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FINANCIAL INCLUSION : AN OVERVIEW

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In modern times, the study of financial inclusion acquires significance from the point of view of inclusive economic growth. The coverage of all sectors into the financial forum is sine qua non for overall economic development. Financial Inclusion can be described as a state in which all people have access to appropriate, desired financial products and services. "Without access to appropriate banking services, affordable credit, accessible savings products, money advice or insurance, they are faced with making financial decisions that often result in greater financial hardship and over indebtedness". Thus an attempt is made to study the overview of financial inclusion in India and the ongoing schemes for the betterment of community at large.

History of Financial Inclusion

In 1993 in UK many branches of banks were closed and as a result of which many people were denied of banking services. The word “Financial Exclusion” was coined by geographers at that time to refer to people who have nil or limited access to main financial services. Later in 1998 the term “Financial Inclusion” was used in the following context. “Financial inclusion is about ensuring everyone has the opportunity to access the financial services products needed to participate fully in modern-day society and the economy.” Since then related words like financial well being, Financial education, Financial capability and Financial health are widely used. Among all there is a wide relationship between financial inclusion and financial education or financial literacy.

The establishment of NABARD (National Bank for Agriculture and Rural Development) and introduction of priority sector lending to increase the flow of credit to certain sectors of the society including agriculture go a long way in releasing the rural people from the clutches of money lenders. The need to increase efficiency and reduce leakages in the delivery of government welfare programmes has been instrumental in efforts to achieve increased Financial inclusion and the formal banking system has become central in expanding financial inclusion.

a) Broadening of financial services to those people who do not have access to financial sector.

b) Deepening of financial services for people who have minimal financial services

c) Greater financial literacy and consumer protection so that those who are offered the products can make appropriate choices.

The imperative for financial inclusion is both a moral as well as one based on economic efficiency. Every capable person should be given the tools and resources to better themselves and by doing so better the economy. Financial inclusion enables improved and better social development in an equitable manner across the country. It enables empowerment of the under-privileged and poor, including women, with the aim of making them self-sufficient and well informed to make better financial decisions.

Objectives of Financial Inclusion

a) The main objective is to ensure easy access to wide range of financial services like savings, payment, credit, insurance and pensions.

b) To provide services for business opportunities, education, housing etc.

c) To better the standard of living and income for a large number of residents of the country.

d) To improve the flow of liquidity in households and increase the opportunities for investment.
Savings Accounts
In 2005 RBI announced a number of measures for financial inclusion including a whole gamut of services. Banks were advised to open no frill accounts with initial balance as zero and maximum transaction limit as Rs.10000/- Later in 2012 this was renamed as BSBD (Basic Savings Bank Deposit) accounts and now JanDhan account. The KYC (Know Your Customer) requirement is simple for these accounts below Rs.50000/- which is a simple proof of permanent address who have completed 10 years of age. Even self certified address proof is acceptable by banks according to Dr. Nachiket Mor Committee recommendations.

Features of Jandhan Accounts
There is no requirement of minimum balance. The services available include deposit and withdrawal of cash at bank branch as well as ATMs, receipt/credit of money through electronic payment channels or by means of collection/deposit of cheques. Maximum of 4 withdrawals a month including ATM withdrawal. No such limit for deposits. Facility of ATM card or ATM-cum-Debit card. These facilities are to be provided without any extra cost.

Overdrafts and Credits
An Overdraft facility upto Rs.5000/- will be available to one account holder of PMJDY per household after 6 months of satisfactory conduct of the account. To avoid duplication Aadhaar number will also be required. If Aadhaar number is not available then Bank will do additional due diligence and also seek declaration from the beneficiary.

Payments and Remittances
Rupay cards are issued to all JanDhan account holders which enables easy access to delivery channels like POS (Point of Sales), ATMs etc. As rightly placed by Dr. Raguram Rajan with over 900 million mobile phones in India MB (Mobile Banking) has become an important delivery channel extending its hands to the remote locations. The recent ...... BHARAT NET under which even remotest village in India is to be digitalized pave way for efficient payments and remittances under MB.

Insurance
Accidental Insurance Cover is Rs.1.00 lac and no premium is charged to the beneficiary — NPCI will pay the premium. At present the premium is Rs.0.47 per Card.

Pradhan Mantri Suraksha Bima Yojana
The scheme will be a one year cover Personal Accident Insurance Scheme, renewable from year to year, offering protection against death or disability due to accident.

The benefits are as follows: Sum Insured
a. Death Rs. 2 Lakh
b. Total and irrecoverable loss of both eyes or loss of use of both hands or feet or loss of sight of one eye and loss of use of hand or foot Rs.2 lakh
c. Total and irrecoverable loss of one eye or loss of use of one hand or feet or loss of sight of one eye and loss of use of hand or foot Rs.1 lakh

Premium payable is Rs.12/- per annum per member through auto debit from savings account holder.

Pradhan Mantri Jeevan Jyoti Bima Yojana
The scheme will be a one year cover, renewable from year to year, Insurance Scheme offering life insurance cover for death due to any reason

Premium is Rs.330/- per annum per member. The premium will be deducted from the account holder's savings bank account through 'auto debit' facility in one installment.

PENSION
Atal Pension Yojana
Atal Pension Yojana is a government-backed pension scheme in India targeted at the un-organized sector. As of May 2015, only 11% of India's population has any kind of pension scheme, this scheme aims to increase the number IN Atal Pension Yojana, for every contribution made to the pension fund, the government will contribute an equal amount to his/
her fund. Depending on the contribution made between 18 and 40, at the age of 60 a sum of 1,000, 2,000, 3,000, 4,000, or 5,000 will be paid monthly. This scheme will be linked to the bank accounts opened under the Pradhan Mantri Jan Dhan Yojana scheme and the contributions will be deducted automatically. Most of these accounts had zero balance initially. The government aims to reduce the number of such zero balance accounts by using this and related schemes.

Direct Benefit Transfer or DBT is an attempt to change the mechanism of transferring subsidies launched by Government of India on 1 January 2013. This program aims to transfer subsidies directly to the people through their bank accounts. It is hoped that crediting subsidies into bank accounts will reduce leakages, delays, etc. The aim of this Direct Benefit Transfer program is to bring transparency and terminate pilferage from distribution of funds sponsored by Central Government of India. In DBT, benefit or subsidy will be directly transferred to citizens living below poverty line through their bank accounts. It covered scholarships and social security pensions early. But now LPG subsidy is also included and being executed on a large scale manner.

Conclusion
Only Financial literacy can provide both individuals and MSMEs, information about the quantity and quality of credits available to them which is very essential for the success of financial inclusion measures. As rightly pointed out by Dr. Jaguram Rajan lack of credit information both upfront as they are being evaluated for credit and after lending where the lender has to monitor them is one of the difficulties faced by poor people and small businesses.
Business Correspondents and Financial Inclusion-An Overview

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ABSTRACT

The paper presents an overview of Business Correspondent and Financial Inclusion, its impact on the overall economic development of a nation. Providing financial services at reasonable costs to the sections of low income and disadvantaged segments of society is called financial inclusion. Modernized banking services should be provided to the entire population at affordable costs. This study focuses on the role of business correspondents in financial inclusion and also other schemes that promotes the financial inclusion in India.

Key words: Financial inclusion, business correspondents, economic development.

1. Introduction

The overall economic development of a country depends largely upon a balanced growth in all sectors of an economy. It is possible only when all sectors are covered under the financial forum of an economy. This is also called as inclusive economic growth which is possible only through financial inclusion (Bhattacharya, 2016). A properly designed financial inclusion plan must provide further impetus to access to finance at grass root level of poor and under privileged masses (Desai, 2016; Takur, 2016). Banks operate a number of channels to deliver financial services like branches, internet, ATMS, Mobile etc., A new channel named business correspondents authorized by RBI in January 2006 helps the banks to extend their outreach in a convenient and flexible manner to underserved areas. Of late it is realized that business correspondents are considered as effective tools of bringing financial inclusion for the development of economy in general and development of banking in particular. An attempt is made by the researcher to analyze the prospects and challenges of business correspondents especially in financial inclusion (Subbarao, 2009). BC’s functions are studied in relation to SBI in specific operational concepts.

1.1. Financial Inclusion

The financial inclusion (Gandhi, 2013; Garg et al, 2014) includes delivery of financial services at an affordable cost to the vast section of the disadvantaged and low income groups in a given society. Financial Inclusion could be defined as a process that ensures the ease of access, availability and usage of formal financial system for all members of an economy (Kamath, 2007). Government of India’s committee on financial inclusion in India, in its report defines financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost (Singh et al, 2014; Sharma et al, 2013).
1.2. Business Correspondents

Business correspondents (Siddharthan et al, 2016) are retail agents engaged by banks for providing banking services at locations other than a bank branch / ATM. In 2006, RBI has given authorization for banks to use the services of NGO, SHG, MEI and other civil society organizations, registered NBFCs not accepting public deposits post offices as intermediaries in providing financial and banking services through the use of business correspondents. They should be well established, enjoying good reputation and confidence of the local people. Banks must also give wide publicity in the locality about the business correspondents engaged to avoid being misrepresented.

Later 2008, RBI permitted banks to engage retired bank employees, ex-servicemen and retired government employees as business correspondents. It has also stipulated that the distance between the base branch and the business correspondents should not exceed 15 kilometers in rural, semi-urban and urban areas and 5 kilometers in metropolitan areas (BIsht et al, 2016). The BC is nothing but a bank in person who is authorized to collect small ticket deposits and extend small credit on behalf of the banks. Their activities include:

- Sale of micro insurance products
- Selling mutual fund products
- Selling pension products

apart from banking activities like servicing deposits and loans.

2. BC model

2.1. Players and components in BC banking channel

The phase II of the financial inclusion plan which is currently under operation seeks to link all the 6 lacs plus villages in the country to banks either through brick and mortar branch or a BC agent by the end of year. A public sector bank branch has to incur high costs and face long protracted process to open branches in remote corners of the country. The BC option helps the banks in this regard to reach the unreached. This model (Tandon et al, 2016) works through the combined efforts of banks with one or more partners mentioned below:

**Technology Vendors**, who provide a range of hardware and processing capacity and connectivity which can link clients to BCs and BCs to the bank

**Business Correspondents**, which are organizations or individuals that organize and offer one or more points of transaction outside of bank branches. The BCs organize and manage a network of such transaction points in partnership with a bank.

**Customer Service Points**, are individuals, shops or other outlet points which are responsible for the direct contact with the clients. CSPs open bank accounts, conduct KYC, cash withdrawals, receive payments and in some cases, extend credit.

Business correspondents help banks in

- Identifying potential customers
- Advising / counseling rural people about appropriate bank products and services
Helping them to complete the necessary formalities in transacting with the banks
Educating customers regarding the terms of sanctioning loans, repayment and recovery
Transacting basic and small value transactions of rural people

2.2. Functions of BCs with respect to SBI

1. The BC arrangement essentially means enrolling customers and enabling the transactions of the customers at the Customer Service Points (CSPs) besides sourcing various deposit and loan products for the Bank
2. With smart card technology, the transactions can be done either online or offline also with biometric identification
3. In Kiosk banking, using a Finger Print capturing device supplied by the Bank and using the internet connectivity, a BC can enroll customers and open No Frills Savings Bank Account
4. Remittances from one account to any other account in the Bank are done
5. In the Cell phone messaging technology anyone with a mobile phone can open the No Frills Accounts. This is not biometric enabled and has different security features. They can teach the customers to use mobile banking for various kind of transactions.
6. BCs help the customer in filling the loan application/account opening forms, obtain photographs, documents for complying with the KYC guidelines of the RBI, documents and papers for sanction of the loans and direct the customers to the link branches concerned with all papers.
7. Cash will be accepted/ paid only through technology in the No Frills Accounts and for all other accounts i.e., only the CSP of the BC can accept cash / make cash payments
8. The BC will have the option of choosing one of the technologies being offered by the Bank. The BC is required to invest in the hardware/necessary equipment required for undertaking BC activities. Presently, the Bank has Hand Held Point of Service, Cell Phone messaging based and Internet based SBI Kiosk technologies.
9. For the BC transactions the BC would be required to open a Current Account called the Settlement Account and keep it pre-funded.

The outlets of BC Agents /Bank Mitras in both rural and urban areas are fully equipped with the infrastructure required for delivery of banking services like account opening, cash deposit, withdrawal, fund transfer (Remittances). They also provide the insurance and pension related services. These services are delivered through biometric authentication and using Rupay ATM/ Debit cards swiping with PINs.

2.2.1. Prospects of BCs

In the emerging scenario a significant number of BCs have come into picture from different parts of the country to ensure greater financial inclusion and to expand the outreach of the banks. Along with regular financial services mentioned above they play an important role in delivering the important schemes of the Governments such as MNREGA payments, pensions and other social payments. The usage of BC banking model has resulted in the following advantages.
Substitute bank branches – Normally, the service of a rural bank branch extends from 3,000 to 4,000 families in 12 to 15 villages within a radius of 15kms. A Public Sector Bank branch may take 5 years or more to break-even in such rural areas in India, while a private sector & foreign bank with IT connectivity may take about 5 times more. Further, the process of obtaining permission to open a new branch from RBI is a long and protracted one. The BC option helps the banks to cover the remote villages much faster, much deeper and at a much lower cost (Kaur et al, 2016).

Reaching the un/reached – The location of BCs at unbanked and under banked areas, locally enables the BC model to cover the un/reached clients beyond the banks network with their financial services.

Doorstep banking - BCs are agents known to both local people and the banks. This enables them in the disbursement and loan recovery which is done at the doorsteps of the beneficiary. A Business Correspondent would help enhance financial inclusion that goes beyond mere access to financial services through the availability of a bank account by providing doorstep services.

Better assets Quality - Target clients are well known to local NGOs, Post Offices, BDOs and similar local social bodies, thus loan facilitation by the NGOs/BCs (who are the promoter/builder of the groups) enhances quality of assets. Their credibility can be more or less accurately assessed.

Introduction – when compared to opening a new branch, bringing up of a BC model is less time consuming and it costs low (Pande, 2016).

2.3. Challenges to the BC Model from the Bank’s Perspective

All the banks reported many operational issues/risks, viability issues and regulatory concerns in employing BCs for banking services. These were:

2.3.1. Operational issues

Cash handling - Allowing BCs to handle cash is the biggest challenge. Ninety-nine percent of the financial transactions are in cash, warranting high-cost cash-handling operations and added operational risks. Moreover, clients tend to perceive that the BCs are the owners of the transactions and not facilitating them on the banks’ behalf.

Irregular accounting - Irregularities have been observed in accounting of clients’ withdrawals and deposits by BCs and as a result there are delays in accounting the banking transactions with the Bank by the BC.

Vulnerable client profile – The beneficiaries are dependent on the BCs as they are mostly illiterate and unfamiliar with technology. This renders them susceptible to misguidance by the BCs.

Fraud & Misappropriation - Since the BCs’ staff operate individually without any line supervision, the risk of fraud and misappropriation is higher. There have been instances noted of miscommunication by BCs. Failure to account for cash and falsification of records have been noticed and dealt with by banks.
2.3.2. Viability issues

Inactive ‘No Frills Accounts’ – The majority of No Frill Accounts opened by BCs are not operational. BCs report that more than 80% of saving accounts opened by clients are inactive, thus transactions after account opening have been minimal. End beneficiaries need to be financially literate to make apt use of banking services and services need to be more specifically designed to meet demand.

Model Viability* - In addition, there are financial constraints on the part of the BCs for capacity-building initiatives, such as investing in training for their staff. The commission paid by banks for BC services is not adequate to produce viable business models. There are costs involved in staff salaries and training and the current compensation structure does not cover costs. A majority of BCs reported significant losses and some have already suspended their operations.

BCs losing money* - Initial losses are forcing many BCs to shut their operations. Business continuity risk in such cases is impacting banks adversely. It is time-consuming, costly and ineffective for banks to substitute these BCs with new entrants. In some relationships, banks are providing training to BC staff and when they quit, the cost goes unrewarded. But still the capacity for introducing new technologies, new products and systems remains a big challenge.

Financial difficulties*: Regulations require BCs to maintain a prepaid account with a host bank’s branch. They are allowed to take as much money as deposits as is deposited with the bank. At the end of the day, the amount automatically gets debited from the BC’s account. While the model was conceived to ensure public money is safe, the flip side is it means a part of the BC’s money is stuck in a bank account, which is not profitable.

Technology integration* - BCs find it difficult to integrate and upgrade their technology with the banks’ technology in many cases as the banks’ technology is being upgraded frequently.

2.4. Recent Roles and trends

Roles: In the past five and half years “No Frills Account or Basic Savings Bank Deposit” accounts have increased more than six fold and half of these were opened by BCs. In bringing unbanked households into the fold of banking services under Pradhan Mantri Jan Dhan Yojana (Guha, 2016) scheme 1.2 lacs of BCs were employed. The role played by them in bheemayojana which introduced insurance at low cost to the rural poor is fully commendable. Their part as an intermediary in transferring the benefits of government schemes like Old Age Pension, LPG gas subsidy, scholarships, etc., is tremendous. MNREGA payments Atal Pension Yojana that targets the unorganized sector to come under insurance umbrella which was then 11% made available to maximum number of beneficiaries only through BCs.

Trends: Financial inclusion (e.g., account ownership) has the potential to economically empower women. Yet, the global gender gap in account ownership is not narrowing and has remained at a steady 7 per cent in India it is 20 percentage points (RBI).

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1,23,308 Business Correspondent agents (BCAS) (Bank Mitras) (BMS) deployed under Pradhan Mantri Jan Dhan Yojana (PMJDY) Financial Inclusion Program: playing a major role in spread of financial literacy by educating the people about banking services and meeting their banking needs.; 79305 BCAS/BMS did cash (Receipt +Payments) transactions, 34205 BCAS/BMS did remittances and total 1.20 crore transactions done by the BCAS/BMS during the week ended on 9th September 2015

During the last quarter ended on 30th June 2015, total number of transactions done by BCAs/BMs were 6.78 crores out of which 5.32 Crores were cash (Receipt +Payments) transactions and 1.45 crores were remittance transactions.

The Business Correspondent Agents/Bank Mitras are also playing a major role in spread of financial literacy by educating the people about banking services and meeting their banking needs. They are also reaching the people in far flung /difficult areas in order to fulfil the National Mission of Financial Inclusion under PMJDY (Barua et al, 2016).

**Regulatory concern**

**Interest spread** - Extending credit to hard-to-reach areas and in small amounts does not allow banks to cover the higher delivery cost through higher interest rates as the loans given to them are at subsidized rate.

**Distance criteria** – Banks do not always find it easy to get service area waivers from District-level Committees which are necessary to operate in certain areas. A number of requests are pending for approval and many requests have been rejected without any explanation.

**Cash settlement** - Current regulations mandate BCs to complete accounting and settle cash with bank branches within 24 hours of transaction. The area of operation of BCs being rural areas which has accessibility issues makes it difficult in settling funds within a prescribed timeframe.

**Addressing the issues:** Reserve Bank of India has called for the strengthening of the business correspondent model to improve quality delivery of financial services in remote areas and arrest fraud. It is planning a certification programme to equip them to handle financial products beyond remittances and deposits and contribute to financial inclusion.

The Committee recommends that BCs should increasingly be established at fixed location BC outlets: the BC outlet/Customer Service Point (CSP) could be opened in the Village Panchayat Office, kirana shop, personal residence or any other convenient location that could win the confidence of the customer. The Committee recommends that the Indian Banks’ Association (IBA) may create a Registry of BC Agents wherein BCs will have to register before commencement of operations. This database can be made dynamic with quarterly updates, including a list of black-listed BCs which no other bank should approach or work with. This would help banks and other agencies to track the movement of BCs and supervise their operations more efficiently.
3. Conclusion

Authentication of BC model is envisaged to provide these services to migrant labor workforce, low income households small business, other unorganized sector entities and other users. It may be concluded that the soundness of Financial Inclusion Programme (FIP) depends upon the effective role of BCs which in turn results in the empowerment of low income groups especially, women, economically and socially for the enhancement of formal banking practices among rural poor ensures socio economic justice. It is no doubt that financial inclusion improves the economic status of rural masses through BC banking model.

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