UGC MINOR RESEARCH PROJECT

MRP(H)- 192/12-13/KAMA009/ UGC-SWRO

"Effectiveness of Business Correspondent Model in Financial Inclusion and Empowering the Vulnerable"

SUBMITTED TO:

THE DEPUTY SECRETARY AND REGIONAL HEAD

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ABSTRACT

Banking correspondent model introduced by Reserve Bank of India in 2006 as a branchless banking initiative towards financial inclusion, intended to reach the unreached to meet their banking needs.

Business Correspondent (BC) Model ensures a closer relationship between poor people and the organized financial system. Recognizing this, in 2006, RBI permitted banks to use the services of non-governmental organizations, micro-finance institutions, Section 25 companies, and other civil society organizations as Business Correspondents in providing financial and banking services. At present few leading NGOs/MFIs have adopted BC model to extend banking facilities to the deprived sections of the society and bring them into the mainstream of development.

The Reserve Bank India (RBI) is taking major initiatives towards financial inclusion to achieve the government's objective of equity and inclusive growth. As a result, bank-led business correspondent models are slowly gaining some traction in India. Banks are reaching out to the unbanked and under-banked through a network of business correspondent (BC) agents either through outsourcing to institutional Business Correspondent Network Managers (BCNMs) or through managing their own BCs directly.2Some institutions with good

outreach and experience of working in unbanked areas are interested in collaborating with banks to act as BCNMs.

Shri Kshetra Dharmasthala Rural Development Project (SKDRDP), a SHG promoting institution (SHPI), is one such institution that is working in the backward districts of Karnataka. It has collaborated with various banks to provide access to formal financial products and services for the poor and unbanked in its area of operation.

Objectives of the Study:

The study in general aims at evaluating the different Self Help Group models with special reference to BC Model adopted by SKDRDP, a leading NGO in Microfinance in Karnataka.

Present study focuses on the role of SHGs in facilitating financial inclusion and economic empowerment of the vulnerable. This study further focuses on the Business Correspondence model adopted by the selected NGO in channelizing formal credit and other facilities through self help groups.

Research Design and Methodology:

The study is empirical in nature though it draws heavily on first hand data. The primary data is collected through structural questionnaires personally administered by the researcher. The study is confined to SKDRDP experiment in Dakshina Kannada and Dharwad districts of Karnataka State where BC model is adopted to channelize banking facilities to the SHG members.

Findings

Banks and BCs need to give more attention to the financial viability of the channel. Currently, a lot of focus is on the number of accounts opened and achieving the financial inclusion targets. Banks need to scale up their efforts substantially towards educating the clientele in their respective vernacular languages regarding the benefits of banking habit.

In 2009, SKDRDP adopted the Suvidha model to work as BCNM(Bank Correspondent Network Manager). The organization also undertakes marketing and promotional activities to create awareness about the initiative amongst the general public.

SKDRDP offers savings and credit products to its customers through the BC channel and gets additional income for the operations. Banks are able to achieve their financial inclusion mandate and at the same time earn revenues from the BC operations because of higher account activity. Customers get access to a secure banking system and formal financial products without the need to go to a bank branch.

The use of the BC model has the potential to change the lives of millions of people in the remotest parts of the country. For poor and vulnerable people, who could not think of going to the bank, banking has come to them. Increases in the number of bank accounts and the volume of loans and deposits in areas that use the BC model could indicate there is now far greater awareness of banking services.

BCs at the village level need to be strengthened to take up feasible and financially viable business of financial inclusion. Further MFI-BC model as experimented by SKDRDP is a replicable viable business model to emulate. Financial inclusion is more than a policy imperative; it represents huge opportunity for banks. Making the financially excluded persons financially capable and providing those with customized feasible products would be the road ahead for financial inclusion.

SKDRDP is quite optimistic and believe that the sector is promising and has immense potential. Business Correspondent Network Managing MFIs and banks should continue to look at leveraging the business correspondent model in the best possible ways to deliver impact and value to consumers and there by expediting the process of financial inclusion leading to inclusive growth.

CHAPTER I

INTRODUCTION

"Effectiveness of Business Correspondent Model in financial inclusion and empowering the vulnerable"

Introduction:

The Eleventh Five Year Plan aims at inclusive growth and faster reduction of poverty. Micro Finance can contribute immensely to the financial inclusion of the poor without which it will be difficult for them to come out of the vicious cycle of poverty. In order to enable the poor people to access credit, there is a need to strengthen all the available channels of providing credit to the poor such as Self Help Group- Bank Linkage programmes, Micro Finance Institutions , Cooperative Banks, State financial corporations, Regional Rural Banks and Primary Agricultural Credit Societies. While appreciating the need for adequate regulation and standardization of the various processes and practices adopted by the Micro Finance Institutions, the fact that the strength of the micro finance industry lies in its informality and flexibility which should be protected and encouraged.

The poor require finance for both production and consumption purposes. Availability of finance, moreover, tilts the employment scenario in favour of self-employment vis-à-vis wage employment. An added dimension is the empowerment of women with easier availability of micro-finance to them. There is definitely a need to increase the flow of credit, both for consumption and production, to the rural sector.

Self Help Groups (SHGs): Government initiatives during seventies and the Fourth Five Year Plan focused on small and marginal farmers and agricultural labourers. Integrated sustainable income generation activity was promoted under Integrated Rural Development Programme. Inadequacies inherent in running programs focused on individual households called for shift to a group based approach. In 1996, Reserve Bank of India included financing of SHGs as a main stream activity of banks under the priority sector lending programmes.

Models of Micro-Finance in India: There are two main models of micro credit in the country and they are 'banking model' and the 'MFI model'. In the case of the banking model Self Help Groups are formed and financed by banks. In some cases SHGs are formed by formal agencies/NGOs and financed by banks. In the 'MFI model' SHGs are formed and financed by the MFIs that obtain resource support from various channels. In India, majority of mirco credit activity is under the 'Banking model'(NABARD's Bank-SHG Linkage) and 10-15% of the activity is through 'MFI model'.

Business Facilitator & Correspondent Models: The Reserve Bank of India, in January 2006 issued an order to ensure greater financial inclusion and increase the outreach of the banking sector, through Business Facilitator Model and Business Correspondent Model. This enabled the commercial banks, including the RRB to use the services of NGOs, SHGs, MFIs and Civil Society Organization as intermediaries to provide financial and banking services through Business Facilitator and Correspondent Model. Under the Business Facilitator Model the intermediaries provide services like (i) identification of borrowers and fitment of activities (ii) collection and preliminary processing of loan applications including verification of primary information/data ; (iii) creating awareness about savings and other products and education and advice on managing money and debt counselling;(iv) processing and submission of applications to banks; (v) promotion and nurturing Self Help Groups/Joint Liability Groups; (vi) post-sanction monitoring ; (vii) monitoring and handholding of Self Help Groups/Joint Liability Groups/ Credit Groups/ others; and (viii) follow-up for recovery.

Under the Business Correspondents Model NGOs/MFIs, Cooperative Societies, section 25 companies, registered NBFCs, not accepting Public Deposit and Post Offices may act as Business /correspondent. In addition to the activities listed under the Business Facilitators Model the scope of activities of the Business Correspondent included (i) disbursal of small value credit, (ii) recovery of principal/collection interest (iii) collection of small value deposits (iv) sale of micro insurance / mutual fund products/pension products/other third party products and (v) receipt and delivery of small value remittances / other payment instruments.

At present some of the leading Self Help Group Promoting Agencies also channelize financial services to their clients through BC Model. The purpose of SHG initiatives is to encourage thrift and credit activities for the empowerment of the downtrodden. In this connection a comparative study of various SHG models of empowerment is very relevant and hence this proposed study is undertaken.

Objectives of the Study:

The study in general aims at evaluating the different Self Help Group models with special reference to BC Model adopted by SKDRDP, a leading NGO in Microfinance in Karnataka.

The specific objectives of the proposed study are:

1. To study the role of SHGs in facilitating financial inclusion and economic empowerment of the vulnerable
2. To study the Business Correspondence model adopted by the selected NGO in channelizing formal credit and other facilities through self help groups.
3. To find out the challenges of various models
4. To discover possible solutions
5. To suggest a ideal replicable model for economic empowerment and financial inclusion of the vulnerable sections of the society

Hypothesis:

- Under Business Correspondence model, members of SHGs are better served to facilitate the twin objectives of financial inclusion and economic empowerment.
- Larger segments of the population can be effectively served if Business Correspondents come forward to form SHGs in the unbanked regions and facilitate thrift and credit activities.

Relevance of the Study:

Banking correspondent model was introduced by Reserve Bank of India in 2006 as a branchless banking initiative towards financial inclusion. The scheme is intended to reach the unreached in the remotest corners of our country to meet their banking needs. By this initiative, Govt. of India intends to facilitate flow of benefits under centrally sponsored social safety net schemes, presently around 38, directly to the beneficiaries by e-payments to their accounts to avoid leakages. To increase the momentum of implementation of the scheme, RBI made several changes based on studies conducted by them and feedback from the field.

Business Correspondent (BC) Model ensures a closer relationship between poor people and the organized financial system. Recognizing this, in 2006, RBI permitted banks to use the services of non-governmental organizations, micro-finance institutions, Section 25 companies, and other civil society organizations as Business Correspondents in providing financial and banking services. At present few leading NGOs/MFIs have adopted BC model to extend banking facilities to the deprived sections of the society and bring them into the mainstream of development.

Shri Kshethra Dharmasthala Rural Development Project (SKDRDP), recipient of Microfinance India MFI of the Year Award(2010)for large MFIs,set up in 1982 by Dr. D Veerendra Heggade, SKDRDP is a charitable trust engaged in rural development. SKDRDP follows self-help group (SHG) based lending approach, where group members are collectively responsible for repayment of credit extended to individual members of the group. The development activities carried out by SKDRDP has helped generate goodwill among the people and this has, in turn, helped it in building its microfinance portfolio. SKDRDP has introduced several product and process innovations to achieve high efficiency and transparency in its microfinance operations.

Suvidha (convenient) software is used to record SHG lending and SHG record keeping. The integrated technology includes a hand held device which allows SHG members to repay their loans and avail of loans from the nearby local village office branches. The village level data is then integrated with the MIS at the project office (head quarters).

Pragathibandhu loan model : SKDRDP has developed a unique process of supporting the small farmers with technology and finance for taking up their farming practices. In this each member is facilitated to prepare a farm development plan which is then consolidated into a SHG plan and finances are given to them. The SHG members take loans for specific crops but pay it back through subsidiary crops on a weekly basis. Thus when their main crops come for harvesting the member is all most free from loan. Thus even if the main crop is damaged or does not yield expected income the farmer will not be burdened with the loan. In our country where lakhs of farmers have committed suicide due to burden of loan, this practice of repaying the loan on a weekly basis has helped them to be burden free.

BC Suvidha model: SKDRDP has partnered with SBI in three underserved districts of north Karnataka to bring in much needed credit to the poor in the area by innovating in the business correspondent model of the Reserve Bank of India. In this model SKDRDP has contracted with SBI to promote 30,000 SHGs involving 4,50,000 stakeholders who will be assisted with the micro finance loan of upto Rs. 150.00 crores at the rate of Rs. 50,000/- SHG in the first year and Rs. 400.00 crores at the rate of Rs. 1.5 lakhs per SHG. Policy changes in the lending norms to SHGs has been negotiated with SBI to provide adequate and needy finance. This model also envisages financial inclusion at the door step of the poor by opening village offices known as the customer service point. Started in 2009 this project has become highly successful in a span of 18 months 30,000 SHGs have been promoted and bank has extended a credit of Rs. 91.00 crores. To augment the assistance from the bank SKDRDP has also provided an additional finance of Rs. 96.00 crores in this area through its own funds. Thus this project has brought in Rs. 187.00 crores as loan funds to SHGs. This will facilitate the SHGs to get the support of the banking system in the long run.

Innovative model has been evolved by SKDRDP to link BC and SHG models for empowering the vulnerable and facilitate financial inclusion. Hence it is essential to study the problems and prospects of various models, so that a suitable replicable model can be suggested for ensuring twin objectives of economic empowerment and financial inclusion.

Research Design and Methodology:

The study is empirical in nature though it draws heavily on first hand data. The primary data is collected through structural questionnaires personally administered by the researcher. The data will be collected by participant approach and by interacting with the participants like officials of NGOs, Bankers and SHG members, experts in the field and by referring relevant documents and literature. The study is confined to SKDRDP experiment in Dakshina Kannada and Dharwad districts of Karnataka State where BC model is adopted to channelize banking facilities to the SHG members.

In 2009, RBI constituted a working Group under the Chairmanship of Mr. Vijaya Bhaskar to review the scheme and suggest changes. Based on the recommendations of the working group, the number of players was enlarged to include 'for profit' companies other than NBFCs, Common Service providers, etc. details of which are discussed elsewhere in this report. This was one of the few studies undertaken by RBI on Banking Correspondents. The Committee on Financial Inclusion headed by Dr Rangarajan in its report also suggests, among others, some modification to the scheme at policy level.

Studies were also initiated by other organizations, notable among them are the study by IFMR on 'Agency Network Management' **(**IFMR Finance Foundation, February 2010 Deepening Financial Access in India –A Blue Print for Commercial Banks Using Business Correspondents and Business Facilitators)and a series of very informative and useful studies by Micro Save.

These efforts have helped to give a new direction to the programme and thanks to the efforts of the banks and the BCs, substantial progress could be achieved in quantitative terms in 9 establishing BCs across the country. The latest data available indicate that up to Mar 2012, 96,828 BCs or CSPs have been established in the country and 103 Million NFAs opened.

While statistically the achievement is impressive, the net result on the field is a mixed. There has been criticism emanating from various quarters that the scheme is not delivering what it is intended to. There have been huge concerns expressed by organizations that joined the BC band wagon on its viability. Many of the educated youth employed as Customer Service Points (CSPs) were getting impatient and frustrated. Further, there was clear indication that the scheme is yet to reach an inflection point. The BC, as system was showing signs of stress and strain in many places. A study of this nature was thought in this context to have a look at the scheme holistically and suggest changes that are needed to increase the momentum of implementation to realize the financial inclusion goals of the Govt. of India and suggest a path towards sustainability. The objectives of the study were, therefore, set in this background.

CHAPTER II

APPROACHES FINANCIAL INCLUSION

Approaches to Financial Inclusion

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to **financial exclusion** where those services are not available or affordable.

"Financial inclusion is delivery of banking services at an affordable cost ('no frills' accounts,) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups.

Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes.

A United Nations (UN) study observes that financial inclusion of the poor is a global challenge to the achievement of the Millennium Development Goals (MDGs) (2006:1). This report draws attention to a plethora of problems that are being faced by poor in accessing financial services, and reveals the stark reality that a large number of people are not in a state of saving money as formal banking services are not within their reach" (Basu, Priya, 2005). According to this report, structural barriers prevent the poor from accessing banking facilities, thereby resulting in financial exclusion. The study further argues that the poor do not have savings bank accounts, let alone insurance policies.

Lack of access to adequate institutional credit and other financial services compel poor individuals and small enterprises to depend on their own limited savings and earnings. This restricts their choice to invest in their small business enterprises and take advantage of growth opportunities (Kunt and Patrick, 2009).

The Eleventh Five Year Plan (2007-12) envisions inclusive growth as a key objective. The Plan document notes that the economic growth has failed to be sufficiently inclusive particularly after the mid-1990s. The Indian economy, though achieved a high growth momentum during 2003-04 to 2007-08, could not bring down unemployment and poverty to tolerable levels. Further, a vast majority of the population remained outside the ambit of basic health and education facilities. Thus, the Eleventh Plan Document tries to restructure the policies in order to make the growth faster, broad-based and inclusive by reducing the fragmentation of the society. It clearly stated that 'The development of rural India is an imperative for inclusive and equitable growth and to unlock huge potential of the population that is presently trapped in poverty with its associated deprivations' (GoI, 2007).

Financial Inclusion

There are many different definition of financial inclusion. Financial inclusion or inclusive growth is the availability of banking services at an affordable cost to disadvantaged and low-income groups. Opposite of financial inclusion is financial exclusion. A group or person which can be consider as financial excluded if they do not have access to formal financial services such as banking facility.

In India most of people not aware about FI and the people who know think that FI is having a saving or current account with any bank. But it is not only savings and current account; it also includes Credit, loans, remittance, insurance services, pension plans and many more services.

Access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognized as a pre-condition for accelerating growth and reducing income disparities and poverty. In view of this, Financial Inclusion has been identified as a key dimension of the overall strategy of "Towards Faster and More Inclusive Growth" envisaged in the eleventh Five Year Plan (2007-12).

Government of India had constituted a committee in 2006 under the chairmanship of Dr. C. Rangarajan to study the pattern of exclusion from access to financial services across region, gender and occupational structure and to identify the barriers confronted by vulnerable groups in accessing credit and financial services and recommend the steps needed for financial inclusion. The committee submitted its report in January 2008. The committee has given a working definition of financial inclusion as;

"Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

The various financial services identified by the Rangarajan Committee include credit, savings, insurance and payments and remittance facilities.

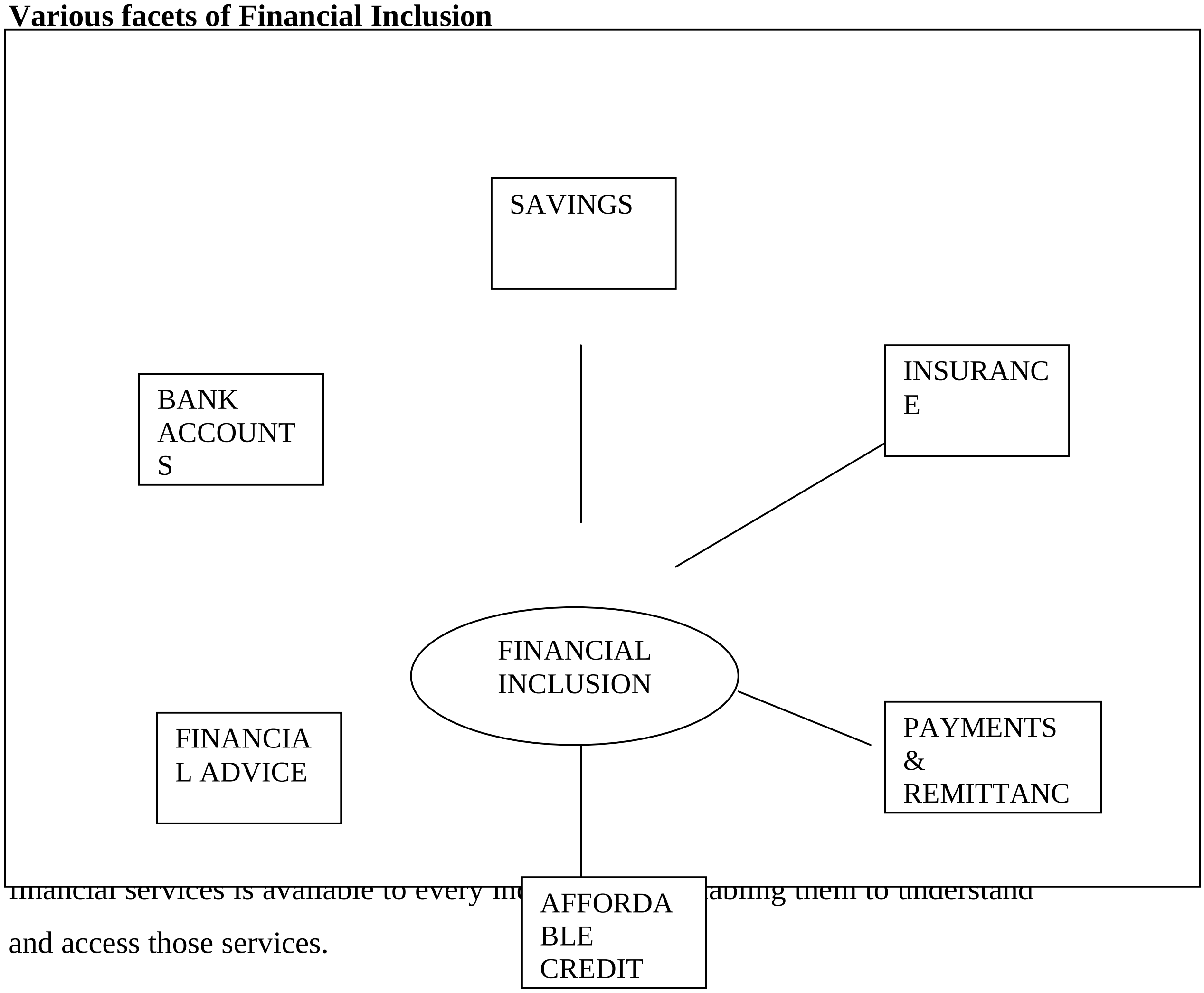
The Committee on Financial Sector Reforms headed by Dr. Raghuram Rajan in its Report - A Hundred Small Steps, proposed a paradigm shift in the way Government see inclusion. Instead of seeing the issue primarily as expanding credit, which puts the cart before the horse, the Committee urged a refocus to seeing it as expanding access to financial services, such as payments services, savings products, insurance products, and inflation-protected pensions. According to the committee, financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.

Financial Inclusion Defined:

Rangarajan's committee (Rangarajan Committee (2008), Report of the Committee on Financial Inclusion, Government of India) on financial inclusion defines it as: "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." Financial inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable Groups such as weaker sections and low income groups at an affordable cost.

Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. Financial inclusion mainly focuses on the poor who do not have formal financial institutional support and getting them out of the clutches of local money lenders.

Various facets of Financial Inclusion



financial services is available to every in... abling them to understand and access those services.

In order to achieve a comprehensive financial inclusion, a slew of initiatives have been taken by Government of India, RBI and NABARD. Some of the important initiatives include; SHG-Bank Linkage programme, opening of No Frills Accounts, mobile banking, Kisan Credit Cards (KCC) Pradhan Mantri Jan Dhan Yojna

Benefits of Financial Inclusion

Financial inclusion enables good financial decision making through financial literacy and qualified advice as also access to financial services for all, particularly the vulnerable groups such as weaker sections, minorities, migrants, elderly, micro entrepreneurs and low income groups at an affordable cost so as to enable them to

a) *Manage their finances* on day to day basis confidently, effectively and securely;

b) *Plan for the future* to protect themselves against short term variations in income and expenditure and for wealth creation and gaining from financial sector developments; and

c) *Deal with financial distress* effectively thereby reducing their vulnerability to the unexpected.

India stands 50th amongst 100 countries in index of financial inclusion to find out the extent of reach of banking services. Only 34% of Indian individuals have access to or receive banking services. The main reason for not using financial services is the lack of a regular income and not enough savings. Another reason is proximity of the financial service. The loss is not only the transportation cost but also the loss of daily wages for a low income individual. The customers who are excluded are totally unaware about benefits of financial services provided by banks. They borrow money from money lenders; friends and relatives to fulfill their financial requirements. They find it easier to approach them than to banks. Banks asks for collateral against loan which is difficult to provide for low income group even lot of paper work need to be done, keep them away from banking system. Lack of awareness about financial services on the part of villagers and bankers traditional thinking is the main hurdle in it. It seems to lack of financial literacy.

“Trend and Progress of Banking in India 2010-11” says that out of every 1000 persons only 99 had a credit account and 600 had a deposit account with a bank, at the end of March 2010. This shocking character of exclusion of a very large population would tend to make our expedition towards progress hard and costly. Affordable financial services especially savings and credit would improve livelihood opportunities and increase rural income and thus contribute to social, economic and political stability and well being.

Objectives of Financial Inclusion

1. Extending formal banking system among less privileged in urban and rural India.

2. Saving them from unorganized money markets and moneylenders.

3. Equipping them with the confidence to make informed financial decisions.

Earlier efforts for Financial Inclusion in India

If we examine the economic history of post independent India it is easy to find that the process of making financial services available to the poor has been on the agenda of the planners since its inception. The concept and delivery mechanism for such services have evolved overtime. The journey to the Banking Correspondent model has been quite long. Even though the coinage of the term '**Inclusive Growth**' and '**Financial Inclusion'** is of recent origin, a glance at the strategies pursued by the Government of India indicates its intent of bringing about inclusive growth. The road leading to the BC model brings it out clearly.

- Development of a three tier **Co-operative structure** during 1947-1970.
- The take-over of The Imperial Bank in 1956 to what is presently known as **State Bank of India**.

- Bringing in **Social Control** on the Banking System in 1967 and identification of **PrioritySectors** for the growth of the economy.
- **Nationalisation of 14 Major Commercial Banks** in 1969 (Nationalisation of 7Banks in the second round in 1980). and introduction of **Lead Bank Scheme** to provide a road map for expansion of branch network in areas with either no branches or with poor penetration, identification of credit potential and coordinated efforts towards deployment of credit.
- Introduction of **Differential Interest Rate Scheme (DIR)** in 1972 wherein public sector banks were required to extend credit to economically weaker sections at 4% rate of interest per annum.
- Instituting a **'20 Point Program' in 1975,** focusing on the schemes targeted at poverty reduction, employment creation, health and education.
- Setting up of **Regional Rural Banks (RRBs) in 1976,** to provide access to banking for the rural poor. RRBs were to function as institutions with a local flavour and a bias towards the rural sector in a cost effective manner.
- Introduction of **Integrated Rural Development Program (IRDP)** throughout the country on **2 October 1980 i**n order to provide self employment to the rural poor through a combination of capital subsidy and bank credit.
- Introduction of **Service Area Approach in 1989** in Banking. Launching '**Swarna Jayanthi Gram Swarozgar Yojana' (SGSY) in 1999-** harnessing the Self Help Group movement picking up in the rural India, through the **NGO movement.**
- The first half of the first decade in 21 century witnessed a resurgence of **SHGs,** largely by women promoted by various institutions including NGOs. The period also witnessed emergence of a new set of institutions, **Microfinance Institutions (MFIs),** who were targeting the poor, to address their credit needs.

All these initiatives did not quite widely attend to the problem of financial exclusion and the gap was showing signs of widening. Therefore, the Government of India wanted to pursue its Financial Inclusion agenda with greater vigor.

According to Dr. K.C. Chakrabarthy , Deputy Governor, RBI, only 13 per cent of people with annual income less than Rs. 50,000 are availing loans; and 53 per cent of people are still taking loans from institutional and non-institutional sources only for emergency purposes (In “Banking: Key Driver for Inclusive Growth”, 2009 in Bindu Ananth & Asha Krishnakumar(2010). Yet so many people and enterprises still remain without access to the formal system of financial services.

In India, the lack of access to financial services still poses a major challenge, with 650 million people (Global Findex, 2012) still classified as “under banked.

Lack of access to basic financial services is still a major challenge in a country such as India where more than 65% of the population is classified as “Under Banked or Unbanked”. Recognizing this problem, the “Reserve Bank of India (RBI)” introduced a regulation in 2006 allowing banks to provide service at people’s doorstep through the use of third party services. This model is referred to as “Business Correspondents/Banking correspondents” in short BC’s. Since that watershed regulation was introduced, the Reserve Bank of India says there are 221,341 “business correspondents” (BCs) or Customer Service Points employed by banks to help get services to people at the bottom of the income pyramid (http://www.cgap.org/blog/financial-inclusion-20-india%E2%80%99s-business-correspondents)

Engaging Business Correspondents (BCs):

Promotion of the Business Correspondent model is part of a broad financial inclusion initiative that the Indian government launched in response to increasing inequality in India. After hovering at a moderate 3.5 percent pace from the 1950s through the 1980s, India’s economic growth rate accelerated to 6.5 percent between 1990 and 2010. However, the growth has not been shared equally. Income inequality, as measured by the Gini Coefficient increased from 32.9 in 1993 to 36.2 in 2004 (Ali and Zhuang, 2007) and much of the population of the country remains financially excluded. For example, according to 2008 data from India's National Sample Survey Office, 45.9 million farmer households, of the total 89.3 million farmer households, did not have access to formal credit. As of June 2007, the bank-to-population ratio was a dismal 1:16,000. Out of 600,000 settlements in the country, only 30,000 had a bank branch.

Recent studies have shown a strong link between the degree of financial exclusion and rates of poverty and inequality the higher the financial exclusion, the higher the inequality and poverty (Thorat, 2008). Hence, in India, financial inclusion has been made an integral part of poverty alleviation strategies, and the Eleventh Five Year Plan[4/] envisioned financial inclusion as a key objective. The concept of "inclusion" was defined as a process of including the excluded as agents whose participation is essential in the very design of the development process (Planning Commission, 2007).

Financial inclusion has both demand-side and supply-side issues. On the supply side, the banks need to reach out to a wider section of society, including the poor and vulnerable. The issue here is high cost, which can be reduced only through information and communication technology solutions. On the demand side, the major factors are low income and low asset holdings. Due to difficulties in accessing credit, poor people resort to their own personal savings to invest in health, education, or entrepreneurial activities. In emergencies, their entire savings can be eroded, leaving them vulnerable. Hence, the effort is to distribute all government social security payments through banking channels. Once people have established bank accounts, they can deposit their government payments in the bank and also pursue formal credit from the bank (Anupam Kishore ,2012).

Reaching unreached through Business Correspondents

In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus to increase their outreach and reach the unreached. A BC is an entity that acts as a teller for the bank and carries out a full range of transactions on behalf of the bank. BCs are paid commissions by banks for the services they render.

Khan (2012) stresses that BCs can bridge the gap between the service providers (the banks) and the service seekers (clients) who are under-served and unbanked; and this model evolved to counter the scarcity of required manpower to reach all people in the current banking system.
Initially, only non-governmental organizations (NGOs), micro-finance institutions, registered nonbanking financial companies, and post offices were allowed to function as BCs. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs.

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 is being 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 hitherto unbanked population.

Against this backdrop, this paper attempts to introduce the concept of financial inclusion and highlights its need. It briefly reviews the Indian banking sector and reports the level of financial exclusion in India. In the second part, it provides a brief understanding on Business Correspondent model and emphasizes how BC model could significantly helps in promoting financial inclusion of the hitherto excluded population.

India has deep root of financial inclusion. The Indian Government has a long history of working to expand financial inclusion. In 1904 co-operative movement has been started which was milestone in Indian economic history. After independence the GOI adopted planned economic development for the country. Accordingly, five year plans came into existence since 1951. 430 commercial banks were in the private sector those days. These banks are failed to helping GOI in their social objectives. Thus, on 19th July, 1969 14 major commercial banks were nationalized. It was a big step towards financial inclusion.

In February 1992, SHG-Bank Linkage Programme has been launched by NABARD as pilot project during the period of economic reforms in India which was major initiative in financial inclusion. It proved to be a revolutionary programme for alleviating poverty through capacity building and empowerment of the rural poor, especially women. Microcredit extended either directly or through any intermediary is considered as part of bank's priority sector lending. The SHG-bank linkage programme provides opportunities for the rural poor to participate in the development process. It is cost effective, and ensures that more and more people are brought under sustainable developmental activities, within a short span of time.

Recent simplification of KYC norms is another milestone. With the directive from RBI, banks are now offering "No Frill" accounts to low income groups. These accounts have a low minimum or nil balance. It comes with the concept of business correspondent in 2006. Financial inclusion is an attempt to bring larger community under the umbrella of formal credit and alleviate poverty in rural areas.

Business facilitator (BF) and Business correspondent (BC) Model

In January 2006, the Reserve Bank of India issued a new set of guidelines allowing banks to employ two categories of intermediaries - Business Correspondents (BCs) and Business Facilitators (BFs) - to expand their outreach. BCs are permitted to carry out transactions on behalf of the bank as agents. The BFs can refer clients, pursue the clients' proposal and facilitate the bank to carry out its transactions, but do not transact on behalf of the bank.

It is not possible for banks to open brick and mortar branches in every village as it is not economically viable. Banks have to find out alternate ways to cover all the villages under financial inclusion. They have adopted Mobile van facility, ultra small branches and BCA model for providing financial services to financially excluded rural population. With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, Reserve Bank of India has instructed banks to use the service of Non-governmental organization/ Self-help groups (SHGs / NGOs), Microfinance institutions (MFIs), and other Civil Society Organizations (CSOs) as intermediaries in providing financial and banking services through Business Facilitator and Business Correspondent models.

Business Correspondents (BCs) & Business Facilitators (BFs) are representatives appointed by banks to act as their agent and provide banking services in remote locations where the bank does not have a presence in order to promote financial inclusion. The fundamental difference in the role of the BC and BF is that BCs are permitted to carry out regular transactions for customers on behalf of the bank. BFs are only responsible for spreading awareness related to banking and bank's products, assisting the bank in business generation activities and recovery of bad debts. However, they do not undertake any cash transactions.

Business Correspondents and Business facilitators are representatives of a bank, responsible for building awareness, sourcing prospective customers. In addition, business correspondents are also responsible for carrying out banking transactions for existing customers.

The Business Correspondent/ Business Facilitator (BC/BF) model that the RBI had initiated in 2006 offers a significant opportunity to scale-up and deepen financial access by creating an extensive network of village-level touch points. To support the financial inclusion effort and to leverage the advances in banking technology, two kinds of third party banking agents were created – Business Facilitators, who would primarily be involved in creating awareness, processing and opening accounts, and Business Correspondents, who could, in addition to the functions of the Business Facilitators, mobilize deposits and disburse credits on behalf of the banks.

Beyond a certain threshold, the traditional commercial bank branch could prove to be too expensive and too far removed from the local community to be an effective channel for financial services to every single household. Such constraints can be overcome by working through the BCs and BFs. This model also provides the opportunity for many existing institutions (such as the non-profit MFIs, cooperative credit societies, and self-help promoting institutions (SHPIs)) to get linked to mainstream commercial banks to offer savings and other financial services(Bindu Ananth & Asha Krishnakumar,2010).

Among the various policy measures addressing Financial Inclusion, one of the most significant has been the introduction of the Business Correspondent Model (BC model). Since its introduction in the year 2006, the BC model has been seen as an innovative way of serving the unbanked by allowing the banks to reach out to them through a network of 'external agents'. The BC model represents a major departure from the conventional brick and mortar branch based banking framework. Since this watershed regulation was introduced, the Reserve Bank of India puts the number of "business correspondents" (BCs) or Customer Service Points employed by banks to help get services to people at the bottom of the income pyramid at 221,341 as on 31st March 2013.

BC Banking Channel: The Basics

Banks operate a number of channels through which they deliver financial services like, branches, extension counters, ATMs and the internet. The Business

Correspondent option offers a new channel through which banks can extend services. The RBI guidelines are written in a way which requires that a bank has to be involved and is the ultimate provider of services.

Various Models Employed by Banks

Banks have sought out a range of different partners and offered a range of different banking services through the scheme. In some cases, the banks have used the BC option to open large number of no frills accounts. In some cases, this has also been combined with channeling government payments (G2P) such as NREGS, pensions and other social payments. In a few cases, the focus has been on extending credit either in partnership with an MFI or through a relationship with an SHG Federation or network. The big difference in performance and partnerships appears to be between those BC efforts that are account and savings focused and those who focus on delivering credit services. The partners chosen, products offered, costs incurred, and revenues earned under different models can be quite different.

BC is 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 around 15 kms. A Bank branch may typically require more than 5 years to break even in unbanked area, while a private sector and foreign bank with IT connectivity may require more time. The BC option potentially enables banks to reach out at much lower cost (Yeshu Bansal &N. Srinivasan,2009).

This model enables banks to extend financial services to the unreached customers beyond their branch network as beneficiaries of the BCs are mostly located at unbanked and under banked areas. BC model also ensures doorstep banking. Further as target clients are well known to local NGOs, Post Offices, and local social bodies, loan facilitation by the BCs, who are the promoter/builder of the groups, enhances quality of services. In this model scaling up is possible within a short span of time.

Business Facilitator (BF)

Under the "Business Facilitator" model, banks may use intermediaries, such as, NGOs/Farmers' Clubs, cooperatives, community based organizations, IT enabled rural outlets of corporate entities, Post Offices, insurance agents, well-functioning Panchayats, Village Knowledge Centres, Agri Clinics/ Agri Business Centres, Krishi Vigyan Kendras and KVIC/ KVIB units, depending on the comfort level of the bank, for providing facilitation services. Such services may include

- identification of borrowers and fitment of activities
- collection and preliminary processing of loan applications
- creating awareness about savings and other products and education and advice on managing money and debt counseling
- processing and submission of applications to banks
- promotion and nurturing Self Help Groups/ Joint Liability Groups
- post-sanction monitoring
- monitoring and handholding of Self Help Groups/ Joint Liability Groups/ Credit Groups/ others; and
- follow-up for recovery

Business Correspondent (BC)

Under the "Business Correspondent" model, NGOs/ MFIs were set up under Societies/ Trust Acts, societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, section 25 companies, registered NBFCs not accepting public deposits and Post Offices may act as Business Correspondents.

In addition to activities listed under the Business Facilitator model, the scope of activities to be undertaken by the Business Correspondents will include

(i) Disbursal of small value credit

(ii) Recovery of principal / collection of interest

(iii) Collection of small value deposits

(iv) Sale of micro insurance/ mutual fund products/ pension products/ other third party products; and

(v) Receipt and delivery of small value remittances/ other payment instruments.

BC can be

- Individual/kiranna/medical/fair price shop
- Agent of small saving schemes of GOI/Insurance companies
- Individual public call office operators(PCO)
- Individual who own petrol pumps
- Retired teacher
- Authorized functionaries of well own SHG"s
- Operations common service centers (CSC"s)
- Farmers club

Different banks adopt different models likewise some banks have appointed individual as BC/BF and some banks appointed agency/corporate body as BC/BF.

These efforts have helped to give a new direction to the programme and thanks to the efforts of the banks and the BCs, substantial progress could be achieved in quantitative terms in establishing BCs across the country. Up to Mar 2012, 96,828 BCs or CSPs have been established in the country and 103 Million NFAs opened. While statistically the achievement is impressive, the net result on the field is a mixed. There has been criticism emanating from various quarters that the scheme is not delivering what it is intended to. There have been huge concerns expressed by organizations that joined the BC band wagon on its viability. Many of the educated youth employed as Customer Service Points (CSPs) were getting impatient and frustrated. Further, there was clear indication that the scheme is yet to reach an inflection point. The BC, as system was showing signs of stress and strain in many places. A study of this nature was thought in this context to have a look at the scheme holistically and suggest changes that are needed to increase the momentum of implementation to realize the financial inclusion goals of the Govt. of India and suggest a path towards sustainability.

LEARNINGS FROM INTERNATIONAL EXPERIENCE

Agency model as a means of Financial Inclusion was tried out by many countries in the world. Achieving social and economic equity came to sharper focus in the international community, once a direct co-relation between financial exclusion and poverty was established and United Nations gave a call in 2003 to work towards total financial inclusion. It is important to learn from countries who started the journey before India and try to identify areas where replication of efforts are possible depending on the degree of success achieved and learn lessons from the difficulties faced. It is in this context, the experience of a few other countries in this key area of financial infrastructure development is discussed.

Bank led Agency Model in Brazil

Brazil adopted a Bank led agency model. Financial Inclusion programme started in the country in mid 90's, had the objective of providing financial services to low income population and it gained momentum in the earlier part of the first decade in the 21 century. The agents of banks were permitted by Central Bank of Brazil, to offer services like deposits, withdrawals and transfers apart from consultation, mobile phone top ups, bill payments, sourcing of loans and credit cards, collection of repayment, international transfers etc. To reduce the risk of frauds by agents, Brazil did not permit use of an agent whose primary or sole activity consisted of services that are considered banking services. The Bank as a principal was made fully responsible for the quality of service by the agents, to control their activities and comply with all the legal and regulatory provisions. The agent is required to be fully transparent and display the rate of commission for all its services. Brazil has also appointed an ombudsman to take care of customer complaints. Most of the agents employed by Brazilian Banks are existing retailers. “The network of more than 100,000 agents set up by 10 Brazilian banks has spread to the length and breadth of the country.” The challenges faced by the BC system include:

- Agents claiming parity in wages with bank employees.
- The federal policies insisting on the same level of security as in the banks.
- National Health Surveillance Agency challenging the use of pharmacies and drug stores as bank agents.

Between 2000 and 2008 the number of bank accounts doubled in the country largely driven by correspondent banking model. 50% of the simplified savings and current account opened are active and operative. The Central Bank of Brazil, with full backing from the Government, is taking the leadership by creating an enabling environment for institutional arrangement, providing regulatory clarity and setting supportive requirements. The incremental changes it has made in regulation, has helped to reduce operational risk. The Brazilian Banking Correspondent Model is driven by retailers. Services are provided through point of sale devices installed with the merchants, which can permit financial transaction in real time or near real time. The bar scanner attached to the POS (Point of Sale) is used for electronic payment of bills.

However, the experience of Brazil and India are not comparable as the population of Brazil is almost one sixth of India. The BC outlets in Brazil focus primarily on transaction and payment services which include invoice payments, collection of service and payment orders, disbursal of govt. benefits and pension, pre-paid mobile top ups. Other banking services such as making deposits and withdrawals from savings accounts is comparably less compared to bill payment services.

CGAP reports that the bill payments and the payments of government benefits to individuals comprised 78 percent of the 1.53 billion transactions conducted at the country's more than 95,000 agents in 2006.There are no subsequent reports to show that this patterning of revenue has changed.

Brazil has the largest number of customer service points, almost 100000, though many of them are not active. Credit related services are not very popular. Widespread agency network of the model has helped to reduce transaction cost and helped in extending services to far flung and remote rural areas. However, the central focus of correspondent network remains urban. There is criticism from some quarters that the program is yet to demonstrate pro poor, pro-growth impacts for households, communities, and the national economy.

In 2000, nearly 30 percent of Brazil's municipalities had no access to formal financial services. But between 1999 and 2003, the government revised its regulations to allow correspondent banking and facilitated its expansion by improving the country's interbank transfer system. By 2004, every municipality in Brazil had access to formal financial services, and about 1,600 (one in four) were served only by the correspondent network.

In Brazil, the bank Bradesco gained a significant advantage in 2001 by quickly securing exclusive access to distribute financial services through the agencies of the country's post office, Empresa Brasileira de Correios e Telégrafos. That gave the company a network of 5,532 post offices, including more than 1,700 in municipalities that lacked banks.[7] Through Banco Postal, a wholly owned subsidiary, Bradesco extended correspondent services to the entire network in just five years.

Key Learnings from the Brazilian model:

- The Central Bank of Brazil was highly successful in creating an enabling environment for the BC model to flourish. Therefore, Central Banks has as a key role in BC model propagation.
- To reduce the operational risk, the Central Bank has been experimenting with incremental changes in regulation, one at a time and moving forward.
- The Brazilian model is not strictly replicable in India as revenues from the model are driven by bill payment and remittance and our demographic profile is in variance.
- Given a choice, the agency network, tends to converge on urban and operationally convenient areas and might concentrate on profitable products and transactions.
- Existing retail and other distribution networks can be used successfully in urban segment for BC operations.

Learnings from Kenya

Kenya amended its Banking Act in 2009 to create a provision for use of agents to carry out banking activities. Under the guidelines issued by the Central Bank of Kenya, for-profit organizations, limited liability partnerships, individuals etc. are permitted to be employed as agents. The vision 2030 document of the Government of Kenya seeks, among others, to raise financial inclusion level. It has enabling regulation that encourages Microfinance and Agent Banking and builds co-operation within the formal financial sector through a Telecom Service provider led model. Introduction of mobile money, with participation from the service providers and banks, has made significant contribution both to the financial sector and financial inclusion. It has opened a new channel for delivering financial services, enabling customers to perform a growing range of transactions such as opening of accounts, making deposits, loan repayments, making payments to other parties, etc., thus integrating in the process, the services of Microfinance institutions, commercial banks and telecom service providers. This has helped in integration of mobile money system with the core banking system of banks which enabled transfers between mobile phone virtual accounts and traditional bank accounts. M-PESA- the product name of the mobile-phone based money transfer service of Safaricom- with 8.8 million customers and 15,200 agents, is one of the most successful mobile banking models in the country. Started by a micro-finance company to help collect repayments, the initiative was taken over by Safaricom which is a Telkom Kenya-Vodafone affiliate.

- The Kenyan model is not fully replicable in India as it is a telecom company led model, while India is pursuing a bank led model.
- The model in Kenya is fraught with many operational risks which has the potential to derail the system.
- The Banking infrastructure in Kenya and India are not comparable. India, therefore, may not have the same compulsions to adopt a telecom led model.

The World Bank’s Consultative Group to Assist the Poor (CGAP) estimates that the average overall monthly cost to customers of using correspondent and mobile phone based models is 19 percent lower than the cost of these services in traditional branches and up to 50 percent lower for some products, such as medium-term savings and bill payment. In Mexico, the all-in cost of offering savings accounts (including marketing, opening an account, and per-transaction costs) through correspondent outlets is about 25 percent lower than offering them through traditional branches (exhibit). Correspondent models thus help organizations serve low-income consumers at a lower cost, which is particularly important because people in the segment typically transact in small sums.

Studies in India

Banking correspondent model was introduced by Reserve Bank of India in 2006 as a branchless banking initiative towards financial inclusion. The scheme is intended to reach the unreached in the remotest corners of our country to meet their banking needs. By this initiative, Govt. of India intends to facilitate flow of benefits under centrally sponsored social safety net schemes, directly to the beneficiaries by e-payments to their accounts to avoid leakages. To increase the momentum of implementation of the scheme, RBI made several changes based on studies conducted by them and feedback from the field.

In 2009, RBI constituted a working Group under the Chairmanship of Mr. Vijaya Bhaskar to review the scheme and suggest changes. Based on the recommendations of the working group, the number of players was enlarged to include 'for profit' companies other than NBFCs, Common Service providers, etc. details of which are discussed elsewhere in this report. This was one of the few studies undertaken by RBI on Banking Correspondents. The Committee on Financial Inclusion headed by Dr Rangarajan in its report also suggests, among others, some modification to the scheme at policy level.

Studies were also initiated by other organizations, notable among them are the study by IFMR on 'Agency Network Management' and a series of very informative and useful studies by Micro Save.

The study by Sa-Dhan (2012) evaluates the challenges faced by the banking correspondent (BC) model in India and suggests possible solutions. It examines different BC models, pinpoints viability issues, and discusses strengths and weaknesses of each model. The study also evaluates different products and services offered by BCs. The study covered different geographical regions and various legal forms of BCs like self-help-group federations, societies, and trusts. Findings include:

- Commercial viability is the biggest challenge faced by the BC model;
- Banks commitment to the BC program gets diluted because they perceive it as a mandated activity;
- Using the opening of customer service points and no-frills-accounts as indicators of financial inclusions does not present accurate findings;
- BC model does not usually include a financial literacy program, which is a key success factor;
- Banks hesitate to offer more products because they are afraid of the operational risk associated with the model;
- Most clients have little knowledge of the range of BC services.

The study of Vandana Khare (2011) suggested the needs for a multi pronged approach, with the BC/BF model playing a large role in achieving the national goal of financial inclusion. A lot of work still needs to be done for addressing the training of the BC/BFs, their infrastructure requirements, the remuneration model and other issues which have been highlighted in the report before the model becomes self sustaining and yields results.

CHAPTER III

FINDINGS OF FIELD STUDY

FINDINGS OF FIELD STUDY OF STANDALONE BCs:

MAIN ISSUES AND CHALLENGES

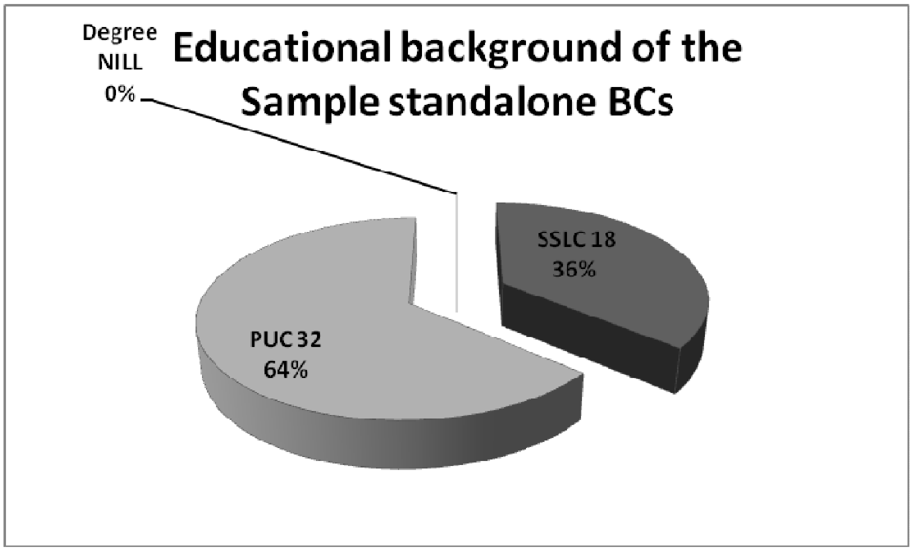
The study of Business correspondent model shows some facts about BC model in villages. The results of the findings of the field study are discussed here.

DETAILS OF RESPONDENT BANK CORRESPONDENTS

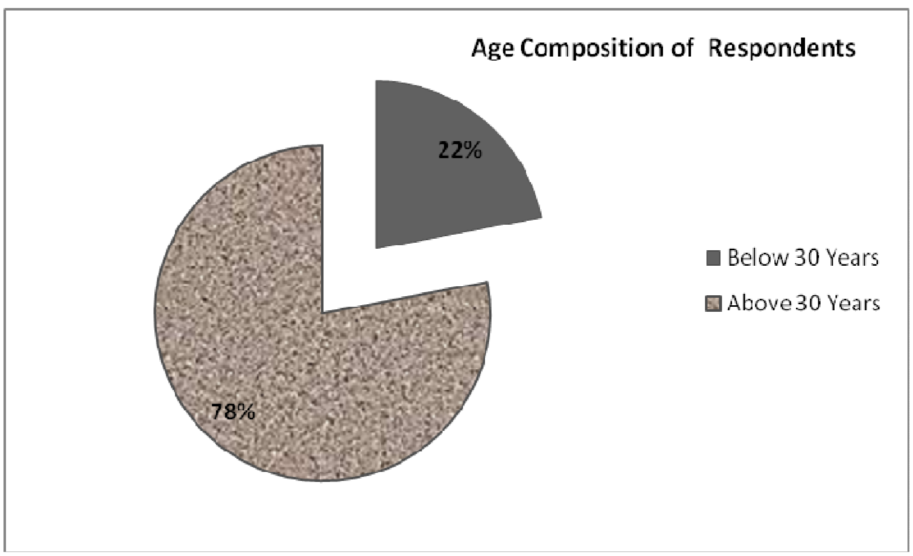
			No	%
01	Educational Qualification	SSLC	18	36
		PUC	32	64
		Degree	NILL	00

02	Age	Below 30	11	22
		Above 31	39	78
03	Main Occupation	BC as Main Occupation	04	08
		BC as Subsidiary Occupation	46	92
04	Experience	LIC Agency/ Pigmy and other financial related services	09	18
		Agriculture	09	18
		Health Worker	06	12
		Business/ Shop	11	22
		Self Employment	06	12
		SHG/ Group Work	09	18
05	Year of appointment as BC	2015	32	64
		2014	11	22
		Before 2014	07	14
06	Activity	operating accounts & other Schemes	27	54
		PMSBY PMJJBY PMJDY	23	46
07	Concerns	Training Need	18	36
		More incentives	27	54

EDUCATIONAL BACKGROUND OF THE SAMPLE STANDALONE BCS



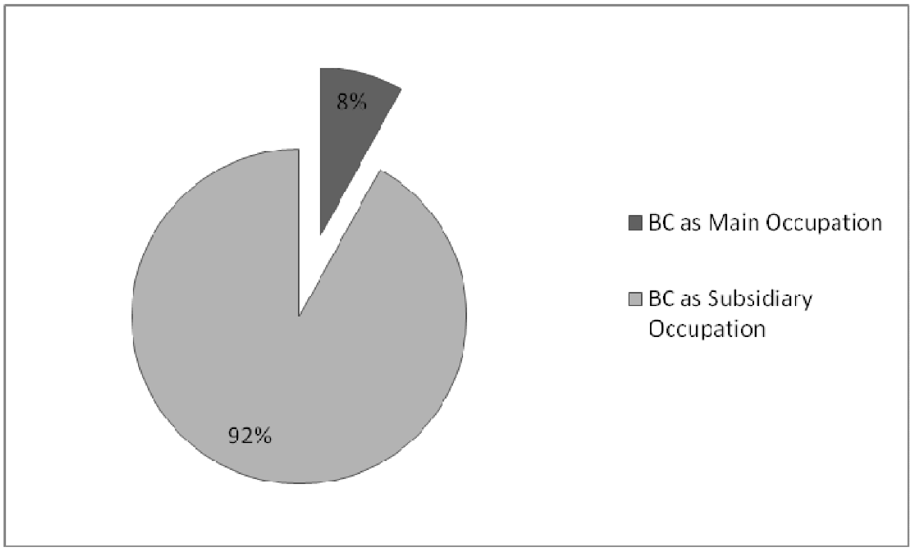
AGE COMPOSITION OF SAMPLE RESPONDENTS



Above table and diagram indicates that 78% of the sample respondents are above 30 years. This suggests the need to attract youngsters to the field of BC to make it more attractive and result oriented.

BC'S MAIN AND SUBSIDIARY OCCUPATION:

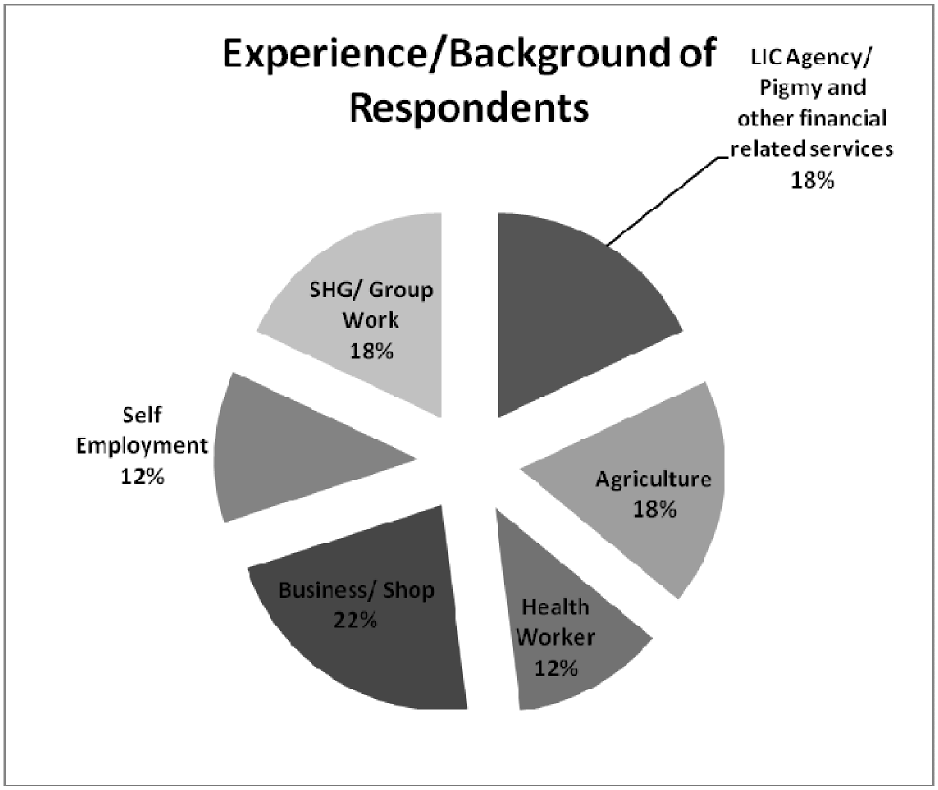
BCs are doing their work of BC along with their other occupation. The percentage of their occupation as BC and under other income generating activity



About 92% of BC has taken up BC business as subsidiary occupation and 08% of BC has taken up BC as main occupation. So, it is important to do something for them to get more interest in BC occupation.

EXPERIENCE / BACKGROUND OF SAMPLE RESPONDENTS

Pertaining to the performance of the BC model, FICCI's Report (2012:34) highlights the lacunae regarding the recruitment of BCs and functioning of BC model. It identifies that although RBI permitted variety of individuals to work as BCs, very few have been engaged by banks. Regarding the performance of BC staff, the report throws a light on lack of professional orientation. (FICCI, "Promoting Financial Inclusion: Can the constraints of political economy be overcome?" FICCI Federation House, New Delhi. 2012). Field study also reveals lack of professional orientation of the sample BCs. Just 18% of the sample respondent BCs has experience in the field of financial related services. Other 18% of the respondents are the members of SHGs and are familiar with working in groups and maintaining accounts of the group.



TRUST

Trust can also be an important factor, particularly early in the effort. The case of Diconsa, in Mexico, bears out the point that existing retail outlets often have relationships with target customers, who may therefore be more likely to trust the retailer to act as their financial representative. Diconsa stores are owned cooperatively by the communities where they are located, and community members elect the storekeepers. This cultural context is an important success factor for Diconsa (Alberto Chaia, Robert Schiff, and Esteban Silva, 2010). Field data reveals that the entire sample BCs belong to the same village engaged in different economic activities. Since the BCs have close communit linkages, command trust to act as financial representatives.

STATUS OF IMPLEMENTATION

Banks are in different stages in the continuum of providing banking services through this channel. There are some banks which are at a rudimentary stage having just opened the no frill accounts and are looking at the model mainly as a cash pay-out mechanism for Electronic Benefit Transfer of the state Government concerned. There are some other banks that view this channel and the no frill accounts as a business opportunity and are already devising innovative products, tying up with other service providers to reach the hitherto unreached segments of rural and urban populations. The full scope of the model can be realized not just by opening no frills accounts. Towards this end, there should be proper understanding and appreciation of the BC model by all stakeholders, in particular, by banks. Banks need to appreciate the benefits arising out of adopting the BC model and implement the same with missionary zeal so as to achieve the ultimate goal of financial inclusion.

SKILL SETS REQUIRED

Financial inclusion is not merely opening of no frills accounts. It also encompasses giving access to financial products like savings products, loan products, remittance facilities, micro insurance, micro pension, financial planning and education. Further the ultimate goal is to make available these services across service providers on a nationwide basis.

Discussions with the BC/BFs also threw a lot of insights. Based on the insights so gained the skills required by BC/BFs are given below:

i) Functional Skills

i) Knowledge of the basic principles and practices of banking

ii) Knowledge of the relevant products of the bank in the areas of deposits, advances, insurance, mutual fund products etc.

iii) Knowledge of the documents required for these products

iv) Knowledge of KYC norms, the different kinds of documents that will be acceptable depending on what it is possible for the customer to produce

v) Ability to use the Point of Sale/bio metric device given by the bank and do minor trouble shooting

v) Ability to provide financial counseling to the villagers he is serving

vi) Ability to do a preliminary appraisal of credit proposal to the extent of informing the branch of credit worthiness and bona fides of a potential borrower.

ii) Marketing Skills

a) Building Trust – Since the potential customer does not have a banking relationship with the banks and may not be in a position to read and understand the product/process himself, the BC should inspire trust

b) Persuasion skills – Banking per se is a latent demand and the BC should be able to help the financially illiterate customer to realize the existence of the need and appreciate the need to shift from informal to formal sources of finance

iii) Customer Service

a) **Empathy –** understanding the needs and insecurities of the customer who is often dealing with a bank for the first time

b) **Service orientation –** the customer of a BC often needs more handholding than the average bank customer

PRESENT LEVEL OF SKILLS AND TRAINING

Of the standalone BCs interacted with, only some have prior work experience and that too in the informal sector. As such the level of their knowledge regarding banking is minimal.

- It is generally a short training of one to two days, which covers mostly operation of the POS device and basic information on the documentary requirements for opening of accounts.

- The training does not cover most of the functional skills and none of the behavioral skills required to be possessed by the BC. Most of the BCs expressed the need for more training on both the functional and behavioral aspects.

- The Indian Institute of Banking and Finance (IIBF) also provides a certificate course comprising a self-paced study followed by training for about 5 days arranged by the Institute with select accredited institutions across the country. The training provided by IIBF has so far been availed by very limited persons, despite the subsidy provided by NABARD.

During interaction with bankers and BCs, they expressed a need for customizing the reading material and the training to the level of the participants. Presently there is a feeling that the material is too complex for understanding defeating the purpose of training.

- Further the training is conducted only at certain centers which are far away from the area of operations. Many BCs are not able to avail of the training due to the distance, time constraints etc.

- Training Requirements: In some cases banks are providing training to BC staff; however, still capacity for internalizing new technologies, new products and systems remains a big challenge.
- Presently the task of providing training to BCs is assigned to Rural Development & Self Employment Training Institute (RUDSETI). The BCs attended the weeklong training at RUDSETI, Ujire were happy about the training module.
- Technology Integration: Integrating the existing technology of the BCs with the bank's technology is also a challenge in many cases

BC's View for Financial Inclusion and BC Model

BC is the grass root channel of financial inclusion plan. He is directly concerned with grass root level problems. He is one who actually knows what people want. He is directly related with villagers and is also one amongst them. BC suggest following points for improvement of FI plan

- Increase cash limit
- Smart-card should be available to A/C holder as quick as possible or within week
- Solve device problem as soon as possible and issue device (Who are still not getting)
- Give sim-card of mobile service provide which has good network connectivity in village

- Transfer of old branch account to BC
- Transaction should be done from both bank and BC
- Workshop for awareness should be done
- Advertisement of BC should be done
- FD should be done by BC

ISSUES/CHALLENGES FACED

Some of the issues/challenges faced in this model, as listed out by various BCs, are:

Dormant Account: BCs report that more than 80 per cent 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 the services need to be more specifically designed to meet their needs.

Viability Problems: 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.

Community Mobilization: Mobilizing communities for banking services especially savings is a big challenge. Bank Clients were unwilling to accept BCs as deposit-taking organizations.

SUGGESTIONS

3.1 Realizing the full potential of the BC model: Banks and BCs need to give more attention to the financial viability of the channel. Currently, a lot of focus is on the number of accounts opened and achieving the financial inclusion targets. Given the right thrust, the BC model has the prospective to speed up the process of financial inclusion in the country and bring the vast majority of population within the banking fold. The full scope of the model can be realized not just by opening no frills accounts. Towards this end, there should be proper understanding and appreciation of the BC model by all stakeholders, in particular, by banks. Banks need to appreciate the benefits arising out of adopting the BC model and implement the same with missionary zeal so as to achieve the ultimate goal of financial inclusion.

3.2 Financial Education:

3.2.1 Banks need to scale up their efforts substantially towards educating the clientele in their respective vernacular languages regarding the benefits of banking habit. Information regarding BCs engaged by banks may be placed on the banks websites. Banks may also use print and electronic media to give wide publicity about implementation of BC model by them. The banks may educate their customers through various means – print, electronic, etc. - the role of the BC and their obligation towards the customers, in the vernacular language.

3.2.2 The study has brought to light many aspects of the working of the BC/BF model. Unless the BC is financially educated and is aware of the various options available to suit the needs of the customers he will always be dependent on the branch officials to clarify the doubts of the customers. Such time delays or lack of clarity on the part of the BC will reduce the interest of the prospective customer. The BC to be a fully functional channel of financial inclusion he/she should help the potential customer to become aware of his latent need for financial products and the availability of the right product for him.

3.2.3 There is a need for improvement in client adoption and better ways to meet client needs through financial education.

3.3 Demand-Side Research:

3.3.1 More demand-side research is needed to assess what clients really want, how much they are willing to pay and why they chose not to use many of the services offered at present.

3.3.2 BCs and banks should try to build client confidence initially offering services such as remittances and then graduate to savings products.

3.3.3 The key to success of BCs lies in banks making client acquisition and business expansion a viable proposition; and not treating it simply as a corporate social responsibility.

3.3.4 **Awareness issues among clients: The** villagers are not aware about the services provided by banks and BC. Because of their illiteracy they do not understand the concept of financial inclusion. Very few people are aware of BC model and FI. Due to lack of time they do not got chance to understand concept. They are working whole day in farm or any other occupation which they are engaged. Sometimes they are aware about services but cannot adopt it because of limiting factor availability of time.

3.3.5 **People are not aware about BC services:** It may be observed that majority of the people know about BC service in their village through BC himself. In indicates the need to create awareness about financial inclusion and BC models.

3.4 BC Selection Criteria:

3.4.1 Already existing contact points such as, STD phone booths, Common Service Centres, kirana stores, fair price shops, etc. could be allowed to operate as BCs. The BC outlets may be viable if they act as multi-service outlets.

3.4.2 Banks could consider appointing BC/BFs as apprentices at the branch initially for few months. During this time these apprentices would be paid a stipend and would undergo on-the-job training and also be of use to the branch. After this training they could start functioning as BC/BFs. This would result in a dual advantage to the bank. On the one hand these apprentices would understand the working as well as the products of the branch and hence be better equipped to deal with customers when they start working as BC/BFs. On the other, they would also build relationships with the branch staff and this would sort out the attitudinal problems on both sides to a certain extent.

3.4.3 Banks and BCs need to give more attention to the organizational strength and are well-versed in this business.

3.4.4 As mentioned earlier some banks have allowed branches to avail the services of data entry operators to key in the data in the account opening forms in case of large number of applications and allow the branch manager to use a bulk account opening facility in the CBS to open accounts. Such a facility may be provided by all banks. This will go a long way in making branch staff more welcoming of the business brought in by BCs.

3.4.5 The BC/BF could be provided with some identification, as has been done by some banks, so that the customers feel assured that they are indeed authorized, legitimate representatives of the bank. In this connection it is worth noting that Corporation Bank has named the BC's location as 'Corp Grameen Vikas Kendra' and two banners – one giving the details of the BC as the authorized representative of the bank and the other giving details of the base branch and the person to be contacted for redressal of grievances is displayed at each location. Other banks may consider following such a model.

3.5 Empowering the BCs:

3.5.1 There should be a two tier level of training – the basic level being given by the technology provider on operation of POS machine, minor trouble shooting etc. The second level of training should be given by the bank officials covering banking in general and the bank's products in particular. The training which is currently focused on familiarizing the BC on the documentation, KYC adherence alone should instead strive to make him financially literate.

3.5.2 IIBF should consider having travelling trainers who can go at least to the taluk HQ for imparting training to a cluster of BCs of various banks.

3.5.3 It has often been stated by few BCs that the officials at the branch do not co-operate with the BC/BFs. Branch staff should be given attitudinal training for accepting and accommodating the needs of BC/BFs.

3.5.4 Few Banks are organizing meetings in villages where the BC is introduced to the villagers. In some banks had taken efforts to bring the branch staff and BCs together which has gone a long way in fostering mutually helpful relationships. These best practices bring customers, bank staff and BCs together and play a significant role in financial inclusion.

3.6 Flexibility with Pricing:

3.6.1 Interest cap on small loans many be freed or alternatively, BCs should be allowed to charge a reasonably regulated service charge from the clients. Fees for services availed may result in seriousness among clients to make proper use of the services provided.

3.7 Ensuring viability of BC Model

3.7.1 The BC model can succeed only if the banks own up the BCs as their agents. Banks may need to have a relook at the compensation structure for BCs.

3.7.2 The range of services to be delivered through the BC should be ramped up to include suitable small savings, microcredit, micro-insurance, small value remittances etc.

3.7.3 Banks may be permitted to collect reasonable service charges from the customer, in a transparent manner, for delivering services through the BC model. Suitable guidelines may be issued by RBI in this regard, especially keeping in view the profile of customers using these services.

3.7.4 Banks may bear the initial set up cost of the BCs and extend a handholding support to the BCs, at least during the initial stages. Banks may also need to bear the costs relating to transit insurance of the cash handled by BCs.

At the heart of the problem lie three distinct issues; that of distribution, customers connect; and, commercial sustainability. Since the BC model is agent driven, the success of it is individual driven wherein the efficiency and motivation of the agent in connecting with the customer plays a very important role.

Retail banking being a distribution business, BC becomes a business of managing these distribution points by addressing risks associated with financial transactions.

Economics of BC model: Unless the BC finds it adequately remunerative the whole model can become unsustainable.

The banks have seen the entire financial inclusion initiative as ‘mandate driven’. Consequently, they had no incentive to invest in this business. With the bank not having adequate commitment, then translates into the failure of the agents. It is also true that managing retail channels is really hard business in a country with such a diverse geography, which makes it difficult for most of the banks that have no experience of operating beyond their own branches.

While the BC’s have been able to address access issues and reach out the unreached, not enough attention has been paid to produce customer centric products and services that will motivate customer.

Pricing like for most of the products, has a strong influence on the client’s decision making. If a relevant service costs less, low-income customers are most likely to frequent the service. If a service has a fee associated with it, then customers will engage with it only if they clearly understand the value add of the services

The BC model also does little to provide incentives to customers above the usual basic savings and bank deposit accounts. Given the exhaustive drive for financial inclusion done by the Government of India, one would have imagined that level of activity by the banks would have increased especially in the rural areas. However, neither the banks nor the customers seem to be taking the inducement.

The move by the public sector banks (PSBs) to provide financial inclusion to all the households by opening at least one bank account per household under PMJDY is commendable. Pradhāna Mantrī Jana Dhana Yōjanā (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services, namely Banking Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. Guinness World Records Recognizes the Achievements made under PMJDY, Guinness World Records Certificate says "The most bank accounts opened in 1 week as a part of financial inclusion campaign is 18,096,130 and was achieved by Banks in India from 23 to 29 August 2014". By 8 July 2015, 16.73 crore accounts were opened, with around Rs 19990.52 crore (US$3.1 billion) were deposited under the scheme (http://www.guinnessworldrecords.com).

Recent success in opening up of accounts under the Jan Dhan Yojana is a pointer to what things can be, given sufficient push at a policy level coupled with the carrot of some financial incentives (http://mfinindia.org/dec_business-correspondent-model-a-layered-approach-to-banking).

Conclusion: Correspondent banking has become one of the most promising strategies for offering financial services in emerging markets. In this model, financial institutions work with networks of existing nonbank retail outlets to deliver financial services. This approach can be especially powerful when serving the unbanked poor because of its ability to reduce banks' cost-to-serve and reach low-income workers where they live.

CHAPTER IV

FIELD STUDY OF MFI-BC MODEL

Field Study of MFI-BC Model

Introduction:

The Reserve Bank of India, in January 2006 issued an order to ensure greater financial inclusion and increase the outreach of the banking sector, through Business Facilitator Model and Business Correspondent Model. This enabled the commercial banks, including the RRB to use the services of NGOs, SHGs, MFIs and Civil Society Organization as intermediaries to provide financial and banking services through Business Facilitator and Correspondent Model. Under the Business Correspondents Model NGOs/MFIs, Cooperative Societies, section 25 companies, registered NBFCs, not accepting Public Deposit and Post Offices may act as Business /correspondent.

At present some of the leading Self Help Group Promoting Agencies also channelize financial services to their clients through BC Model. The purpose of SHG initiatives is to encourage thrift and credit activities for the empowerment of the downtrodden.

Innovative model has been evolved by SKDRDP to link BC and SHG models for empowering the vulnerable and facilitate financial inclusion. The study is confined to SKDRDP experiment in the districts of Karnataka State where BC model is adopted to channelize banking facilities to the SHG members.

Shree Kshetra Dharmasthala Rural Development Programme (SKDRDP)

Established in 1982: SKDRDP was founded in 1982 as a registered NGO. SKDRDP is located in Dharmasthala, a temple village in the state of Karnataka, famous for the religious shrine of Lord Manjunatha. Dharmadhikari, Dr. Veerendra Heggade, who heads the management of temple and its various community development activities, started SKDRDP in 1982 as a charitable trust to provide livelihood support programmes to the poor and marginalized.

Expansion: SKDRDP started as a small experiment covering 18,000 families in the then backward Belthangady taluk of Dakshina Kannada district in Karnataka state. The initial intent was to provide support to the small and marginal farmers. As the year went by the organization started promoting Self Help Groups (SHGs) to make people more self-reliant. It is currently engaged in development activities in 22 districts of Karnataka and Kasaragod district in Kerala operating in 25,000 villages covering more than 28,19,500 families.

SHPI & Microfinance: SKDRDP commenced microfinance operations in 1992 by forming self help groups to help women and marginalized farmers become financially self sustainable. Consequently the organization partnered with banks to provide SHG-bank credit linkage facilities to SHG members.

SKDRDP, a SHG promoting institution (SHPI), is one such institution that is working in the backward districts of Karnataka. It has collaborated with various banks to provide access to formal financial products and services for the poor and unbanked in its area of operation.

SKDRDP promotes a network of Self Help Groups (SHGs) under its *Suvidha* programme and works towards the development of rural communities through financial and non-financial interventions. As part of its financial inclusion efforts, SKDRDP promotes the habit of savings among SHG members and provides micro credit through a group lending model. SKDRDP also offers various schemes such as pensions, health insurance, accident insurance, and life insurance. In addition to financial inclusion, SKDRDP conducts programmes for housing construction, educational facilities, alcohol addiction treatment, and efficient and sustainable agriculture practices.

Bank Correspondent Network Manager: SKDRDP found value in becoming a BCNM as it offered a variety of benefits including: additional revenue streams, efficient cash management systems, a broader range of financial products and funding assistance from banks. In 2009, SKDRDP adopted the BC *Suvidha* model under which the organisation acts as a business correspondent network manager (BCNM) for banks in order to provide access to formal financial services to the poor and unbanked. Presently, SKDRDP working as Business Facilitator and Business Correspondent in 16 districts of Karnataka for implementing the financial inclusion plan of the Government of India.

SKDRDP and Financial Inclusion

As of September 2012, SKDRDP has promoted 215,350 SHGs. Over the years, SKDRDP has focused on the BC *Suvidha* model. Presently, the organisation is implementing the programme in 16 districts of Karnataka.

Promotion of Self Help Groups:

A total number of 40,700 SHGs were promoted during the year. As on 31st March 2014 a total of 2,76,040 SHGs were active. There is a 17% growth in the number of SHGs promoted during the year. The total number of members associated with these SHGs was 29.31 lakhs.

Financial performance of SHGs : A total of Rs. 228.00 crores was saved by the SHGs during the year taking the total savings since inception to Rs.759.00 crores. During the period, the groups have availed a loan of Rs. 3,002.00 crores from various banks to meet their financial needs.

SKDRDP operational details an of September, 2012

Particulars	Total	BC Suvidha
No. of SHGs	215,350	129,881
Savings (Rs. in millions)	5,913	1,053
Loans Disbursed (Rs. in millions)	10,616	1,905
Loan Outstanding (Rs. in millions)	22,420	5,851

Micro Finance Activities

SKDRDP in order to develop the rural masses provides 3 main financial instruments.

- Loans
- Insurance
- Pensions

These microfinance activities provide stable ground for powerty alleviation. The **loans** are called as Pragathi Nidhi and come in different varieties and purposes. SKDRDP also brings banking closer to people with its BC Suvidha Scheme. The BC Suvidha also mobilises savings causing people to inculcate habit of saving. The loans and Banking Correspondence lay the foundation of stronger growth. To make the families more stronger from the uncertainties of life, SKDRDP provides Insurance and Pensions. SKDRDP acts as an aggregator/ collection agency for National Pension Scheme by central government. Being a very important program NPS works as division of SKDRDP. There are 2 Insurance programs of SKDRDP. Jeevan Madhura Life Insurance and Sampoorna Suraksha Health Insurance. The Jeevan Madhura is sponsored by LIC and SKDRDP acts as Insurance Broker. Sampoorna Suraksha is a section 25 company and subsidiary of SKDRDP. Sampoorna Suraksha provides health insurance.

Some of microfinance activities of SKDRDP are:

1. Pragathi Nidhi - micro finance loans.
2. BC Suvidha- to bring banking facilities to masses.

Pragathi Nidhi

SKDRDP initiated a micro-financing scheme known as **Pragathinidhi in 1996**, which provides loans to members to help promote their livelihoods or develop infrastructure. The main features of Pragathinidhi include the provision of adequate funds without any administrative formalities, a convenient tenure, easy accessibility and easy weekly repayment installments. The funds required for lending are sourced from bank loans or the savings of the members which are deposited with the group's account.

In 2003, with plans to extend Pragathinidhi on a larger scale, SKDRDP reinvigorated the program with systematic procedures. The group can now take loans for agricultural purposes, infrastructure development, non-formal sector development activities and group enterprises.

Shri Kshetra Dharmasthala Rural Development Project (SKDRDP), a charitable trust, acts as a SHG Promoting Institution (SHPI), works in the backward districts of Karnataka. It has collaborated with various banks to provide access to formal financial products and services for the poor and unbanked in its area of operation. SKDRDP found value in becoming a Banking Correspondent Network Manager (BCNM) as it offered a variety of benefits including additional revenue stream, efficient cash management system, a broader range of financial products and funding assistance from banks for the benefit of SHGs.

The Evolution of SKDRDP's Work in Financial Inclusion

SKDRDP commenced its involvement in financial inclusion more than 30 years ago, and it has progressed through several phases in that time.

Concept: Commencement of livelihood support programmes	**Phase one:** Operate as SHPI by organising SHGs	**Phase two:** Start of SHG bank linkage facility through *Pragati nidhi*	**Phase three:** Partnership with banks for SHG BC *Suvidha* model	**Future plans:** Scale up programme to entire state
1982-1990	**1991-1995**	**1996-2008**	**2009-2012**	**2013 Onwards**

Adopted from Micro Save: *Making the Business Correspondent (BC) Model work for Self-Help Groups (SHGs) – Ballem et.al.*

To expand the deployment to newer geographies, SKDRDP partnered with new banks with better presence in its respective geographies. SKDRDP also partnered with banks who offered better financial incentives for BC activities. As a result, SKRDRP has moved from a single bank tie-up in 2009 to tie ups with four more banks in 2012.The tie ups have helped widen and deepen implementation of the SHG BC model across the state of Karnataka. Diverse partnerships also help SKDRDP not depend on one bank and insulate itself from any change in terms of agreement (financial/non-financial) detrimental to the viability of the BC business

SKDRDP's BC model for SHGs

In 2009, SKDRDP adopted the Suvidha model to work as BCNM(Bank Correspondent Network Manager). The programme is being implemented in 16 districts of Karnataka. As a BCNM, SKDRDP offers savings and credit services to SHGs on behalf of partner banks through a network of field subagents. The organization also undertakes marketing and promotional activities to create awareness about the initiative amongst the general public. The cash officer, or BC agent, conducts field-level transactions for SHGs using a hand-held POS machine supplied by the TSP.

As a BCNM, SKDRDP offers banking products (in this case savings accounts and credit) to SHGs, on behalf of partner banks, through a network of field sub-agents. The organisation also undertakes marketing and promotional activities to create awareness about the initiative amongst the general public. The cash officer, or BC agent, conducts field level transactions for SHGs using a hand held POS machine supplied by the technology service provider (TSP). TSP also provides the back end technology that links field level transactions with the bank. The technology records, authenticates and transfers field transaction data to the bank through a link server.

SKDRDP offers savings and credit products to its customers through the BC channel and gets additional income for the operations. Banks are able to achieve their financial inclusion mandate and at the same time earn revenues from the BC operations because of higher account activity. Customers get access to a secure banking system and formal financial products without the need to go to a bank branch.

SKDRDP earns regular income from its bank partners for promoting SHGs, processing loans, and enabling savings deposit and withdrawal transactions. The SHGs provide compulsory weekly savings to the bank. As these savings are long term and bundled together into larger sums (other BCs typically deal with smaller sums), they provide a good source of float income to the bank. As of September 2012, SKDRDP has promoted 215,350 SHGs.

There are three partners in the whole arrangement of Banking Correspondent Network. One is SKDRDP. The second is the bank and the third is the Technology Service Providers (TSP). The important role of each partner is indicated below

SKDRDP as a BC and BF of the Banks:

SKDRDP has been acting as Business correspondent for achieving financial inclusion. This model envisages financial inclusion at the door step of the poor by opening village offices known as the customer service point. SKDRDP took an active part in implementing the Financial Inclusion plan of the government of India by working as Banking Correspondent and Business Facilitator (BC and BF) in several districts of Karnataka. Under the programme SKDRDP is promoting Self Help groups enabling the poor people in the remote villages to access banking facilities at their door steps. SKDRDP is BC and BF to State Bank of India in Dharwad, Gadag and Haveri districts, Union Bank of India in Gokak, Davangere, Koppala, Chamarajnagar, Mysore and Kasargod districts, Canara Bank in Chitradurga district, Corporation bank in Tumkur, Belgaum, Mandya and Hassan districts, Rathnakar bank in Bagalkote district, IDBI bank in Raichur and Bangalore Rural and Pragathi Grameen Bank in Bellary districts. SKDRDP working as BC for the last five years covering almost 17,500 villages and towns. As a BC SKDRDP is using POS (Point of Sale) machines in the villages extensively to conduct the transactions of the poor people with the bank. At present on a weekly basis almost Rs. 80.00 crores is being transacted through this system.

BC Suvidha Model of SKDRDP

In 2009, SKDRDP adopted a SHG BC model under the name “*BC Suvidha*”, to offer additional benefits to its customers and also to leverage the benefits of the business correspondent model. Initially, the organization piloted the model in three districts of Karnataka i.e., Dharwad, Haveri and Gadag. The BC model is less capital intensive and enables faster outreach. Suvidha connotes convenience or ease in Hindi. In this context, the word is very aptly put as the model enables the customers to access banking facilities in a convenient and hassle free manner.

After nearly two decades of operation in Bethangady Taluka, in 2001 SKDRDP decided to expand its operations to other areas of Karnataka. As part of the plan, SKDRDP decided to lend its own funds and facilitate SHG-bank credit linkage to SHGs through Pragatinidhi, its flagship microfinance programme. The main objective of Pragatinidhi is to provide adequate and accessible credit funds with reasonable tenures and repayment instalments, and also to facilitate members' weekly savings through formal savings channels. SHG groups can avail credit for agriculture, infrastructure development and non-farm sector development activities.

Customers often have to spend considerable time, energy and outlay to visit the bank branch and wait for account opening, for savings deposits and withdrawals, and finally loan documentation, disbursal, and repayments. To provide convenient, cost effective and timely services to SHG members, SKDRDP started working as a BC for the State Bank of India that offers credit and savings services to the SHGs. Instead of building an expensive branch network with full-time bank staff, SKDRDP offers financial services to SHGs through its staff and community level volunteers.

Customers often have to spend significant time, energy and cost to visit the bank branch and wait for account opening, for savings deposits and withdrawals, and finally loan documentation, disbursal, and repayments. To provide cost effective, convenient and on-time services to SHG members, SKDRDP started working as a BC for the State Bank of India (SBI, India's largest and most respected public sector bank) that offers credit and savings services to the SHGs. Instead of building an expensive branch network with full-time bank staff, SKDRDP offers financial services to SHGs through its staff and community level volunteers.

As a BC, SKDRDP promotes SHGs, helps SHGs to open accounts with the partner bank, processes loan documents, disburses loan cash and savings withdrawals, collects repayments and deposits, and monitors SHG performance.

SKDRDP acts as an institutional agent to the bank and offers banking products (in this case savings accounts and credit) to the SHGs through a network of field sub-agents. The Cash Officer, as sub agent, conducts field level transactions for SHGs using a hand held POS machine supplied by the technology service provider (TSP). The TSP also provides the back end technology that links field level transactions to the bank. The technology records, authenticates and transfers field transaction data to the bank through a link server. SKDRDP, as a principal agent to the bank, is responsible for managing liquidity. It maintains adequate cash to honour withdrawal transactions and e-float in settlement account to honour deposit transactions.

Relationship between the stakeholders SKDRDP (BCNM) Bank TSP

SKDRDP (BCNM)	**BANK**	**TSP**
• Forms SHGs • Opens SHG accounts on behalf of the bank • Processes and recommends loan application forms of SHG members • Cash management– deposit and withdrawal of funds. Loan disbursal and repayment on behalf of the bank • Monitors loan repayments	• Opens savings bank accounts for SHGs • Sanctions loans to SHGs • Provides deposit and withdrawal facility to customers • Provides liquidity rebalancing facility to the BC • Pays service fee and commissions to both BC and to TSP	• Provides enrolment data to the bank • Technology hardware support (POS devices and smartcards) • Provides field-level transaction data to the bank • Backend support: hosting of savings account activity for both SHGs and individual members and transaction processing

• Trains field staff on bank products, processes and cash handling • Reconciliation of cash collection reports with bank statement		• MIS support: sharing of MIS data with bank and SKDRDP in predefined formats and timelines • Trains the BC/BC agents on POS handling

Adapted from MicroSave. 2013. 'Making the Business Correspondent (BC) Model Work for Self-Help Groups (SHGs).' A case study of Shri Kshetra Dharmasthala Rural Development Project (SKDRDP),India.

The grass-root experience of SKDRDP, the financial strength of the bank and the technology driven transaction support of TSP are the three cornerstones of the BC operation.

Human Resources: SKDRDP uses a mix of its own staff and engaged agents to deliver BC operations. SKDRDP engages individuals called Seva Sahayaks and Seva Pratinidhis as sub-agents and pays them commissions based on field operation levels. On the other hand, the Field Supervisors and above, who play supervisory and managerial roles are formal staff of SKDRDP.

Recruitment: SKDRDP recruits local SHG members to serve as volunteer Seva Pratinidhi and also recruits local community members for field staff positions, as they have a better understanding about the culture and social fabric of the geography. This helps in targeted, effective and impactful financial and non-financial intervention.

Training: SKDRDP provides training to Seva Pratinidhis on group formation, loan processing, loan recovery, book keeping and monitoring of the SHGs at the local SKDRDP/RUDSET Training Centre. Cash Officers are trained on handling the POS devices, cash collection and payments, recording transactions and verification of fake notes at the project office. The TSP's local staff members also visit the local project offices to train the Cash Officers on operating the POS machine, uploading transaction data and other technical issues.

Technology: Robust technology helps in connecting customers to the formal banking system efficiently and allows for rapid scale-up of operations. SKDRDP's TSP provides technology architecture that ensures secure front end transactions and robust backend MIS systems. On the front end, the TSP provides smart cards to the customers which can be with handheld point of sale (POS) devices , like any of the credit card readers. The smart cards are embedded with a chip that stores KYC and biometric information of the customer. The POS machine, through an integrated card reader, authenticates the transaction when the card is swiped by identifying the customer through his/her finger prints and account details and generates a receipt as a proof of transaction for the customer. In the backend, the transactions are routed to a switch which integrates the transaction data into the bank's core banking system.

Marketing/Communications: Marketing and communications helps customers gain acquaintance, leading to higher transactions. In SKDRDP's case, outreach to new customers is conducted through Field Supervisors (FS) who visit new villages and explain the SHG-BC initiative and its benefits to prospective members. The FS identifies a *Seva Prathinidhi* (active SHG member) who, as community level volunteer, works towards group promotion in the village. As many BC *Suvidha* customers are already existing customers of SKDRDP, limited marketing initiatives seem to be adequate.

Business Management: Monitoring and control of agent networks should follow a two pronged approach. One is through an established monitoring and control system, and the other is through carefully listening to customer complaints and grievances. Both systems should work simultaneously complementing each other. An established monitoring system involves frequent vists, as well as follow up and corrective measures based on the observations where required. Having a suitable monitoring system with well-defined follow-up procedures will help to systematically monitor agents, reduce fraud, and aid in constantly improving field operations.

Monitoring in SKDRDP: Monitoring is a process that helps improving performance and achieving results. SKDRDP's BC-*Suvidha* model has an effective monitoring system that incorporates perfectly with regular SHG monitoring systems. SKDRDP has a two approach to monitor its BC model: MIS monitoring system and a field based monitoring system. The MIS system captures field level transaction data and highlights any discrepancy in reconciliation. The field based monitoring is conducted by various levels of SKDRDP staff at regular and pre-defined intervals to ensure compliance with defined processes and reporting standards. The audit team conducts intermediate and yearly audit of the SHGs to ensure proper maintenance of SHG books of records.

Field Based Monitoring System:

Monitoring Mechanisms at Village level

- SHG representatives conduct financial transactions based on resolution of the group and record it in Minutes Book.
- SHG federation sanctions/ recommends loan by assessing the SHGs.
- Documentation sub-committee, appointed by SHG federation, reviews all SHG records during the monthly federation meeting.

Monitoring Mechanisms Seva Pratinidhi level

- Ensures proper maintenance of SHG books of records.
- Submits monthly progress report to the FS. The report includes information about new group formation, financial performance of SHGs, issues in group functioning, if any.
- Verifies the SHG loan documents approved by the SHG federation with repayment status of SHG group.

Monitoring Mechanisms Field Supervisor level

- Visits all his/her allocated villages at least twice in a month, visits at least 36 SHGs, and attends all SHG federation meetings.
- Verifies the SHG loan documents approved by the SHG federation with repayment status.
- Submits monthly progress report to the Project Officer about the performance of SHGs and Federations in his/her operational area.
- Submits the monthly performance report of all the SPs under him/her.
- FS attends monthly progress review meeting conducted by PO.

Monitoring Mechanisms Cash Officer level

- Cross checks the SHG level minutes book before making a transaction for the SHG.
- Gives a receipt duly signed by him/her for all transactions
- Records all transaction details in Cash Transaction Register.
- Conducts BoD and EoD every day.
- Submits the Cash Collection report along with bank deposit slip to MFI manager.

Monitoring Mechanisms MF-Manager level

- Verifies cash consolidation report of each cash officer with bank deposit slip and EoD receipt.
- Consolidates cash collection report and verifies with transaction report received from the TSP.
- Reconciles cash collection report with the transaction report and bank statement.
- Submits cash collection report and reconciliation report to SKDRDP’s BC office
- Conducts weekly review meeting with cash officers to assess their performance and discuss issues, if any.
- Visits cash collection centres randomly to check the operations.

. **Monitoring Mechanisms Project Officer level**

- Conducts review meeting with SPs, FS and MF manager to review the performance against the plan.
- Submits monthly progress reports to the HO
- Visit SHGs and Federations randomly to check the performance
- Verifies and approves the SHG loan documents based on MIS report of the project office and recommendations of federation, SP and FS.

Management of SKDRDP BC Suvidha Model

Project Officer (PO) :

- Heads the district unit for BC activities. Reviews the End of Day (EoD) reports submitted by MF-Project Manager and sends the reports to BC control office
- Takes care of other community development programmes like agriculture and education

Audit Team

- Audit team consists of 3-4 individuals who regularly visit the field to ensure SHG records are accurate and up to date.
- Conducts yearly audits of the SHGs and grades SHGs
- Prepares trial balance, income expenditure and balance sheet of the SHGs
- Interim audits (once in 3 months) to check if the SHG accounts are properly maintained

Microfinance Manager

- Microfinance Manager is responsible for running day to day microfinance operations, such as enrolling new SHGs and collection of repayments from existing SHGs.

- Does the final check before enrolling the SHGs.
- Reconciles cash collected for the day with the transaction data sent by TSP
- Allocates Cash Officers to cash collection centres
- Processes loan requests from SHGs
- Coordinates with the bank manager for reconciliation of cash collected reports, bank level transactions and TSP reports

Cash Officer (CO)

- Cash Officer visits the collection centre assigned to her/him to collect savings, repayments, withdrawal and loan disbursal
- Operates the Point of Sale (POS) machine to conduct transactions
- Records the transactions in a transaction register
- Deposits the cash collected for the day in SKDRDP's branch account at bank and takes deposit slip
- Submits the cash collection reports to the MFI manager
- Inform respective FS regarding repayment problem if any

Field Supervisor (FS)

- Visits the field to monitor day to day operations
- Approves and recommends loan applications
- Verifies purpose of loan if the amount exceeds Rs.25,000 per member
- Supports SP in delinquency management

Seva Pratinidhi (SP)

- Visit the villages in service area and forms SHGs
- Provides training to SHG members on bookkeeping, SHG functioning, etc.
- Oversees functioning of SHGs

- Processes loan applications
- Ensures timely repayment of loans
- Follows up with delinquent customers for loan recovery
- Marketing of insurance (life) and pension products

Experiments of SKDRDP to effectively implement BC Model

Performance based Commissions at grassroots level

Initially **Seva Nirath** (SN), a community level field staff of SKDRDP was responsible for SHG promotion and community development work in the village with support from a Field Supervisor (FS). SN performed cash transactions like deposits and withdrawals under the SHG BC-Model by using a POS (Point of Sale) machine. SN was working on monthly salary and other benefits as per SKDRDP's norms.

Currently SN is replaced by an agent called ***Seva Pratinidhi*** (SP). SP, a community level volunteer promotes and monitors SHGs with support from FS. SP is not involved in cash transactions or operating the POS machine. SP is responsible only for group promotion, maintenance of books of records and other community development work. SP earns a service fee and commission based on the service he provides.

Performance based commissions motivate the employees and enable them to work towards SKDRDP's objectives. SKDRDP can recruit more SPs as payment is limited only to the service provided by the SP. This ensures close monitoring of SHGs. SPs are local SHG members who live in the same village and know about the prevalent social and economic conditions. SPs can completely focus on group promotion, training, and monitoring of groups.

Professionals handling the transactions

In most of the BC transactions the issue is that of connectivity and handling of POS machine. SKDRDP has overcome this issue by placing professionals to handle the transactions at the village level. Initially both SN and FS conducted cash transactions like deposit, withdrawals and loan disbursement at village level and deposit cash at bank. Presently ***Cash Officer*** (CO) deals with cash transactions (deposits and withdrawals) and loan disbursement at the village level and deposit net cash at bank. They visit cash collection centre in each village once a week. FS is responsible to train and supervise SPs; monitor SHGs and SHG-federations and manage delinquency. CO is responsible to operate POS machine.

Cash Officer is trained on cash handling and POS operation and can professionally handle the transactions. There were issues with uploading transaction data from the field because of connectivity issues. Now CO can update transactions from the branch office/project office which has better connectivity SN and FS can concentrate on group promotion and monitoring activities.

Microfinance Manager

Initially the SKDRDP Branch Manager is responsible for microfinance (MF) activities, administration and other developmental programmes. Now the Branch Manager is responsible for administration and other developmental programmes. Microfinance Manager is responsible for microfinance activities. Earlier lack of required focus on microfinance operations by Branch Manager resulted in issues like delays in timely reconciliation and consolidation of field level MF reports. New post of MF Manager has overcome the issues of consolidation and enhanced microfinance activities through BC model.

Establishment of formal grievance redresses mechanism

Earlier Customers could lodge their complaints with the Seva Niraths based in the village and occasionally with the Field Supervisors. To overcome this limitation SKDRDP has established a formal grievance redress mechanism to address the grievances/complaints. Collection Centres display contact details of all the staff on display/notice boards. Customers can approach senior level staff in case their complaints/problems are not resolved. Earlier many complaints/grievances of the customers used to remain unaddressed. Display of contact phone numbers helps the customers to lodge complaints to the appropriate person and resolve them quickly.

Lessons from BC *Suvidha* Model

Difficulty in raising capital: SKDRDP’s legal status as a charitable trust restricts its ability to raise capital to expand its operations. Now SKDRDP promotes the SHGs, links the SHGs with the bank, and facilitates loan processing and repayments. Banks lend directly to the SHGs promoted by SKDRDP and pay a commission to SKDRDP for promoting and managing the SHGs.

Need to encourage Savings: It is very important for SKDRDP to offer a full suite of financially inclusive solutions, especially savings, and not just credit. SHG members used to visit the bank branch office to open an account, deposit savings, prepare loan documentation, and receive loan funds and to make loan repayments. It was a burden for members and especially SHG leaders to visit the bank branch on a weekly basis to deposit savings and loan repayments. Many of the members were reluctant to assume leadership responsibility in groups because they had to lose a day’s work to visit the bank branches and conduct transactions. In addition to this, they always worried about the risk of theft as they had to travel from village to bank with cash.

After the BC-model began in 2011, the situation has completely changed, as members can open their bank accounts and conduct bank transactions within the village. SKDRDP’s Cash Officer visits the village once a week to collect savings, loan repayments and withdrawal of group savings’ corpus for internal lending within the village.

Rapid scale up: The model provides an opportunity to scale up rapidly and create a meaningful impact in rural communities. SKDRDP specializes in the promotion of SHGs and maintaining grassroots connections. The bank specializes in financing, and the technology service provider (TSP) specializes in providing appropriate technology for conducting branchless banking operations. As each of the stakeholders focus on their respective areas of specialization, the implementation of the programme becomes streamlined, and has the opportunity to gather critical mass within a short duration of time, at a lower cost.

Better socio economic development of customers: Banks have a higher lending capacity and can provide credit at competitive interest rates. They can also help keep savings safer and at the same time more available than SKDRDP, or even groups in many ways. SKDRDP lends its reputation and distribution network, while banks focus on lending and savings. SKDRDP can therefore focus on other socio-economic development activities to achieve its mission of empowerment.

Regular Source of Income*:* SKDRDP can now earn a regular source of income from its bank partners for promoting SHGs, processing loans, and enabling savings deposit and withdrawal transactions. The income would help SKDRDP become viable and sustainable in the longer term and also to channel the income into other community development activities.

More customers without a drain on branch resources and costs: The BC channel can open up a significantly untapped market. Formal financial service providers, especially banks have avoided the rural markets because of non-viability of setting up brick and mortar branches, and also due to lack of proper understanding of the markets. The BC channel can help the banks penetrate rural markets through its network of agents and staff. This partnership with a grassroots organisation provides the bank with crucial field insights helping the bank to develop products and processes, such as the cash van, that suit the requirement of customers. SKDRDP offers banks pre-existing customers, experience in various aspects such as monitoring, supervision, internal audit, and maintenance of records and has established systems and procedures to help banks venture into rural markets with confidence and greater resolve.

Range of Bank Products offered: Even though the range of banking products offered by BCNMs is quite small, some have innovated and added several non-banking products to their portfolio, to meet consumer needs and increase agent viability. Once customers start to use two or more products on an average, the proposition starts becoming viable for BCNMs and agents.

Higher income: The SHGs provide compulsory weekly savings to the bank. Banks also earn income from the loans that they extend to the SHGs. With a good SHG promoting agency, banks can build a concrete portfolio of SHG loans through the BC model and make it a viable and profitable proposition.

Bank Partnerships: In terms of bank partnerships, many BCNMs have started to work with multiple banks. With the recent RBI circular, that removes agent exclusivity and allows them to work for multiple banks, BCNMs' relationships with multiple banks can offer synergies in their agent network. This will further provide opportunities to offer different/unique products and services from partner banks to the clients and diversify their business and risk. SKDRDP also partnered with many banks which has enhanced its bargaining strength.

Priority sector obligations: The RBI commands that most banks must lend 40% of the net bank credit to priority sectors. It also mandates that a certain number of active savings accounts exist and are serviced in every under-served rural area. Association with SHGs help the banks meet these mandates set by RBI.

Lessons from MFI-BC Modeel

- The BC has to help SHGs to open savings account with bank and enable it to obtain loans so as to ensure early financial breakeven of the whole transaction.
- The BC need to work with bank to offer value- added services to SHGs like recurring deposit, remittance, insurance, etc
- SHPI- leadership is very critical to engage multiple stakeholders to take forward the BC operation.
- The BC needs to prepare the bank in terms of understanding the grass root level challenges and transactions. The bank will have to devote committed branch team for taking care of the BC business.

- The BC need to obtain the due commission from the bank for various transactions and monitoring service rendered by it on time to make the BC operation sustainable.
- The field-focus is very vital for the successful BC operation. The feedback from clients and their satisfaction should drive continuous improvement of the product / process.
- Staff choice, training and motivation are equally important areas deserving the attention of BC. The BC staff quality and their relationship with bank staff may make or break BC system.
- Correspondent banking benefits a range of stakeholders. The poor gain convenient access to financial services in their own communities. Financial institutions reach a vast new customer segment. Agents increase their sales volumes and have an opportunity to develop deeper relationships with customers.
- SKDRDPs model of BC is demonstrating the value of correspondent banking. It is not only an effective alternative to building new branches but also an important adjunct to mobile financial services, providing cost-effective outlets for cash-in, cash-out services.
- Organizations that start now could promote social and economic benefits for poor people by dramatically expanding financial inclusion and thus helping a growing number of low-income workers gain access to financial tools that they can use to improve their lives(Alberto Chaia, & others,2010).
- The use of the BC model has the potential to change the lives of millions of people in the remotest parts of the country. For poor and vulnerable people, who could not think of going to the bank, banking has come to them. Increases in the number of bank accounts and the volume of loans and deposits in areas that use the BC model could indicate there is now far greater awareness of banking services.
- The BC model is being used effectively by SKDRDP for overall community development and social empowerment.

- Improved and appropriate support from banks could help them achieve sustainability. The top four areas where banks could enhance their support to BCNMs are (i) increased remuneration / commissions, (ii) support for marketing efforts, (iii) faster payment of commission and (iv) expansion of the range of products offered.

Conclusion:

The study found that MFI- BC model of SKDRDP has successfully demonstrated their viability. Comparatively better systems and procedures, better supervisory mechanisms and closeness to the rural population have given confidence to the banks to roll out more products, particularly loans, through them. It clearly shows that there is space for the MFIs in the BC environment.

The success of SKDRP as a BC comes from providing both savings and credit services to their clients. SKDRDP has a huge customer base which they are able to leverage through BC operations. The operational cost is reduced considerably as they are using existing branch infrastructure. The only extra cost they incur is on the hardware and software.

SKDRP has a large backup service program for customer education and creating customer awareness and for other social interventions. Further existence of community level workers and empowerment programmes has helped SKDRDP to successfully implement financial inclusion through BC model. The SKDRP model may not be fully replicable across the country because of several unique characteristics of the organization like their parentage.

The elusive “sustainable business model” which has been the focus of efforts experiments in the branchless banking sector continues to remain unsolved. This provides NBFC-MFIs a space to step into. The BC business model offers an opportunity to NBFC-MFI industry for expansion.

The biggest strength of NBFC-MFIs is their branch network, trained field staff and organizational trust with rural communities. Further they are well versed with financial products and dealing with the unbanked and under banked segments of the population. This confers them advantageous position to serve the population at their doorsteps.

Economy of scale in operation for the Bank concerned as the identified NBFC-MFI would be making available its branch network. MFIs already have customers in thousands and many of them would be ready candidates for inclusion effort on the savings side. The MFI would be able to carry out both sides of financial intermediation which will bring down its costs. The large ready network of MFIs could cut down the time taken for expanding banking services to the underserved. Bankers should, therefore, change their mindsets, view financial inclusion as a viable business proposition and adopt innovative methods and low-cost delivery models to reach out to the poor.

SKDRDP is quite optimistic and believe that the sector is promising and has immense potential. Business Correspondent Network Managing MFIs and banks should continue to look at leveraging the business correspondent model in the best possible ways to deliver impact and value to consumers and there by expediting the process of financial inclusion leading to inclusive growth.

CHAPTER V

SUMMARY OF OBSERVATIONS

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- Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.

- Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups.

- Access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognized as a pre-condition for accelerating growth and reducing income disparities and poverty. In view of this, Financial Inclusion has been identified as a key dimension of the overall strategy of "Towards Faster and More Inclusive Growth" envisaged in the eleventh Five Year Plan (2007-12).

- The Eleventh Five Year Plan aims at inclusive growth and faster reduction of poverty. Micro Finance can contribute immensely to the financial inclusion of the poor without which it will be difficult for them to come out of the vicious cycle of poverty. In order to enable the poor people to access credit, there is a need to strengthen all the available channels of providing credit to the poor such as Self Help Group- Bank Linkage programmes, Micro Finance Institutions
- The Reserve Bank of India, in January 2006 issued an order to ensure greater financial inclusion and increase the outreach of the banking sector, through Business Facilitator Model and Business Correspondent Model. This enabled the commercial banks, including the RRB to use the services of NGOs, SHGs, MFIs and Civil Society Organization as intermediaries to provide financial and banking services through Business Facilitator and Correspondent Model.

- Business Correspondent (BC) Model ensures a closer relationship between poor people and the organized financial system. Recognizing this, in 2006, RBI permitted banks to use the services of non-governmental organizations, micro-finance institutions, Section 25 companies, and other civil society organizations as Business Correspondents in providing financial and banking services. At present few leading NGOs/MFIs have adopted BC model to extend banking facilities to the deprived sections of the society and bring them into the mainstream of development.

- The study in general aims at evaluating the different Self Help Group models with special reference to BC Model adopted by SKDRDP, a leading NGO in Microfinance in Karnataka. Innovative model has been evolved by SKDRDP to link BC and SHG models for empowering the vulnerable and facilitate financial inclusion. Hence it is essential to study the problems and prospects of various models, so that a suitable replicable model can be suggested for ensuring twin objectives of economic empowerment and financial inclusion.
- Lack of access to basic financial services is still a major challenge in a country such as India where more than 65% of the population is classified as “Under Banked or Unbanked”. Recognizing this problem, the “Reserve Bank of India (RBI)” introduced a regulation in 2006 allowing banks to provide service at people’s doorstep through the use of third party services. This model is referred to as “Business Correspondents/Banking correspondents” in short BC’s.
- Promotion of the Business Correspondent model is part of a broad financial inclusion initiative that the Indian government launched in response to increasing inequality in India.
- BCs can bridge the gap between the service providers (the banks) and the service seekers (clients) who are under-served and unbanked; and this model evolved to counter the scarcity of required manpower to reach all people in the current banking system.

Field Study Findings: Standalone BC

The study of standalone Business correspondents shows some facts about BC model in villages.

- Survey data reveals that 78% of the sample respondents are above 30 years. This suggests the need to attract youngsters to the field of BC to make it more attractive and result oriented.
- About 92% of BC has taken up BC business as subsidiary occupation and 08% of BC has taken up BC as main occupation. So, it is important to do something for them to get more interest in BC occupation.
- Financial inclusion is not merely opening of no frills accounts. It also encompasses giving access to financial products like savings products, loan products, remittance facilities, micro insurance, micro pension, financial planning and education. Further the ultimate goal is to make available these services across service providers on a nationwide basis.
- BC is the grass root channel of financial inclusion plan. He is directly concerned with grass root level problems. He is one who actually knows what people want. He is directly related with villagers and is also one amongst them. Inorder to improve FI plan, BC suggest Increase cash limit, quick issue of smart card, solve the device problem, transfer the old branch accounts to BC, awareness program and due publicity to the BC program.
- **Realizing the full potential of the BC model:** Banks and BCs need to give more attention to the financial viability of the channel. Currently, a lot of focus is on the number of accounts opened and achieving the financial inclusion targets. Given the right thrust, the BC model has the prospective to speed up the process of financial inclusion in the country and bring the vast majority of population within the banking fold.
- **Financial Education**: Banks need to scale up their efforts substantially towards educating the clientele in their respective vernacular languages regarding the benefits of banking habit.
- **Demand-Side Research:** More demand-side research is needed to assess what clients really want, how much they are willing to pay and why they chose not to use many of the services offered at present. BCs and banks

should try to build client confidence initially offering services such as remittances and then graduate to savings products.

- **People are not aware about BC services:** It may be observed that majority of the people know about BC service in their village through BC himself. In indicates the need to create awareness about financial inclusion and BC models.
- Compensation Structure for BCs: The BC model can succeed only if the banks own up the BCs as their agents. Banks may need to have a relook at the compensation structure for BCs. Banks may bear the initial set up cost of the BCs and extend a handholding support to the BCs, at least during the initial stages. Banks may also need to bear the costs relating to transit insurance of the cash handled by BCs.
- The banks have seen the entire financial inclusion initiative as 'mandate driven'. Consequently, they had no incentive to invest in this business. With the bank not having adequate commitment, then translates into the failure of the agents. It is also true that managing retail channels is really hard business in a country with such a diverse geography, which makes it difficult for most of the banks that have no experience of operating beyond their own branches.

Field Study Findings: MFI-BC Model

- Under the Business Correspondents Model NGOs/MFIs, Cooperative Societies, section 25 companies, registered NBFCs, not accepting Public Deposit and Post Offices may act as Business /correspondent.
- At present some of the leading Self Help Group Promoting Agencies also channelize financial services to their clients through BC Model. The purpose of SHG initiatives is to encourage thrift and credit activities for the empowerment of the downtrodden.
- Innovative model has been evolved by SKDRDP to link BC and SHG models for empowering the vulnerable and facilitate financial inclusion.

The study is confined to SKDRDP experiment in Dakshina Kannada and Dharwad districts of Karnataka State where BC model is adopted to channelize banking facilities to the SHG members.

- SKDRDP started as a small experiment covering 18,000 families in the then backward Belthangady taluk of Dakshina Kannada district in Karnataka state. The initial intent was to provide support to the small and marginal farmers. As the year went by the organization started promoting Self Help Groups (SHGs) to make people more self-reliant.
- SKDRDP adopted the BC *Suvidha* model under which the organisation acts as a business correspondent network manager (BCNM) for banks in order to provide access to formal financial services to the poor and unbanked. Presently, SKDRDP working as Business Facilitator and Business Correspondent in 16 districts of Karnataka for implementing the financial inclusion plan of the Government of India. As a BCNM, SKDRDP offers savings and credit services to SHGs on behalf of partner banks through a network of field subagents. The organization also undertakes marketing and promotional activities to create awareness about the initiative amongst the general public. The cash officer, or BC agent, conducts field-level transactions for SHGs using a hand-held POS machine supplied by the TSP.
- The grass-root experience of SKDRDP, the financial strength of the bank and the technology driven transaction support of TSP are the three cornerstones of the BC operation.
- SKDRDP's BC-*Suvidha* model has an effective monitoring system that incorporates perfectly with regular SHG monitoring systems.
- Performance based commissions motivate the employees and enable them to work towards SKDRDP's objectives. SKDRDP can recruit more SPs as payment is limited only to the service provided by the SP. This ensures close monitoring of SHGs. SPs are local SHG members who live in the same village and know about the prevalent social and economic conditions.

SPs can completely focus on group promotion, training, and monitoring of groups.

- In most of the BC transactions the issue is that of connectivity and handling of POS machine. SKDRDP has overcome this issue by placing professionals to handle the transactions at the village level.
- Initially the SKDRDP Branch Manager is responsible for microfinance (MF) activities, administration and other developmental programmes. Now the Branch Manager is responsible for administration and other developmental programmes. Microfinance Manager is responsible for microfinance activities. New post of MF Manager has overcome the issues of consolidation and enhanced microfinance activities through BC model

- Establishment of formal grievance redresses mechanism is yet another strength of SKDRDP to ensure prompt service to the customers

- It is very important for SKDRDP to offer a full suite of financially inclusive solutions, especially savings, and not just credit. SHG members used to visit the bank branch office to open an account, deposit savings, prepare loan documentation, and receive loan funds and to make loan repayments. It was a burden for members and especially SHG leaders to visit the bank branch on a weekly basis to deposit savings and loan repayments. After the BC-model began in 2011, the situation has completely changed, as members can open their bank accounts and conduct bank transactions within the village.

- Rapid scale up: The model provides an opportunity to scale up rapidly and create a meaningful impact in rural communities. SKDRDP specializes in the promotion of SHGs and maintaining grassroots connections. The bank specializes in financing, and the technology service provider (TSP) specializes in providing appropriate technology for conducting branchless banking operations. As each of the stakeholders focus on their respective areas of specialization, the implementation of the programme becomes streamlined, and has the opportunity to gather critical mass within a short duration of time, at a lower cost.

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- SKDRDPs model of BC is demonstrating the value of correspondent banking. It is not only an effective alternative to building new branches but also an important adjunct to mobile financial services, providing cost-effective outlets for cash-in, cash-out services.
- The use of the BC model has the potential to change the lives of millions of people in the remotest parts of the country. For poor and vulnerable people, who could not think of going to the bank, banking has come to them. Increases in the number of bank accounts and the volume of loans and deposits in areas that use the BC model could indicate there is now far greater awareness of banking services.

Conclusion:

Since the BC model is agent driven, the success of it is individual driven wherein the efficiency and motivation of the agent in connecting with the customer plays a very important role. The banks have seen the entire financial inclusion initiative as ‘mandate driven’. It is also true that managing retail channels is really hard business in a country with such a diverse geography, which makes it difficult for most of the banks that have no experience of operating beyond their own branches.

The study found that MFI- BC model of SKDRDP has successfully demonstrated their viability. Comparatively better systems and procedures, better supervisory mechanisms and closeness to the rural population have given confidence to the banks to roll out more products, particularly loans, through them. It clearly shows that there is space for the MFIs in the BC environment.

The success of SKDRP as a BC comes from providing both savings and credit services to their clients. The biggest strength of NBFC-MFIs is their branch network, trained field staff and organizational trust with rural communities. Further they are well versed with financial products and dealing with the unbanked and under banked segments of the population. This confers them advantageous position to serve the population at their doorsteps.

The large ready network of MFIs could cut down the time taken for expanding banking services to the underserved. Bankers should, therefore, change their mindsets, view financial inclusion as a viable business proposition and adopt innovative methods and low-cost delivery models to reach out to the poor.

For financial inclusion to succeed, it must be a business proposition for everyone involved. The success of financial inclusion depends largely on developing products/solutions that directly address those specific needs. The financially excluded consumers have certain unique characteristics such as low financial literacy, low and cyclical income, minimal collateral, lack of credit history, illiteracy etc. These need to be taken care of while designing products and services for them.

BCs at the village level need to be strengthened to take up feasible and financially viable business of financial inclusion. Further MFI-BC model as experimented by SKDRDP is a replicable viable business model to emulate. Financial inclusion is more than a policy imperative; it represents huge opportunity for banks. Making the financially excluded persons financially capable and providing those with customized feasible products would be the road ahead for financial inclusion.

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