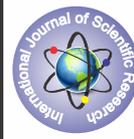


## ANALYSIS OF BUSINESS CORRESPONDENTS ROLE IN THE PROCESS OF FINANCIAL INCLUSION DRIVE



### Commerce

**KEYWORDS:** Creative Quotient (CQ)  
Concurrent Validity  
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### ABSTRACT

*To reach the unreachable with facilitating formal banking services at an affordable cost and effective financial inclusion objectives, Government of India and RBI initiated through introduction of Business Correspondents and Business Facilitators as an agent model from 2006 onwards. The role of Business Correspondents is to introduce the clients to the banks and also act as a banker with the clients for their financial needs by delivery of formal financial services which are available for them from the banks and governments. This paper is to study the effective role of Business Correspondents in the process of delivery of financial services in the process of financial inclusion drive, present paper discusses about the role of Business Correspondents considering nine different indicators such as Savings, Credit, Awareness, Suitability, Accessibility, Adequacy, affordability, Involvement and Quality Indicators which influence on the effective financial inclusion drive.*

### Introduction:

Financial Inclusion is the process, by which inclusion of people who are excluded from the facilities of formal financial services delivered by Banks and other formal financial institutions. People are excluded from the services of formal financial sources because of financial illiteracy, Lack of confidence, lack of formal financial sources and easy access of informal financial sources at their needs such as Money Lenders role in unbanked areas were huge, people are need to depend on the informal sources of financial even though such kind of services leads to difficulties in future, people are depend on them for their financial needs and requirements which lead to huge number of financial exclusion and lacked with habit of savings and effective management of personal finance which results in the development of economy.

Business Correspondents are the initiative of RBI as per the Guidelines issued by the finance minister in his budget speech 2005, which was introduced as an agent model for delivery of financial services to the clients of Banks and also introducing new clients to the banking penetration.

Financial Inclusion is the milestone for the inclusive growth in the economy. Inclusion of people in formal financial services was not possible from the available brick and motor banks from last few decades. Still in India more than 50% of population was not actively involved in banking activities, they are depending on moneylenders for credit needs and save their earning with informal way. Introduction of Business Correspondents was the milestone in related to effective financial inclusion drive from 2006 onwards. The present study is to understand how effective business correspondents are in related o delivery of formal financial services, impact of role business correspondents in financial inclusion process. With these following objectives were formulated

Financial Inclusion is highly important for the society because the consequences of financial exclusion is quite harmful, it may generate lower investment resulting from difficulties in getting access to credit or gaining credit from informal sector at very high interest rates. Particularly, without broad and easy access consequences may be grave for the small business sector and poor sections of the society (Beck et al. 2004). Households in India indebted to credit from moneylenders but financial inclusion is the access of institutional credit from formal financial systems, the commercial banks are initiated through the opening of basic saving bank deposits by the individuals, the broader idea beyond financial inclusion is to focus on increasing the productivity of vulnerable groups and ensuring sustainability in the long run (Subbarao et al., 2007).

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. 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, 2010).

Opening of bank branches in rural areas not given importance because the serving poor customers is the hazards for branch business as it incur high fixed cost and transaction cost. There were two main challenges that banks face in serving the poor. On the one hand, they have to devise a viable revenue model that is consistent with the cash flow needs and the perceptions of value of the poor. On the other hand, they have to minimise the operational burden of managing millions of small- value transactions (Mas & Almazan, 2011). Financial Inclusion is emerged as new paradigm of economic growth, financial inclusion plays a major role in driving a way the poverty from the country. It not only enhances overall financial intensity of agriculture but also help in increasing rural nonfarm activities which lead to development of rural economy and improve economic condition of people (Atul, 2012).

The three major aspects of financial inclusion are access financial market, access credit market and learn financial matters. Reserve bank of India and government plays an important role in promoting financial inclusion for economic growth. It has taken various steps to increase banking penetration in the country, nationalization of banks, establishment of RRBs, introduction of SHG and strategy of one person one account for accessing financial market. Accessing credit facilities improving interest rates, simple KYC process are major steps because nearly 80% of the population in India is without life, health, nonlife insurance cover. RBI has also adopted two strategies to generate great awareness and expand the reach of banking services which can be termed as empowerment and protection. The Banks were exhorted upon to take up various

strategies in order to achieve Greater Financial Inclusion. Banks throughout the Country scaled up their initiatives to achieve their targets for Financial Inclusion and have succeeded in doing so to a large extent. However, the State of Jammu and Kashmir lags behind other states in its vital Financial Inclusion Indicators; Credit-Deposit Ratio at a meagre 35.71 against the benchmark 60, and Financial Exclusion to the extent of 68% which is highest in the Northern Region (Audil & Sangmi, 2012). The limited access to affordable financial services such as savings, loan, remittance and insurance services by the vast majority of the population in the rural areas and unorganized sector is believed to be acting as a constraint to the growth impetus in the various sectors identified for growth in the country. The objective of Financial Inclusion is to extend financial services to this large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular (Annu, 2014).

As an empirical paper, used both qualitative and quantitative data in this paper, the Geographical location chosen for study was districts of Mysuru Division in Karnataka State in India. 8 districts coming under Mysuru Division were considered for the study (details in table No.1.).

Primary data were gathered through scheduled questionnaires, response from the clients in related to services offered by the business correspondents and how they are playing effective role in financial inclusion drive were collected. Secondary data were collected for writing conceptual report on the financial inclusion and Business Correspondents. The published articles RBI circular, research reports were considered for gathering secondary data

Clients are the sample respondents for the study, 450 is the sample size of the present study which is chosen using stratified random sampling technique, Male and Female sample were selected with 1:1 ratio. The base for the selection of sample elements were the Business Correspondents, 225 Business Correspondents is the sample units, which is taken from  $[(= N/1+Ne^2), e=0.05, N(\text{Base Sample})=547]$ ,

**Table No. 1 Break – up of Respondents sample**

Districts	Number BC's	Sample BCs (Sample Unit)	Clients (Sample Element)
Chamarajanagar	143	59	118
Chikamagalur	42	18	36
Dakshina Kannada	27	12	24
Hassan	6	3	6
Kodagu	21	9	18
Mandya	240	99	198
Mysore	20	9	18
Udupi	48	20	40
Total	547	225	450

Source: State Level Bankers Committee

The objectives of this study are as follows:

1. To analyse the role of Business Correspondents in the process of Financial Inclusion drive
2. To analyse the products and services offered by Business Correspondents in the process of Financial Inclusion activities
3. To analyse the Impact of Business Correspondents role in Financial Inclusion drive

Following Hypotheses were framed to draw the statistical inference:  
 $H_0$  = Business Correspondents are Not playing effective role in the process of financial inclusion drive

$H_1$  = Business Correspondents are playing effective role in the process of financial inclusion drive

$H_0$  = Business Correspondents deliver inadequate products and services to the clients in the process of financial inclusion drive

$H_2$  = Business Correspondents deliver adequate products and services to the clients in the process of financial inclusion drive

$H_0$  = There is ineffectual impact of Business Correspondents role in the process of sustained financial inclusion activities of clients

$H_3$  = There is effective impact of Business Correspondents role in the process of sustained financial inclusion of clients

Results and Interpretation of Primary data collected through questionnaire in related to test the hypotheses are presented as follows:

To analyse the effective role of business correspondents in the process of financial inclusion drive, researcher collected the data through questionnaire with five point liker scale, the questions are on the nine indicators in related to effective financial inclusion, such as Savings Indicator, Credit Indicator, Awareness Indicator, Suitability Indicator, Accessibility Indicator, Adequacy Indicator, Time Indicator, Involvement Indicator and Quality Indicator. If the Score is;  $\leq 2$  is considered as Not Effective,  $< 4$  and  $> 2$  is considered as effective,  $\geq 4$  is considered as Highly Effective. The hypothesis was tested in accordance with the responses provided by the Clients and results are in table No.2

**Table No. 2, Role of Business Correspondents in Financial Inclusion drive**

Indicators	N	Mean	Std. Deviation	t value	d.f	p value	Sig. Level
Savings	450	4.13	.48	49.959	449	.000	HS
Credit	450	4.34	.46	61.126	449	.000	HS
Awareness	450	4.25	.53	50.064	449	.000	HS
Suitability	450	4.23	.62	42.150	449	.000	HS
Accessibility	450	3.05	.64	1.518	449	.130	NS
Adequacy	450	3.21	.75	5.795	449	.000	HS
Time	450	3.63	.97	13.740	449	.000	HS
Involvement	450	3.25	.67	7.753	449	.000	HS
Quality	450	3.62	.97	13.509	449	.000	HS
Over all role	450	3.74	.48	32.609	449	.000	HS

Source: Primary Data,

HS= Highly Significant, NS= Not Significant, d.f=degree of freedom, N= total respondents

The study resulted p value 32.609 p value is 0.000 which is statistically highly significant (p value is  $< 0.05$ ). Therefore null hypothesis is rejected (accepted  $H_1$ ), this implies that Business Correspondents are playing effective role in the process of financial inclusion drive, while considering overall role of Business Correspondents is effective even the role in related to accessibility of Business Correspondents for clients at their times was not significant with p value .130 ( $> 0.05$ ).

The table no. 2 describes that, Business Correspondents play highly effective role in financial inclusion drive through delivery of savings products and services, credit schemes, awareness on financial services, delivery of suitable services to the clients with mean values  $> 4$  and the effective role through delivery of services in time, providing suitable products and services to the clients, available to the clients all the time for access services and delivery of quality services to the clients with mean values  $> 2$  &  $< 4$ .

Business Correspondents are acting as bankers at the remote areas where the brick and motor banks are not available for the people. As a banker to the unreached Business Correspondents delivery the products and services offered from banks to the clientele. To analyse the delivery of products and services to the clients by the Business Correspondents and adequacy of the products and services

measured based on the number of products and services offered by the BCs to the clients. To analyse the adequacy of the products and services offered to clients the scores are graded as; 0 – 1, Inadequate delivery, 2 – 3, Moderate delivery and 4- Adequate delivery. The tested results are presented in table no. 3.

**Table No. 3, Products and Services Delivered by Business Correspondents**

Products and Services	N	Mean	Std. Deviation	t value	d.f	p value	Sig. Level
Bank accounts	225	3.40	.49	42.771		.000	HS
Loans and Advances	225	4.00	.00	-	-	.000	HS
Transfer or remittances	225	2.72	.95	11.417		.000	HS
Modern links	225	4.00	.00	-	-	.000	HS
Investment Assistance	225	2.07	1.43	75.076		.485	NS
Over all delivery	225	16.19	2.84	32.753		.000	HS

Source: Primary Data,

HS= Highly Significant, NS= Not Significant, d.f=degree of freedom, N= total respondents

The study result shown in table no. 3, the t value 32.753 with p value .000HS (p value is <0.05) which is statistically highly significant and reject null hypothesis (accepted  $H_0$ ), that means the Business Correspondents delivery adequate products and services to the clients in the process of financial inclusion drive. Business Correspondents role in related to Investment assistance as shown in table no. 3 was statistically not significant with t value 75.076 and p value .485 (p value >0.05), but overall the adequate products and services were delivered by the Business Correspondents.

Indicators such as Savings, Credit, Usage and Fulfillment Indicators were considered for the analysis of Impact of Business Correspondents role in the process of financial inclusion drive. The Indicators represent the effectiveness of utilization of financial services through Business Correspondents and how it impacted on them in the process of financial inclusion and inclusive growth. The response from the clients was graded as; if the Score < 2 its considered as No Impact, < 4 and > 2 is considered as effective impact, > 4 is considered as Highly Effective Impact. The tested results are in table no. 4

**Table No. 4, Impact of Business Correspondents role in Financial Inclusion drive**

Indicators	N	Mean	Std. Deviation	t value	d.f	P value	
Savings	450	4.18	.47	53.358	449	.000	HS
Credit	450	4.19	.44	56.791	449	.000	HS
Usage	450	3.73	.50	31.327	449	.000	HS
Fulfillment	450	4.08	.75	30.498	449	.000	HS
Overall impact	450	4.05	.35	64.156	449	.000	HS

The statistical result shows (table no.4) the t value 64.156 with p value is .000 which is highly significant, and so reject the Null Hypothesis (accept  $H_0$ ). This implies that, the impact of Business Correspondents' role in financial inclusion drive was effective in related to savings, Credit, Usage of services and overall satisfaction level of clients for achieving sustained financial inclusion drive.

#### Major Findings of the study

Following are the major findings of the study on the Role of Business Correspondents Model in Financial Inclusion in Karnataka;

1. Business Correspondents play effective role in the process of financial inclusion drive considering the indicators such as Savings Indicator, Credit Indicator, Awareness Indicator, Suitability Indicator, Accessibility Indicator, Adequacy Indicator, Time Indicator, Involvement Indicator and Quality Indicator. Statistically

role of Business Correspondents in related to accessibility was moderate effective with mean value 3.05 and SD  $\pm 0.64$ .

2. Business Correspondents delivery adequate products and services to the client such as; different banks accounts, different loans, transfer and remittances and modern linkages except the delivery of Investment avenues.

3. Impact of Business Correspondents role in the process of financial inclusion drive was highly effective. The services through BCs were highly impacted on the clients activities towards inclusion in formal financial services.

#### Conclusion:

Initiatives of RBI and Government of India towards achieving financial inclusion and removal of financial untouchability were from 1960s onwards with the Nationalisation of banks. Even though nationalisation of banks, introduction of Cooperatives, other Banking linkages India could not achieve 100 percent financial inclusion. Initiative of RBI and GOI through introduction of Business Correspondents and Business Facilitators from 2006 onwards was resulted in inclusion of excluded villages in banking penetration and also had effective impact for achieving sustained financial inclusion. Business Correspondents are may be local Individuals who know very well about the customers and based on their needs and requirements set the objective of achieving financial inclusion and through that attain the goal of Inclusive growth in country.

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