

## Business Correspondent Model as a new Financial Inclusion practice in India



### Management

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### ABSTRACT

*Financial inclusion i.e., access to adequate and timely credit, and other financial services is of utmost importance for socio-economic development of poor and unbanked sections. It enables them to alleviate their poverty levels through self-employment generation and promotes them as a part of rural banking system. Accordingly, Indian Government is being initiated various financial measures in the banking sector, and different microfinance models have been playing an active role in providing microfinance and other financial services to the rural poor. However, despite these efforts, a large number of social groups remained excluded from the basic opportunities and services provided by the formal financial sector. In these circumstances, as a part of financial inclusion drive, Indian government with the help of Reserve Bank of India (RBI) has come up with a new model in the realm of banking sector, called as "Business Correspondent (BC) model". This model primarily aims at providing affordable banking facility to the hitherto unbanked population with the help of Information and Communication Technology (ICT) based application and capacity building. Against this backdrop, this paper attempts to introduce the concept of financial inclusion and highlights its need.*

### I. INTRODUCTION

Financial inclusion is a global phenomenon that has gained wider currency in the development literature in contemporary times. Given the magnitude of poverty in the Third World economies, wherein a large segment of the population do not have access to basic financial services, the idea of financial inclusion – commonly understood as „banking to all” – has become conspicuous in these economies. A recent United Nations (UN) study observes that financial inclusion of the poor is a global challenge to the achievement of the Millennium Development Goals (MDGs) (2006:1). This report draws attention to a plethora of problems that are being faced by poor in accessing financial services, and reveals the stark reality that a large number of people are not in a state of saving money as formal banking services are not within their „reach”.<sup>1</sup> According to this report, structural barriers prevent the poor from accessing banking facilities, thereby resulting in financial exclusion. The study further argues that the poor do not have savings bank accounts, let alone insurance policies.

Given this background, financial inclusion is increasingly becoming a major focus of research, and the recent literature on the subject focuses on emphasizing the possibilities and prospects of well-designed financial arrangements. Scholars note that better financial services lead to the social and economic development of the rural population. Having a bank account and access to other financial services through formal financial institutions helps the low-income segments to accumulate funds in a secure place. This, in turn, will have a sobering influence on the informal sector, and hence benefiting those who were otherwise excluded from it (Kirkpatrick, 2000:366; United Nations, 2006: iii; Ellis, 2007:82; Beck, et al., 2009: 120). A financial system is the set of institutions and of institutional arrangements that have been established to serve the financial needs of the people. The main objectives of a financial system are to meet the borrowing requirements of business firms, individuals and government; to gather and to invest savings; and to provide a payment mechanism. A well-functioning financial system has some important characteristics. Those are as follows: (i) a clear and appropriate policy regulatory framework that is implemented effectively; (ii) adequate, credible information available to different market players (including providers, consumers and regulators); (iii) appropriate knowledge-based services to the same players; (iv) access to an effective payments infrastructures; (v) effective competition between suppliers; (vi) a diversity of sustainable

suppliers and (vii) an innovation in products and process. For more details, see Ratti (2012), Indian Financial System & Indian Banking Sector: A Descriptive Research Study, pp.1-8.

### II. FINANCIAL EXCLUSION

Financial exclusion is broadly related to lack of adequate access to a range of financial services. People belonging to the lower income strata are unlikely to get access to mainstream financial services and products, and reap the benefits out of it. Further, it prevents the poor and disadvantaged segments in taking key decisions regarding human and physical capital accumulation. Given the above, the repercussions of financial exclusion could be a far-reaching, which not only destabilize the livelihood opportunities but also push them into a complex phenomenon of „poverty trap”<sup>4</sup> (Mahmoud et al., 2011:5 and Joshi, 2011:81). Some scholars extend this argument beyond accessibility dimension by relating financial exclusion to income status of the poor. Income levels of an individual in any country determine the propensity to save from it. Underlining this view, Joshi (2011:14) observes that majority of population in India neither has savings accounts nor receives credit from formal financial institutions. They seldom make or receive payments through formal financial institutions. Apart from access and income dimension, Sharma (2008:3) discusses that exclusion can be due to problems related with geographical conditions, transaction cost, lack of experience in marketing or self-exclusion in response to negative experiences or perceptions. It is becoming clear from the above arguments that financial exclusion is primarily due to lack of income, access and limited exposure to the financial sphere. These constraints invariably have serious repercussions on living standards of the poor.

### III. BUSINESS CORRESPONDENT MODEL

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, the RBI in the year 2006 adopted the technology based agent bank model through business correspondent (BC)/business facilitator (BF). It is being acknowledged as an alternative banking structure to branch-based banking services, which enables public sector banks to use the services of Non-Governmental Organisations/Self-Help Groups (NGOs/SHGs), Microfinance Institutions (MFIs) and other Civil Society Organizations (CSOs) as intermediaries in providing financial and banking services (RBI, 2006). The model primarily intended to reach out to the geographically diverse population, particularly rural areas and those who remained fi-

nancially excluded from the mainstream banking fold. The significant feature of this model is to ensure doorstep delivery of financial products and services to the above said sections. According to the RBI guidelines, the BCs are permitted to carry out financial transactions on behalf of bank as agents, which is called as branchless banking. This model is being aided by technology oriented tools as point of service.

#### IV. BUSINESS CORRESPONDENT MODEL VIS-A-VIS FINANCIAL INCLUSION: THE POSSIBILITIES

BC model aims at developing and strengthening the relationship between unbanked people and the formal financial system. The salient features of this 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 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. It is, therefore recognized as an economically feasible and customer-friendly banking model for the poor.

#### V. ISSUES AND CHALLENGES

Although BC model shows great promise and holds potential to cater the financial needs of the rural unbanked populace, the experiences are still mixed. Some of the major reports argue that the model has not taken off in the way it was envisioned in 2006. As far as the viability of this model is concerned, CGAP report (2013:4) reveals the existing regulations do not allow sufficient flexibility for the BC arrangement to be viable. It argues that most of the banks have not really encouraged and promoted the BC banking channel, as required. Further, the report adds, majority of the no-frills accounts opened under this model are not operational. Opening of such accounts to provide deposit services, in order to make these accounts profitable, have not made the desired progress. This has made it unviable for the banks to consider this framework further. Similarly, RBI annual report (2011-12) observes, despite the efforts of the banks to provide training to BC staff, the capacity for internalizing new technologies, new products and systems remain a big challenge. From the business correspondent's perspective, it is pointed out that mobilizing communities for accessing financial services, particularly savings, became a big challenge for them. Due to shortage of sufficient funding, BCs at the village level are unable to mobilize and conduct group meetings in the case of SHGs/JLGs to explain the advantages and to promote BC model.

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