

Business Correspondents as a Effective Agent Model for Financial Inclusion in Karnataka



Commerce

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Sunil D'souza

Senior Research Fellow, DoS in Commerce PG Centre, Hemangotri Hassan University of Mysore, Hassan 573220

Dr. T.S Devaraja

Associate Professor ,DoS in Commerce PG Centre, Hemangotri, Hassan University of Mysore, Hassan 573220

ABSTRACT

The financial inclusion is the powerful strategy of the Government to include the excluded people from the financial services of formal financial institutions. Branch free banking agencies play a major role in terms of creating facilities to people for savings, Borrowings and other socio-economic developmental activities through productive utilization of people's earnings. Business Correspondent Model is an initiative of Reserve Bank of India based on the suggestions of Government of India for agency model in financial inclusion. The present work is an descriptive study to analyse the role of BCs in financial inclusion process in Karnataka and evaluate the status of BCs with regard to its quantity and coverage.

Introduction

Even the execution of number of financial inclusion initiatives by the Government of India and RBI from 1969 with nationalisation of major commercial banks and the introduction of Regional Rural Banks (RRBs), initiatives for priority sector lending the Indian banking system could not reached to deliver the basic banking facilities to rural and remote populations. Through banking service delivery models like; branches, ATMs and the internet are the popular channels for provide the services to literates and people who are living in that vicinity. The far situated banking outlets from rural populations and the negligence of Bank branches towards poor clientele are the major drawbacks for financial exclusion. The milestone for financial inclusion process took place as of the impact from, Exclusion of major population from formal financial institutions on Inclusive Growth of the economy. With the vision of achieving milestone of financial inclusion (banking unbanked poor people) and achieve the Inclusive Growth, the Government of India issued a new set of guidelines to launch agency banking model from 2006 onwards. This resulted in introduction of two categories of intermediaries; Business Correspondents (BCs) and Business Facilitators (BFs) from 25th January 2006, based on the recommendation of the Shri H.R. Khan Chairman of Internal Group formed by RBI to examine issues relating to Rural Credit and Microfinance.

Review of Literature

Mas, (2010), The bank has to pay a fee for service provision to the technology vendor as well as the BC. According to regulations, all the revenues obtained from the services are to be collected by the bank. The technology vendors, BCs, and CSPs are not permitted to charge fees from the clients for the services rendered. The bank's revenue may come from the extension of various services accounts, savings, credit, and payments. This model helps banks to decongest their branches; they can now tailor products for their high-end customers; and they have the opportunity to develop business in new locations. A branchless banking network has certain cost advantages. It has multiple nodes of delivery and lower costs in terms of transport and time. Banks usually have a minimum balance rule that deters low-income customers; the products offered under the BC model usually do away with this rule in order to extend reach to a wider clientele. In the branchless banking models currently operational in other countries (such as Kenya, Brazil, Columbia, and the Philippines) and in India as well, the pricing structure has a pay-as-you-go model as opposed to the fixed monthly charges that are applicable at banks.

Since the main aim has been to lower the barriers to adoption, there is no registration charge or a monthly charge. Further, there is no minimum balance requirement. Instead, the model uses transaction-/use- dependent pricing. That is, customers are charged only when they avail a service. The charge either is a fixed amount (where the size of the transaction does not matter) or is set as a percentage of the transaction, in which case the size of the transaction does matter. The model also serves as a platform for product innovation. Financial institutions would be able to profitably package transactions into savings, loans, and insurance products to those at the bottom of the pyramid.

Mas and Siedek, (2008), Mas recommended remuneration for the agent based on a commission per transaction that has a fixed part (that remains the same regardless of the value of transactions) and a variable part (that is expressed either as a percentage or as stepped increases depending on the value of the transactions). The commission could be higher for deposits than for withdrawals because the transaction cost for withdrawals is higher, and it gives agent an incentive to bring in new business.

Raj, (2011), the average cost per transaction in India via the BC is the lowest at INR 4.50 per transaction; the cost of a transaction at an ATM is INR 18, and at a bank branch, it is INR 45. Regulated financial institutions such as commercial and state banks already exist in India, and they are experienced in managing financial services and handling money. However, it is difficult to establish banks in all areas. To extend financial services to the poor, it is essential for banks to keep the fixed costs low while trying to establish Customer Service Points (CSPs) to cater to the lower-income clients. Thus, the BC model is critical in the Indian context. This alternative delivery channel is often referred to as —branchless banking. While there are many models of branchless banking, almost all the models depend on technology-based solutions and non-banking retail agents working for the bank. This paper studies the business correspondent model, where intermediaries (called business correspondents or banking agents) undertake cash transactions on behalf of the bank; these intermediaries are largely mobile. In such a model, the bank comes to the customer, thereby shifting travel costs and certain transaction costs to the bank. The onus to reduce costs is now on the banks. A mix of rural and urban deposits has strategic importance to banks, as rural India can help banks increase their low-cost current account/savings account deposits, thereby spreading the business risks.

Tarazi and Ehrbeck, (2011), The pricing of the transaction depends on the services it is offered on and other factors such as the frequency of service and the client profile. However, it has been found that percentage pricing is cheaper for low-cost transactions and gets costlier as the transaction value increases (when compared to flat pricing). The CGAP study reveals that the smaller the transaction value, the cheaper branchless banking is compared to formal banks—for clients as well as banks. For the banks and the technology vendor, the revenue is wholly dependent on the volume of transactions for which the customers are charged a commission. To ensure profits, the stakeholders must focus on a high volume of transactions. Most e-money accounts are a payment 'service, which denies interest payment and deposit insurance for such accounts. However, once the e-money or money deposited via an agent is put in a 100% prudentially- regulated institution, this money is as much at risk as cash in a bank.

Thorat et al., (2010), The BC model in the direction financial inclusion gives more viability to the banks in achieving financial inclusion. The study by Sa-Dhan a MFI, which focused on financial inclusion models including self-help group-bank linkage, microfinance institutions and BC model. It pointed out that the BC model currently required urgent intervention to sustain. The shortcomings for the BC model are the cost structure, bank's lack of commitment, absence of financial literacy, lack of knowledge between customer service point operators (CSPs) and clients and lack of grievance redressal system. The report pointed out that improvement in connectivity and technical infrastructure is required to sustain the BC model and it should be considered for convergence with the national e-governance plan. The BC model, if modified and rolled out carefully, has the potential to usher in a second banking revolution in the country to achieve near total financial inclusion.

Financial Inclusion

Financial Inclusion is the process of inclusion of excluded people from basic formal financial services like Savings, Deposits, Loans and advances delivered by formal financial institutions like Banks, Cooperatives. The milestone for financial inclusion initiated from 2005 onwards with the budget speech by the finance minister of UPA government and stretched issue of financial inclusion for inclusive growth of Indian economy.

Business Correspondents (BCs):

According to the guidelines, the BCs are permitted to carry out transactions on behalf of the bank as agents, the BCs can refer clients, pursue the clients' proposal and facilitate the bank to carry out its transactions, but cannot transact on behalf of the bank.

The stakeholders of the Business Correspondent Model like Technology vendors, Customer Service Points. Business Correspondents are not permitted to charge fees to clients for services offered by them. BASIX, A Little World, EKO, Atom Technologies and FINO Ltd. Are the technology platforms for Business Correspondents to perform ICT based Business Activities with customers.

Role of Business Correspondents:

As branchless bank model BCs play the middlemen role between the banks and clients as a Bank and identify the new clients who still not opened bank account, offer the clients banking facilities to their doorstep and though that encourage savings, offer minimum cash credits and withdrawals. Business Correspondents are offered commission based on their day transaction and fixed salary paid by the

banks who appointed them for their services. Following are the role of Business correspondents in related to achieve the banking outreach and financial inclusion of rural population;

1. Identification of borrowers and fitment of activities
2. Collection and preliminary processing of loan applications including verification of primary information/ data
3. Creating awareness about savings and other products and education and advice on managing money and debt counselling
4. Processing and submission of application to bank
5. Promoting and nurturing self help groups/ Joint Liability Groups
6. Marketing and Handholding of SHGs/JLGs , Credit Groups
7. Follow up of recovery
8. Disbursal of small credits
9. Recovery of Principle or Collection of Interest
10. Collection of small value of deposits
11. Sale of wise insurance, Mutual Fund products, Pension Products, other thirty party products
12. Receipt and Delivery of small value remittances/other payment instruments.

Business Correspondents are:-

As per the RBI regulations the following organisations institutions and individuals can become the Business Correspondents

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,
12. Authorized functionaries of well run Self Help Groups (SHGs) which were linked to banks ,
13. Non-Deposit taking NBFCs in the nature of loan companies whose microfinance portfolio was not less than 80% of their loan outstanding, in the financially excluded districts as identified by the Committee on financial inclusion

In India more than 20 banks piloted the BC model for expanding their operations. SBI among the public sector bank has trying to recruit as many BCs as possible. Among private banks, ICICI bank, HDFC have taken the lead in making use of this scheme. Several other banks such as Indian Bank, Canara Bank, Union Bank of India, Corporation Bank, Punjab National Bank, Oriental Bank of Commerce, Andhra Bank, Axis Bank have also tested the model.

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 organiza-

tional 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.

Business Correspondents Operating In Karnataka

The lead banks endeavoured for financial inclusion under State Level Bankers Committee (SLBC). Syndicate bank appointed as the convenor of the SLBC in Karnataka. The lead banks issues guidelines to banks in appointment of the Business Correspondents for the delivery of financial services, there are 3903 Business Correspondents in Karnataka (details in table No.1).

Table No. 1, Number of Business Correspondents District wise in Karnataka

Bangalore Division	No. BCs	Belgaum Division	No. BCs
Bangaluru Urban	39	Bagalkot	98
Bangaluru Rural	72	Belgam	259
Chikkaballapur	72	Bijapur	115
Chitradurga	183	Dharwad	73
Davangere	420	Gadag	45
Kolar	113	Haveri	97
Ramanagara	120	Uttara Kannada	34
Shimoga	59		
Tumkur	120		
Total	1198	Total	721
Gulbarga Division	No. BCs	Mysore Division	No. BCs
Bellary	242	Chamarajanagara	143
Bidar	136	Chikamagaluru	50
Gulbarga	285	Dakshina Kannada	96
Koppala	65	Hassan	70
Raichur	173	Kodagu	53
Yadgiri	95	Mandya	269
		Mysore	255
		Udupi	57
Total	991	Total	993

Source: State Level Bankers Committee

Village Coverage through Business Correspondents in Karnataka:

Business Correspondents are played remarkable role in coverage of unbanked villages in Karnataka. The identified 3395 unbanked villages with population above 2000 have been provided with 100% banking outlets by which 2874 Villages are covered by BCs, 513 Brick and Motor Branches, 8 Mobiles Vans as on March 2015. There are 23126 villages identified with the population less than 2000 and total 22129 villages are covered with banking outlets by which 14709 villages are covered by Business Correspondents details are shown in table no. 2

Table No. 2, Details of Villages Coverage through Business Correspondents in Districts of Karnataka

Bangalore Division			Belgaum Division		
District	Population >2000	Population Range < 2000	District	Population >2000	Population Range < 2000
Bangaluru Urban	52	502	Bagalkot	130	407
Bangaluru Rural	25	1292	Belgam	380	603
Chikkaballapur	34	1654	Bijapur	166	375
Chitradurga	107	656	Dharwad	77	223
Davangere	137	599	Gadag	70	221
Kolar	17	1842	Haveri	117	486

Ramanagara	78	499	Uttara Kannada	57	1170
Shimoga	71	1373			
Tumkur	117	2354			
Total	117	2354	Total	997	3485
Gulbarga Division			Mysore Division		
District	Population >2000	Population Range < 2000	District	Population >2000	Population Range < 2000
Bellary	219	254	Chamarajanagara	118	357
Bidar	144	424	Chikamagaluru	48	988
Gulbarga	180	602	Dakshina Kannada	213	90
Koppala	91	451	Hassan	32	2316
Raichur	130	655	Kodagu	50	203
Yadgiri	94	384	Mandya	125	1018
			Mysore	193	1078
			Udupi	123	50
Total	858	2770	Total	902	6100

Source: State Level Bankers Committee

Summary and Conclusion:

Business correspondents are become the important and cost effective model for financial institutions to achieve the reach of unbanked remote places in Karnataka. The business correspondents selected are from the location where the banks are not operating and appointment of Business Correspondents creates a job for local personal and the localities selected is easy to make faith in banking activities like savings and investment. After initiative of Government of Indian and Reserve Bank of India, more number of Business Correspondents started their operation and number of unbanked villages became the banked one and also made the availability of banking facilities to the poor and people who are depended upon the informal sources of finances.

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