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INCLUSIVE GROWTH IN INDIA THROUGH BUSINESS CORRESPONDENT MODEL

Prabhat Kumar

Guest Teacher D.A.V. Post-Graduate College, Siwan Jai Prakash University, Chapra

ABSTRACT Financial Inclusion is the availability of banking services at an affordable cost to the disadvantaged and low-income groups. In India, the basic concept of financial inclusion is having a saving or current account at any bank. In reality, it includes loans, insurance services and much more, for all members of an economy. To realize balanced progress, financial inclusion of the community should be attained. Nearly half of our country men/women do not have even bank accounts. But, ironically GDP is shown increasing over the years. To tame this paradoxical situation, the RBI, in the year 2006, notified the establishment of Business Correspondent (BC) model for growth. This model envisages financial inclusion at the door step of the poor by opening village offices known as customer service point. Under this model, Non-Government Organisations (NGOs) and other intermediary agencies were permitted to link banking services / products to the poor, disadvantaged and remote households. Against this background, this paper attempts to elaborate upon aspects of inclusive growth in India through Business Correspondent Model.

KEYWORDS : Business Correspondent Model, Business Facilitator, Inclusive Growth, Point-of-sale

INTRODUCTION

India is considered as one of the economic giants of Asia does not come as a supervise to many because the current economic growth trajectory it has taken, has led many people economists included to painstakingly carry out researches aimed at uncovering the force behind such incredible economic expansion. After liberalization, the banking environment in India had grown more competitive with the relaxation of restrictions and adoption of International Standards banks are forced to adopt measures to survive. The recent financial reforms and greater competition in the banking industry have made it necessary for banks in India to concentrate towards the excluded mass. Successful Banks in India focus on the rural sector by providing Financial Inclusion service. The importance of an inclusive financial system is widely recognized in the policy circle and recently Financial Inclusion has become a policy priority in many countries. Legislative measures have also been initiated in some countries.

Inclusive Growth: Role of Finance Sector

Since the introduction of the economic liberalization, India has seen an average growth of 6.7%. The main contribution for the economic liberalization is the globalization of India. Price Waterhouse Coopers have stated in its report by 2020, India is expected to become the third largest economy after the US and China. But by the 21st Century, rural India has turned out to be disconnected from the main stream of development. A large section of Rural Population today still remains outside the coverage of the formal Banking System. The Eleventh Plan (2007-12) document was divided into three volumes viz. (i) Inclusive Growth (ii) Social Sector and (iii) Agriculture, Rural Development, Industry, Services and Physical Infrastructure. It addresses on sustained growth and investment aiming at improvement in the quality of life.

As per census 2011, only 58.7% of households are availing banking services in the country. In India, almost half of the country is unbanked. Only 55 per cent of the population has deposit accounts and 9 per cent have credit accounts with banks. India has the highest number of households (145 million) excluded from Banking. Out of 6 lakh villages in India, rural branches of SCBs including RRBs number 33,1495. Only a little less than 20% of the population has any kind of life insurance and 9.6% of the population has non-life insurance coverage. Just 18% had debit cards and less than 2% had credit cards.

Financial Inclusion – Indian Perspective

Sinha (2013), has high lightened in his paper the Government's initiative for the poverty elevation through Integrated Rural Development Programme (IRDP). It involves commercial banks giving loans of less than Rs. 15,000 to poor people and in nearly 20 years, it resulted in financial assistance of around Rs. 250 billion to roughly 55 million families. But the problem with IRDP was that its design incorporated a substantial element of subsidy (25-50% of each family's project cost) and this resulted in extensive malpractice and misutilisation of funds, the net result was that estimates of the repayment rates in the IRDP ranged from 25-33%. The two decades of IRDP experience – in the 1980s and 1990s – affected the credibility of micro-borrowers in the view of bankers and ultimately, hindered access of the less literate poor to banking services.

Herd et al. (2011) have emphasized the constraints face by the banking system. The structure of bank asset portfolios has changed over the past ten years. Priority-sector lending rose from 12.5 per cent of interest-bearing assets in March 2003 to a peak of nearly 21% by March 2008. As a result, the bank debt of the priority sectors rose by close to 6% of GDP, almost doubled in five years. Facing of the above constraints, the government-initiated establishment of rural cooperative credit societies, regional rural banks and microfinance institutions to provide micro finance, micro credit to the farmers and the poor.

The study reviews the importance of micro finance, micro credit. Although the banks, under pressure from the government, have been trying to develop "no-frills" accounts for low income customers and indeed, had three times as many such accounts as MFIs. However, only 10% of the accounts are actually used – most are dormant and serve merely to demonstrate compliance with government objectives.

Financial Inclusion – The Means of Inclusive Growth

A predominant role is being played by financial inclusion policy for inclusive growth all over the world to transform financially excluded population which is numbered as 2.5 billion of which, one third is populated in India. Financial Inclusion is originated from the initiatives of United Nations, which exclusively reported the key goals of the policy as access to wide range of financial services to all at an affordable cost, which started its operation effectively in India in the year 2005. As India is the land of rural supremacy, it is mandate to provide suitable financial services for economic growth which will increase the income and living standards of the households. In accordance with an estimate, almost 10% to 15% households in United States, 8% to 10% in United Kingdom and 7% to 10% in France do not even have a basic savings bank account. But, the problem is more acute in developing countries where the extent of exclusion is 25% to 65%. At present, in India, the focus of Financial Inclusion is confined in ensuring a bare minimum access to savings bank account without frills, to all. It is dazed that on hand, poor persons have been restricted to access the financial services and on the other hand, affluent customers who have accessibility to financial system hesitate because of security concern and outreach. The review of literature for this study is based on financial inclusion, its awareness among the people, role of digital financial inclusion in India and barriers faced by people to financial access.

The banking and other formal financial institutions such as post offices and insurance companies have become essential for an individual to deposit, save, invest and avail financial services. The banking sector and other financial sectors were providing lots of financial services for decades.

The Business Correspondent Model

The Business Facilitator and Correspondent Model, an outcome of the process and an attempt to use the local organisations/systems to intermediaries with the banks and customer is an ideal route for banks to take banking services to the underprivileged hitherto remained untouched by them and to cover the villages still remaining unbanked. The model so evolved with the objective of ensuring greater and sustainable financial inclusion and increasing the outreach of the banking sector is known as Branchless Banking Model.

The BC idea has come from Brazil where retail vendors, lottery outlets and post offices double as bank branches. An estimated $ one billion in transactions were processed with Point-of-Sale (PoS) devices such as biometric or Smart Card Readers through Brazil's 90,000 agents in 2005 and a total of about 12 million accounts were opened across the network in only three years.

It is said that the Business Facilitator/ Business Correspondent will be a friend, Philosopher and guide to the people in the villages served by him/her. A Business Facilitator for/ Business Correspondent is normally the one residing and/or located in the area he/she serves. He/She may have the agriculture background and work with dedication to the cause of upliftment of the rural poor. He/she may educate the villagers in general and the farmers in particular about various aspects of banking and finance with reference to rural development and possibly improved agricultural practices for cost-cutting and improving the yield of crops and the income of the people in the area.

The Business Facilitator / Business Correspondent Model is encouraged with the sole intention to increase the Bank's outreach to customers, especially in the unbanked centres. Ideally, the area of operation of each rural and semi-urban branch may be extended in such a manner as to cover at least 20-25 villages. The Business Facilitator/ Business Correspondent may therefore be engaged to take banking services to people and canvass/mobilise banking business and offer limited banking services assigned to them respectively in the areas not so far covered by any bank. It is thus possible to increase outreach of the bank's branches and to cover more and more rural/ semi- urban population under financial inclusion, thereby achieving its objective.

CONCLUSION

The efforts to bring the excluded into the formal financial fold could be termed as 'Financial Inclusion'. Financial Inclusion is nothing but making available financial services to the poor and excluded in an affordable and expeditious manner. It is however, seen that the existing design of the banking structure may not be able to achieve inclusion as there are certain cost and structural issues involved in the delivery of financial products. The branch banking and electronic banking way not be appropriate models to reach the excluded as financial inclusion involves financial education, counselling and building up of close relationship with people.

Banks must, therefore, look to alternate delivery channels to reach the poor. This is of particular importance in areas where the bank does not have a branch or where a branch is situated at a considerable distance for the clients to reach or access. Also, there could be areas where the branch may be located close by and yet the awareness of the bank products with the financially excluded could be limited on account of procedural or other barriers. In this background and in order to take banking services to the people living in these unbanked and under-banked areas, the Business Facilitator/ Business Correspondent model for rural development has been conceived essentially to fill up a gap that currently exists between the financial institutions and the excluded.

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