

BC MODEL: A TOOL FOR REACHING OUT TO THE UNREACHED

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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 has 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 unbanked population with the help of Information and Communication Technology (ICT) based application and capacity building. Against this backdrop, the paper briefly reviews the level of financial exclusion in India and it provides a brief understanding of Business Correspondent model and emphasizes how BC model could significantly help in promoting financial inclusion.

Key Words- Business Correspondent Model, Financial Exclusion, Financial Inclusion.

INTRODUCTION

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 (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.

Extent of Financial Exclusion in India:

Data from the 2011 Census of India indicates that 58.7 per cent of the households in India avail of banking services (144.8 million out of 246.7 million)—54.5 per cent in rural areas and 67.7 per cent in urban areas. The comparable figure for Census 2001 was 35 per cent (Government of India, 2013).

Chattopadhyay (2011) classified Indian states into three categories, i.e., states having high, low and medium extent of financial exclusion using the Index of Financial Inclusion which is based on three basic dimensions—(i) banking penetration, referring to the size of the banking population having a bank account as a percentage of the overall population in a geographical area; (ii) availability of the banking services, measured by the number of bank outlets per thousand population; and (iii) *usage* of the banking system with the volume of outstanding deposit and credit as a proportion of net domestic district product as the criteria.

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Degree of Exclusion	States of India
High($.5 < IFI \leq 1$)	Kerala , Maharashtra, Karnataka
Medium ($.3 \leq IFI < .5$)	Tamil Nadu, Punjab, Andhra Pradesh, Sikkim, Himachal Pradesh, Haryana
Low ($0 \leq IFI < .3$)	West Bengal, Uttar Pradesh, Gujarat, Tripura, Bihar, Assam, Nagaland, Manipur, Mizoram, Madhya Pradesh, Arunachal Pradesh, Orissa Rajasthan

Source: Chattopadhyay (2011).

The Global Financial Inclusion Index (Global Findex) measures how people in 148 countries—including the poor, women, and rural residents— save, borrow, make payments and manage risk. As per the Global Findex, in India only 35 per cent of adults over the age of 15 had a account with a formal institution (44 per cent of males and 26 per cent of females) and 8 per cent took a formal loan.

The Mor Committee (2013) estimated using certain assumptions, that the overall India number for financial inclusion was 36 per cent [i.e., proportion of eligible population having at least one bank account, eligible population being individuals aged 18 years and above based on Census 2011 (as against 35 per cent by the Global Findex above).

The extent of exclusion appears to be alarming so to achieve Inclusive growth, Financial Inclusion is need of the hour.

BC Model: Introduction

To tackle the issue of financial exclusion in India, the RBI spearheaded a financial inclusion campaign. Beginning with the launch of no-frills bank accounts in 2005, it also introduced easier Know Your Customer (KYC) norms and simplified the process of opening bank branches in unbanked and under-banked districts and areas. However, the constraints of the brick-and-mortar approach soon became apparent. Consequently, in 2006, based on the recommendations of the Internal Group on Credit and Microfinance, the RBI decided to permit banks to employ business correspondents/facilitators (BC/BF) so that they may serve financial products/services to the low-income segment. The primary responsibility of ensuring financial inclusion has been taken up by the commercial banks, and they have introduced BC models to help forge a closer relationship between the poor people and the organized financial system.

To supplement the work of the BCs, technology such as point-of-sale (POS) machines, fixed kiosks, mobile phones, and other portable devices were introduced (Rath et al., 2009). These devices require transaction processing capabilities and internal memory storage. Mobile phones with SMS-based transaction processing capabilities are also used in this context. The use of such technology results in certain costs. However, these are mostly fixed costs; the variable costs arising out of each transaction using such technology is quite low.

The BC model in India has been primarily led by banks, but the players in this model are different from those in the traditional banking models. The BC agents range from unemployed

youth to *kirana* shop owners, microfinance institutions (MFIs), not-for-profit institutions, and other non- bank-related agents.

Salient Features of BC Model	Guidelines for engaging BCs
Applicable to	The scheduled commercial banks including RRBs and Local Area Banks (LABs). The banks may formulate a policy for engaging BCs with their Board's approval.
Eligible individual/entities as BC	<p>Individuals like retired bank employees, retired teachers, Retired bank employees, retired teachers, retired government employees and ex-servicemen, individual owners of kirana/medical/Fair Price shops, agents of Small Savings schemes of Government of India/Insurance Companies, authorized functionaries of well run Self Help Groups (SHGs) which are linked to banks etc.</p> <p>NGOs/MFIs set up under Societies/Trust Acts and Sections 25 Companies;</p> <p>Cooperative Societies registered under Mutually Aided Cooperative Societies Acts;</p>

	<p>Post Offices; and</p> <p>Companies registered under the Indian Companies Act, 1956 with large and widespread retail outlets. The banks will be fully responsible for the actions of the BCs and their retail outlets/sub agents.</p>
Scope of activities	<p>The above activities can be conducted by BCs at places other than bank's premises. Banks may use the services of BC for preliminary work relating to account opening formalities. However, ensuring compliance with KYC norms under the BC model continues to be the responsibility of banks.</p>
Payment of commission/fee	<p>The banks may pay reasonable commission/fee to the BC but the BCs cannot charge any fee to the customers directly for services rendered by them on behalf of the bank.</p> <p>The banks (and not BCs) are permitted to collect reasonable service charges from customers in a transparent manner.</p>

Applicability of BC Model

Among the different avenues of banking available, branchless banking or the use of BCs has the lowest cost from the bank's perspective. According to Mas (2009), 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.

In this model, the bank comes to the customer, thereby shifting travel costs and certain transaction costs to the bank. 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 (Raj, 2011). 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 BC model offers an effective way, for the banks, to reach the un-reached population at large, customers and intermediaries alike. In this model banks do not have to invest in costly infrastructure of a branch to reach the un-banked areas while and at the same time the people who remained excluded so far will be assured of easy access to financial products and services. For this to happen a large number of BC/BFs, who are not bank employees but are outsourced by banks - across the country to function as their agents - would be needed. This will bring the hitherto 'excluded' rural poor and help establish an open, inclusive and egalitarian society in the rural areas and make financial inclusion a reality within a time frame.

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. Most banks avoid selling such products to this section of the population, especially when the individuals are located in areas far from the bank branches, due to the high costs of collecting/distributing small amounts. The BC model provides a viable alternative delivery channel through the use of agents that carry out such work on behalf of the bank.

A better alternative than bank branches - Normally a rural bank branch can serve 3,000 to 4,000 families in 12 to 15 villages within a radius of 15kms. A Public Sector Bank branch may require more than 5 years to breakeven in unbanked areas in India, while a private sector & foreign bank with IT connectivity may require about 5 times more. Further, obtaining permission to open a branch is a long and protracted process. The BC option potentially enables banks to reach out much faster and at a much lower cost.

Reaching the unreached - The model enable banks to extend financial services to the unreached clients beyond their branch network as beneficiaries of the BCs are mostly located at unbanked and under banked areas.

Financial Inclusion Plan-Summary: Progress of All Banks Including RRBs (2010-2015)

The Reserve Bank continued with its effort to ensure extension of banking services to all unbanked villages. For this, about 490,000 unbanked villages with population less than 2,000 were identified and allocated to banks for the coverage. At end –March 2015, as reported by State Bankers Committees (SLBCs), 390,387 villages were covered by 14,207 branches, 357,856 Business Correspondents (BCs) and 18,324 other modes, such as ATMs and mobile vans.

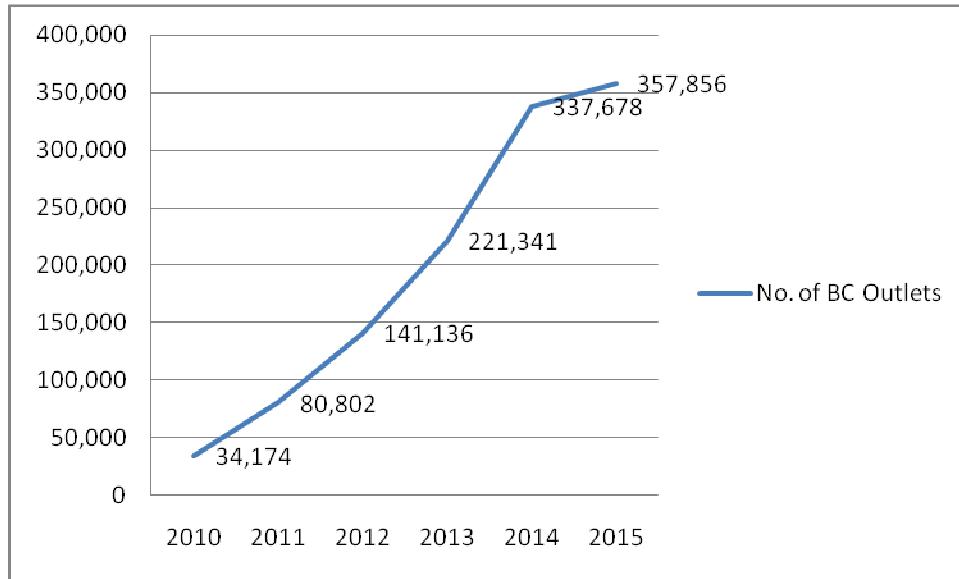
Particulars	Year ended March 2010	Year ended March 2014	Year ended March 2015	% growth from 2010
Banking Outlets in Villages – Branches	33,378	46,126	49,571	48.51
Banking Outlets in Villages – Branchless mode	34,316	337,678	504,142	1369.11
Banking Outlets in Villages -Total	67,694	383,804	553,713	717.96
Urban Locations covered through BCs	447	60,730	96,847	21565.99
Basic Savings Bank Deposit A/c through branches (No. in million)	60.2	126.0	210.3	249.75
Basic Savings Bank Deposit A/c through branches (Amt. in ` billion)	44.3	273.3	365.0	723.92
Basic Savings Bank Deposit A/c through BCs (No. in millions)	13.3	116.3	187.8	1312.03
Basic Savings Bank Deposit A/c through BCs (Amt. in ` billion)	10.7	39.0	74.6	597.19
BSBDAs Total(No. in millions)	73.5	243.0	398.1	441.63
BSBDAs Total (Amt. in ` billion)	55	312.3	439.5	699.09
OD facility availed in BSBDAs (No. in millions)	.2	5.9	7.6	3700

Source: RBI Annual Report 2014-15.

Out of the total Banking outlets in villages till March 2015, 91% has been through branchless mode, it speaks a volume about the success of branchless banking. There has been a growth of 1312% in the no. of accounts opened through BCs; it indicates the efficiency of BC model in achieving the goal of Financial Inclusion in India.

The most significant observation from the above table appears to be the 21565.99% growth in covering the urban location through BC. So, besides its proven utility in rural areas it has worked exceptionally in covering the urban areas.

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Source: Compiled by the author from RBI reports.

From the above graph it is clear that no. of BC outlets is on continuous surge from 2010 to 2015, in percentage terms the growth is of 947% from 2010 to 2015. So, the model which was not appearing viable to the Banking industry in its initial days is now doing wonder to achieve the Financial Inclusion goal.

Thus the above facts clearly support the proposition that BC Model is an effective tool to reach the unreached.

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