

The Extent of Financial Inclusion through Business Correspondent Model in Kadapa District, Andhra Pradesh

Latha Sreeram¹ and Vinod Kumar Bingimalla²

¹Associate Professor, ²2nd Year PGDM - Finance, ITM Business School, Navi Mumbai - 410 210, India

E-mail: lathamurthy9500@gmail.com

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Abstract – This paper explores the extent to which formal, regulated financial institutions such as banks have been able to partner with Business correspondents, commercial entities or Individuals whose primary objective and business is other than the provision of financial services and whether this model is meeting the needs of the vast swath of the society-those who are poor and living in the rural area in an affordable manner. The paper illustrates the case of Kazipet District in Andhra Pradesh where banks have recently developed extensive networks of such correspondents.

Keywords: Financial Inclusion, Business Correspondent, Khajipet Mandal, SBI, Syndicate Bank

I. INTRODUCTION

In the recent past, financial inclusion has become a catchphrase in the Indian financial system. India has about 6,00,000 villages but only 74,000 of those are banked. The country today has about 98,000 bank branches, of which about 60,000 belong to public sector. Covering all 6,00,000 villages with a bank branch is indeed a challenging task. As per census 2011, 58.7% households are availing banking services in the country. As on 31st Mar 2013, there are 1,02,343 branches of Scheduled Commercial Banks (SCBs) in the country, out of which 63% of the total number of branches are in semi-urban and rural areas of the country. However considerable part of the households, particularly in rural areas, is still outside the formal fold of financial services.

Reserve Bank of India has been providing policy impetus for introduction of new products and innovative intermediary channels to enable sustainable and meaningful financial inclusion. In 2000 a road-map had been drawn to provide banking services in every village with population greater than 2000 by 31st Mar 2012. In 2006 due to the limitations involved in going for a full-fledged brick and mortar branch model, the Reserve Bank based on the recommendations of the Internal group on Rural Credit and Microfinance, adopted the ICT based agent bank model through Business Correspondents for ensuring door step delivery of financial products and services. Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch. Business Correspondents represent the bank and facilitate in expanding its outreach and tender minimum scope of banking services at low cost, particularly, where setting up a brick and mortar branch is not feasible. Business Correspondents as agents of the banks, thus, are a primary part of the business plan for attaining greater financial inclusion. The structures should have minimum infrastructure like a Core banking solutions (CBS) terminal, Pass book printer, safe for cash retention etc.

As per the extant guidelines, the following entities can act as business correspondents of banks:

- a. NGOs/MFIs setup under societies/trust acts
- b. Societies registered under mutually aided cooperative societies acts or the cooperative societies acts of states

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- c. Section 25 companies that are standalone entities or in which NBFCs, banks, telecom companies and other corporate entities or their holding companies do not have equity holdings in excess of 10%
- d. Post offices and
- e. Retired bank employees, ex-servicemen and retired government employees.

As on 31st Mar 2013, banks have reported deploying 1,95,380 Business Correspondents [1] which covered 2,21,341 villages. About 4904 lakh transactions [1] have

been carried out in ICT based accounts through Business Correspondents during the three year period. While some public sector banks and a few private sector banks have experimented with the model, none of the foreign banks have done so.

RBI has further relaxed the rules in 2013 for opening the no frills account by simplifying the KYC norms so that small accounts can be opened with self-certification in the presence of bank officials and 'aadhaar' card can be used as one of the eligible documents for meeting the KYC requirement for opening a bank account.

TABLE I PROGRESS IN BUSINESS CORRESPONDENT MODEL

SR No	Particulars	Year ended 31-03-2010	Year ended 31-03-2011	Year ended 31-03-2012	Year ended 31-03-2013	Progress from 2012 - 2013
1	Banking Outlets through BCs	34,174	80,802	141,136	221,341	187,167
2	Urban Locations covered through BCs	447	3,771	5,891	27,143	26,696
3	Basic SB deposit A/Cs through BC (in lacs)	132.65	316.3	573.01	812.68	680.03
4	Basic SB deposits through BC (in lacs)	106870	185416	101437	182246	75376
5	ICT A/C - BC - Total Transaction (in crore)	265.15	841.64	1410.93	2546.51	4799.08

(Source: RBI report, Jul 2013)

II. RESEARCH METHODOLOGY & FINDINGS OF THE STUDY

This study examines the extent of success of Business Correspondent model in Khajipet Mandal, Kadapa District, Andhra Pradesh. The mandal comprises of 26 villages of which 7 villages have a population of greater than 2000. Agriculture is the primary industry in this area, and crops raised vary from mangoes to cotton. Literacy rate in this region is 67.8% with a composition of Male literacy rate at 78.4% and Female literacy rate at 57.26%. Though there are four banks present in the mandal the Business Correspondent model is used only by State Bank of India (SBI) and Syndicate Bank. While SBI started its Business Correspondent operations from 2012, Syndicate Bank started it from 2011.

This study relied mainly on quantitative techniques. Surveys and in-depth interviews with the bank officials and Business Correspondent were the primary data collection methods utilized during the study. A structured questionnaire survey was administered to the s, spread over three villages. Secondary data has been collected from different literature about financial inclusion and Business Correspondent model and accessed from RBI reports.

SBI follows a kiosk banking model which provides services such as deposit of cash, withdrawal of cash, money transfer to another SBI account holder in other location for which the Business Correspondent must have minimum space of 150-200 sq. feet and a system, Internet connectivity, an Intel base chip of or super provider web cam, a standard printer, scanner, finger print device.

Syndicate bank developed a mobile banking kit that contains a cell phone that substitute as a Point-of-sale (POS) machine, a finger print reader and a tiny printer. This is used for opening "no-frills" accounts on smart cards.

Both the banks follow the same procedure for conducting transactions. The finger print of the customer is mandatory for initiating any transaction ensuring security and instills the trust in customers. The following Table II shows the details of the Business Correspondent in the mandal. Table III shows a comparative statement of transactions and enrolments in both the banks reflecting that enrollments are comparatively higher in SBI in comparison to Syndicate Bank though it started its operations one year later.

TABLE II DETAILS OF BUSINESS CORRESPONDENTS IN KHAJIPET MANDAL

Name of BC	Name of Village	Occupation		No.of A/Cs serviced
		Main	Subsidiary	
Himam Valli D	Kotluru	Tailor	BC	640
Srinivasulu G	Muthaluru padu	Farmer	BC & Business Facilitator	1100
Siva Shankar Reddy	Tripuravaram	Shopkeeper	BC	427
Padmaja	Tudumuladinne	Shopkeeper	BC	380
Naga Siva Reddy	Tavvari Palli	-	BC	800
Siva Kumar	Pullur	-	BC	600
Elishamma	Ravulapalli	-	BC	500
Ramana	Pattur	Shopkeeper	BC	148
Venkata Swamy	Sunkesula	Shopkeeper	BC	98

TABLE III DETAILS OF TRANSACTIONS AND ENROLMENT IN SBI AND SYNDICATE BANK IN KHAJIPET MANDAL

	SBI	Syndicate
Total No.of Enrolments per agent	1100	550
No.of Transactions per month	450	400
No.of Years of operation	1.5 years	2 years
Technical Provider	SBI Kiosk Banking	IGS

Syndicate Bank selects its Business Correspondent through Indian Grameen Service and also gives importance to network and reliability. SBI recruits its Business Correspondent based on his/her network capabilities and on how renowned the person is in that area. Further it expects its Business Correspondent to have a minimum qualification of 10th standard. Choosing the right agent is crucial for success of the Business Correspondent model, particularly during the initial period. Further imparting training to agents in cash management & use of technology is very significant as it plays a key role in agent network development.

In the Business Correspondent model the products offered vary from the basic no frill account to diversified products such as insurance and pension products. But in Khajipet region the products offered by both the banks are basic savings bank a/c services. They also extend services such as Mobile recharge and DTH recharge to customers. Further Syndicate bank has a stipulation that if an account is not operational for more than six months it is locked but such a provision is not existent in case of SBI.

Syndicate Bank provide upfront investment in the form of infrastructure required for basic transactions, while Business Correspondent of SBI invest in laptop, finger print scanner etc. themselves. The float amount of Rs. 10,000 is maintained by Business Correspondent of Syndicate Bank. The transaction takes place in the following manner - whenever there is a deposit by the customer, it is reduced

from the float amount of Business Correspondent and it is reflected as a transfer in the customer's account. In case of withdrawal the amount is reduced from the customer's account and shown as a deposit in Business Correspondent's account. Liquidity management in the Business Correspondent model is critical to its success as electronic payment system is still evolving in our country and cash management such as investment in float is very vital. When the investment is not provided upfront to the agents it results in high working capital requirements which results in reduction in the volume of transactions.

In case of Syndicate Bank the Business Correspondents are monitored at regular intervals by way of conducting review meetings every quarter, obtaining operational and financial reports at predefined intervals and having regular field staff visits. SBI conduct monthly review meetings with the Business Correspondent, has surprise visits and conducts internal audit on the Business Correspondent accounts.

TABLE IV MONITORING SYSTEM FOLLOWED BY SBI AND SYNDICATE BANK IN KHAJIPET MANDAL

	SBI	Syndicate
Regular Visits	Yes	Yes
Established monitoring system	Yes	Yes
Monthly Review	No	Yes
Monitoring Business Correspondent A/C	Yes	Yes

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Monitoring and control of Business Correspondent is an effective tool to take corrective measures and to make improvements as part of follow up procedure. The focus is on efficacy of bank's control on Business Correspondent dealings with the least communication and contact. Use of offsite telemetric system permits every transaction to be scrutinized if required. Monitoring can be done by checking the customer grievances and also by visiting the Business Correspondent at regular intervals. In case of Business Correspondent model this is very crucial as it aids in reducing fraudulent activities.

The Business Correspondent receives commission from the bank or the company they represent for customer acquisition and for transaction processing and facilitation. This study checked the commission structure of both the banks and also the frequency of payment as it has a direct impact on their working capital requirements. The following table shows the comparative commission structure between Syndicate Bank & SBI in Khajipet mandal.

TABLE V COMMISSION STRUCTURE FOLLOWED BY SBI AND SYNDICATE BANK IN KHAJIPET MANDAL

(in Rs)	SBI	Syndicate
Opening New Account	30	20
Deposit	6	1
Withdrawal	6	0.5
Money Transfer	60% of the fees	No service
Other Services	No service	2% of the transaction

The above table clearly indicates that the commission provided to SBI Business Correspondents for conducting their regular transactions is higher in comparison to Business Correspondents of Syndicate Bank. This is because in case of SBI the capital expenses are borne by the s themselves unlike the Business Correspondent attached to Syndicate Bank.

The Business Correspondent process involves a high persistent outflow in the form of components, liquidity and technology costs. This model requires high upfront investment with a long investment horizon. The sector is yet to attain viability. Table 6 shows the Capital Expenditure and Recurring costs.

TABLE VI CAPITAL EXPENDITURE VIS-À-VIS RECURRING COSTS INCURRED BY BUSINESS CORRESPONDENTS

	SBI	Syndicate
Capital Expenditure	Laptop Printer Internet Connection Fingerprint Scanner	Initial Deposit: Rs. 10,000 Equipment Deposit: Rs. 10,000
Recurring Cost	Internet: Rs.300 per month	No Recurring Cost (Everything is taken care by Bank)

Syndicate Bank provides the infrastructure to the Business Correspondents after taking a refundable security deposit of Rs 20000. But in case of SBI the capital expenditure & the recurring cost is borne by the Business Correspondents.

After in depth interviews conducted during the course of the survey, the researchers have come up with the following suggestions for development of this model:

1. There must be integration of services between two or more banks. This would increase the number of transactions which is considered more important than increase in enrolment.
2. There is a definite need to create awareness about this model. This Swabhimaan model must be able to penetrate more effectively into rural areas. In the quest to financial inclusion, quantity has, nevertheless, become the significant aspect than the quality. Banks have opened new savings accounts without improving the financial literacy of the financially excluded. This has led to dormancy levels in the No-Frill accounts and relapse of the tendency to approach the informal sector in times of urgent requirement by the needy.
3. Each transaction made from the Business Correspondent model is to be confirmed via a sms to both transacting parties. This substantiates as an electronic receipt, which can be used in case of disagreements. The banks can also additionally tell agents to record all transactions in a ledger book so that they are able to build trust in this model.
4. Customer fees must be made standardized pan India, and must be exhibited at all agent locations

5. The banks can start providing the most demanded products such as customer card / cheque facilities. They can also provide short term loans to develop the customer base.
6. Banks must set up ultra-small branches to instill confidence amongst bank customers, when the Business Correspondent model is initiated in an area. Under this ultra-small branch model a bank officer will be available once in a week in a small office from where the Business Correspondent also operates to conduct field verification and follow up on the banking transactions. This may increase the customer's trust in the system.
7. People in rural areas also need a recurring deposit account to regulate and organize the process of saving apart from the no frill account.
8. Further a consistent appraisal of the clients' needs and customizing the banking products that suit their needs is the key to preventing dormancy of the accounts.
9. A major apprehension has cropped up around the Business Correspondent model for both banks and Business Correspondents after the new policy changes introduced by RBI has proposed that banks can levy a "reasonable fee" on the customers for services provided through the Business Correspondent channel. The banks are still unclear about this Business Correspondent fee. RBI must bring in a firm regulation on the fee structure.

III. CONCLUSION

In the words of Dr. K. C. Chakrabarty, Deputy Governor, RBI "Financial inclusion and inclusive growth are no longer just policy choices, but are policy imperatives, which would determine the long-term financial stability and sustainability of the economic social order, going forward". In the rural areas people who are dependent on agricultural sector have irregular incomes while traders have a regular income. Banks can use the Business Correspondent model and develop the right mix of products and consistently modify the products for both categories and give more importance to usage than access. The Business Correspondent model

provides an economical and viable remote banking solution to rural India, transacting at their door step instead of having to travel to a distant bank. This thus precludes the customer from losing his livelihood for a day and associated risks of carrying cash. Banks should make this model sustainable and profitable for all the parties concerned by providing diversified products thus providing meaningful financial inclusion.

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