's accounts both smartcard of customer's as well as BC are required. But the problem is that after opening of account smart card has been issued after 1 or 1.5 month later. So if the customer wants to execute immediate transaction he/she can't do that.

NETWORK CONNECTIVITY

POS device is wireless electronic instrument which works on battery. For operating the device it requires internet connectivity. For this internet connectivity, they are availing the services of mobile service provider. In the village and remote area there is problem of network connection. Without network POS device cannot connect to internet and hence, the transactions are not materializing.

DOCUMENT

The documents required for opening of bank account are photo identity and residence proof. In villages studied it was observed that, a person has two different names in two different documents because of their illiteracy. As per KYC norms it is not acceptable. This is coming in the way of FI.

AWARENESS

In villages, generally people can't accept new things easily or quickly. People do not trust the BC and when we are talking about money it is hard to convince people. They also don't have clear idea about what financial inclusion exactly is; hence, financial literacy campaigns are necessary in the villages. Recognition should be given by bank to BC as banks representative in a village.

ACCOUNT HOLDING AT MAIN BRANCH

Villagers have small savings. They are opening savings account for their small savings. For this they have to go to branch for transaction or any kind of other banking facility which cost him wages for that day and transportation. Service of BC is given at the door step but they cannot open account there because they are already account holder in branch.

SUGGESTIONS FOR IMPROVEMENT

POS device should be given to all BCs as quickly as possible.

- The technical problem regarding to device should be solved with the help of expert.
- Training should be given to BC for helping them to understand device easily.
- Smart card is necessary for transaction of individual account.
- Smart card should be issued to customer within week of opening account.
- Transaction should be made possible from both BC and branch through same smart card.
- In remote rural area it is not possible to get connectivity from all mobile service providers.
- Smartcard which is given to BC should have good network connectivity within the village.
- BCs to get internet connection anytime in day and transaction can be possible anytime.
- Due to illiteracy in rural areas document is major problem.
- Bank follows its KYC norms for opening of account.
- The villagers cannot get banking facility just because of some mistake in document.
- Banks should get confirmation from BC or can get written later from them.
- The villagers should get benefit of many government schemes by proper financial literacy.
- All kinds of banking facility to be informed to villagers to make them aware of facility.

- There is need to organize financial literacy camps and awareness camps in the village.
- The announcement of BC facility in the villages should be done by a respectable person of the village. So that credibility gap can be reduced.
- Branches have to develop such facility that account holder can access his account from both bank branch as well as from BC.

CONCLUSION

For successful implementation of FI, RBI instructed banks to make financial services available in rural areas. It is not possible for banks to open brick and mortar branches in every village of country. Therefore, alternative model like ultra-small branches, mobile-van facility and business correspondent (BC) model is introduced to make financial services available in rural areas. This study analysed the pros and cons of BC model.

According to bank, lack of awareness among village people about benefits of holding an account in bank is a major problem. They do not have enough savings. Time is another issue for villagers. Bank staff does not have proper understanding of concept of FI; hence they are not able to extend required support for FI initiatives. There is communication gap between Bank and BC, that, has to be removed so that, financial inclusion through BC model will become a great success.

REFERENCES

1. http://en.wikipedia.org/wiki/Economy_of_India. | 2. <http://www.livemint.com/2011/09/21211250/Financial-Inclusion--A-road-I.html> | 3. <http://www.livemint.com/2012/02/01235004/Business-correspondent-model-t.html> | 4. <http://iobbancon2011.com/uploads/CEDocuments/Compdm/Article23.pdf> | 5. http://www.chillibreeze.com/articles_various/Indian-Finance.asp | 6. RBI Circular No.: RBI/2005-06/288 DBOD. No.BL/BC. 58/22.01.001/2005-2006 dated 25th January 2006 | 7. P. Bakshi, Financial Inclusion – BC/BF model – what's new? The Journal of Indian Institute of Banking & Finance,83(2), 2012,5-10. <http://www.iibf.org.in/documents/IIB-Bank-Quest-april-june-12.pdf> | 8. Raghuram G. Rajan, A hundred small steps, Report of the Committee on Financial sector reforms (Planning Commission Government of India), 2009, | 9. RBI, CGAP, C.A.B, and ACCESS. (2009). Business Correspondents and Facilitators: Pathway to Financial Inclusion- Retreat on the Business Correspondent Model. Pune. | 10. Subbarao, D. D. (2009). Financial Inclusion: Challenges and Opportunities. Kolkata: Reserve Bank of India.