



## Strategies to reach Financial inclusion in India through Branchless Banking: A study with reference to Business Correspondent (BC) models in Vellore district of Tamil Nadu, India

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**Abstract:** This study investigates the reach of Business Correspondent (BC) models, which is considered as one of the banking strategies to render financial products and services for unbanked population at doorstep. This study includes the difficulties confronted by BCs to reach. The study was conducted in Vellore district, Tamil Nadu, with villages more than 2000 unbanked population where eight nationalized bank branches were involved in appointing BC models and twenty eight villages were identified as unbanked; each village has one BC model. The achievements of BC models to transform unbanked to banked were found to be consistent in the study area. Settlement of transacted accounts on the same day to bank, Outreach and technological glitches were found to be major difficulties faced by the models in providing banking products and services to the unbanked.

**Keywords:** Business Correspondents (BC) models, financial inclusion, reach, difficulties, Vellore district

### I. Introduction

In recent days, the Government of India prioritizes financial inclusion as the most important policy to transform huge unbanked population into financial access in the nation. Financial inclusion is the delivery of financial services to all the people at affordable cost which should reach the low income and disadvantaged group in particular. But the actual phenomenon exists with half of the population in the nation is financial exclusion, which enhances poverty, unemployment and social exclusion. The need of strategy has become mandate at this point which can promote a more effective and efficient process to achieve significant improvements in financial inclusion, and is ideally prepared with the private sector in order to establish and achieve shared, achievable goals for financial inclusion. This study took a branchless banking model called Business Correspondent (BC) model as a strategy to reach financial inclusion in the study area.

### II. Business Correspondent (BC) Model for branchless banking

The financial institutions are committed to heed all financial transactions of the people in safe manner, where the banks are considered the most reliable financial institution rendering banking and financial products and services in effective manner. To serve the Indian people, there are more than 82,000 banks and branches established. Whereas the rural population, due to lack of accessibility, could not save their money in formal financial institutions like banks and post offices [1]. To make proper access to formal financial institutions like banks, post offices, insurance companies and securities exchanges, its branch must be opened in rural region which is not an easy task and needs to complete lot of structured formalities and many regions in the country are villages which consist of only around 1,000 to 2,000 peoples per village, and they do not have a formal financial institution to make financial transactions [2]. To transpire these vulnerable groups from this problem, the RBI designated Business Correspondent (BC) models from January, 2006 to connect banks and unbanked population. The institutions were given priority to act as models on inception. But it was found to be a tough job for those institutions to reach each individual at doorstep. Accordingly, individuals such as retired teachers, bank and Government employees, ex-service man, individual shop owners, petrol pump owners and other individuals qualified up to secondary level (10th Standard) can act as BC model, which makes the people to avail active and wide range of financial and banking products and services at doorstep with the way to economic opportunities [3]. Business Correspondents provides doorstep financial services to the customers resided in financially inaccessible regions. They provide branchless banking service to the customers for which they are paid the commission. All paragraphs must be indented. All paragraphs must be justified, i.e. both left-justified and right-justified.

### III. Review of Literature

In the light of above debate, financial inclusion will be more effective in the nation if the banks are tied up with BC models [4]. To make people connected to the models, it is better to handle technological tactics that facilitate financial inclusion efficiently by using smart card, biometrics and hand-held devices for disbursement of salaries and wages so that the population with reliable source of income would be saved regularly and thereby increasing

financial inclusion [5]. Through Government social schemes, the wage earners can use this facility. Banks are setting financial goals to make the unbanked into the boundary of financial inclusion. An Indian study focused on the financial exclusion and its causes, consequences and corrective measures with BC models efforts. There are certain factors such as that determine the BC models efforts and challenges to include the people into banking system [6]. The key cause for financial exclusion is financial illiteracy among the people. The knowledge about banking system must be provided to people by the banks, but due to over population, it is not possible to reach the people directly and hence BC models serves people on banks' behalf, providing service with financial knowledge. Rural people, especially unemployed are hesitated by bank to apply credit because of lack of source for repayment. So they are seeking unauthorized financial institutions for credit and suffering to repay with high rate of interest [7]. An Indian study was conducted by [8] to know whether BC models were helping the banks to open bank accounts at the doorstep. The study highlights that students and unemployed people were used as BC models. But the rule of the Reserve Bank was to appoint BC models with minimum qualification upto secondary level. It was the task of the concerned authorities to strengthen the financial system which will delegate the work to the right person and the service will reach the appropriate people. The Reserve Bank paid attention to promote the significance of financial inclusion through BC models in central province of India. BC models were made to involve in that drive and they experienced the plan as success with viability. The models were found to be dedicated with commitment to reach financial inclusion to the greater extent [9]. Business Correspondent models were mostly found as individuals adopted by the banks to make financial transactions because of the only expense called commission, rather installing a branch in rural region and spending money on operating and administrative costs [10]. These models do not only open bank account to the people, they also provide services such as loan, insurance and remittances, which makes the safety and entrepreneurial prosperity among the people, leads to increase in living standard and economic growth. In the view of the banks and people, [11] stated that BC models were found to be the robust mediate to connect them financially. On the other way models face issues and challenges while handling financial inclusion drive. They found technical issues on hand – held devices and lack of internet facility as well. The support from the bank employees were found to be less which mortify the models to work on financial inclusion to needy people. [12] Imparted that these models should be considered as vital element of business strategy to attain greater financial inclusion. The GOI and the RBI should reinforce the policies implemented towards banks in relation with BC models so that they can play a better role in the financial arena to financially include the weaker section.

#### **IV. Core objective of the study**

This study was carried out to comprehend the strategic reach along with difficulties confronted by BC models in Vellore district of Tamil Nadu, India.

#### **V. Methodology**

Descriptive research design is found to be suitable for this study because it portrays the facts subsist among the BC models in the study area. Non – probability sampling design and Convenience sampling techniques are used in this study because the respondents were identified deliberately from the study area. To collect the data, the banks of Vellore district were initially identified and the officials of the banks were requested to provide the information about BC models being appointed. The contacts of the models collected from the bank officials were exercised to check their availability and the data were collected through semi – structured questionnaire. Total of 28 BC models were chosen as sample from Vellore district. This study uses percentage analysis and One – Way ANOVA to test the significant difference between and within the variables.

#### **VI. Results and discussions**

##### **A. BC models reach in the study area**

As per the statute of RBI to appoint BC models, the demographic profile was designed by the researcher, which is annexed as I. This study was conducted among 28 BC models, which take care of twenty eight different unbanked villages of Vellore district, appointed by eight banks such as Canara Bank (CB), Central Bank of India (CBI), Corporation Bank (CORP), Indian Bank (IB), Indian Overseas Bank (IOB), Syndicate Bank (SB), State Bank of India (SBI) and Union Bank of India (UBI). The respondents (BC models) of this study were asked about their attainment on transforming the unbanked region into bank realm through opening of bank accounts in the study area. Percentage method was used to describe the information collected from the models. From the total of five village blocks, the number of bank accounts opened by models were found to be consistent on the whole (Please refer Annexure IV). When each village block was taken into account, Anaicut village was found holding maximum number of unbanked population, showed an increasing trend on number of bank accounts opened by the models. On identifying the utmost and least number of accounts opened in each village, a village named as Onganpadi located in Anaicut village block and Thandalamkrishnapuram located in Katpadi block unveiled the highest percent of bank accounts opened (73.13 %) and Serkadu village in Katpadi village block divulges the least of 9 %. Remaining villages showed a consistent raise in percentage.

### **B. Difficulties confronted by BC models to reach financial inclusion**

The information extracted from this study divulges that more unbanked people got benefitted through these models, which shows an upward trend in case of branchless banking. However, to reach the financial inclusion to these people, BCs confronted difficult situations, which were tabulated in Annexure II. From the results, settlement of transactions to bank on the same day was found as a difficulty for 1/4th of the models (7 out of 28). BCs of 21.4 % (6 out of 28) said that they find difficult to reach banks which are too far from their village and the hand – held machines such as bio-metric scanners and smart card readers were found faulty and those products should be repaired. Remaining disclosed that the information provided by the bank regarding financial transactions and its procedures were not understandable by the models, which created a biased situation to reach the customer with incomplete information. These difficulties were correlated with demographic profile of the respondents using One – Way ANOVA to find out the significant difference within and between these groups. The result (Please refer Annexure III) showed that there was a significant difference within and between all the variables of two groups, hence significantly confirmed that the models confronts the said difficulties to reach financial inclusion in the study area.

## **VII. Recommendations**

Taken into account the results and discussions, BC models are contemplated as the integral part of financial system. The models should be trained to overhaul the devices used for financial transaction so that they need not want to depend upon technological troubleshooters all the time. The hesitant to financial inclusion must be counseled by financial literates, about benefits of savings through models so that they can be included into financial access criteria. As rural regions are inhabited mostly by illiterates, the models should make use of regional language and construct the idea of financial inclusion in the minds of the people. The very key purpose of appointing BC models by the banks is to look after the regions that are remote and inaccessible, where the models should approach door by door in the village. So it is not possible for them to submit their transactions to the bank on the same day. The banks should provide a reasonable time for models to settle the financial transactions.

## **VIII. Conclusion**

The crisis of the global economy in spite of its roots in financial system of developing countries is likely shifting its focus on financial inclusion policies. This study unveils that the BC models are fortifying the unbanked rural people into the policy of financial inclusion consistently. The Indian Prime Minister Mr. Narendra Modi made an all-out campaign on August 15, 2014 towards promoting financial inclusion policy throughout the nation and planned for covering over 20 Crore households into financial inclusion by the year 2017. Through this, the models will get a great opportunity to serve the unbanked people at wider range. In the mean time, it is the huge responsibility of the Reserve bank and Indian Government to pull out the difficulties faced by the models, which will make them to serve maximum people that lead to increase living standards of the people and economic growth as well. The Scope of this study is limited to village blocks of Vellore district of Tamil Nadu, India. Further scope is possible by extension of study to neighboring districts, states and countries as well.

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## **Annexure**

**I. Demographic profile of the respondents**

Demographic Profile		F	%
Age	22-35	1	3.6
	36-45	9	32.1
	46-55	3	10.7
	56-60	7	25.0
	Retired	8	28.6
Gender	Male	24	85.7
	Female	4	14.3
Educational Qualification	School	13	46.4
	Under Graduation/ Diploma	13	46.4
	Post Graduation	2	7.2
Occupation	Local Shopkeeper	11	39.3
	Retired	6	21.4
	Insurance Company agent	4	14.3
	Farmer's Club member	7	25.0
Income	Less than Rs. 5,000	8	28.6
	Rs.5,001 to Rs.10,000	16	57.1
	Rs.10,001 to Rs.15,000	4	14.3
<b>Total of each demographic profile</b>		<b>28</b>	<b>100.0</b>

Source: Primary Data; F = Frequency and % = Percentage

**II. Difficulties confronted by BC models**

S. No.	Difficulties confronted	R	%
1	Outreach	6	21.4
2	Transactional Concerns	2	7.1
3	Incomplete Customers Information	4	14.3
4	Settlement on the same day to bank	7	25.0
5	Technological glitches	6	21.4
6	Less Income	3	10.8
<b>Total</b>		<b>28</b>	<b>100.0</b>

Source: Primary Data; R = Respondents

**III. One –Way ANOVA**

Demographic profile * Difficulties		Sum of Squares	df	Mean Square	F	Sig.
Age	Between Groups	43.333	5	8.667	54.108	0.000
	Within Groups	3.524	22	0.160		
	Total	46.857	27			
Gender	Between Groups	2.595	5	0.519	13.703	0.000
	Within Groups	0.833	22	0.038		
	Total	3.429	27			
Educational Qualification	Between Groups	9.155	5	1.831	26.434	0.000
	Within Groups	1.524	22	0.069		
	Total	10.679	27			
Occupation	Between Groups	37.738	5	7.548	47.281	0.000
	Within Groups	3.512	22	0.160		
	Total	41.250	27			
Income	Between Groups	10.595	5	2.119	55.943	0.000
	Within Groups	0.833	22	0.038		
	Total	11.429	27			

Source: Compilation of Primary Data

**IV. Number of bank accounts opened through BCs in Vellore district**

S. No.	Village blocks (More than 2000 unbanked population)	Villages	Bank	Population (Villages)	Number of Account opened
1	Anaicut	Peenjamandai	IB	6140	3031 (49.36)
		Elavambadi	CB	3894	1177 (30.23)
		Kilkothur	IOB	3767	1128 (29.94)
		Madayapattu	IB	3527	1766 (50.07)
		Melarasampattu	IB	3468	1737 (50.09)
		Vannanthangal	IB	2964	1075 (36.27)
		Nemandapuram	IB	2773	1369 (49.37)
		Tippasamudram	SBI	2488	818 (32.88)
		Marudavallipalayam	CB	2145	1200 (55.94)
		Palampattu	IB	2047	586 (28.63)
2	Kaniyambadi	Ongapadi	IOB	2032	1486 (73.13)
		Kathalampattu	SBI	3648	870 (23.85)
		Kammasamudram	CB	2719	1250 (45.97)
		Kil Arasampattu	SBI	2605	459 (17.62)
		Nanjukondapuram	SBI	2404	1474 (61.31)
3	Katpadi	Vanjur	IOB	3175	2287 (72.03)
		Serkadu	CB	2999	270 (9.00)

		Gugaiyanallur	CB	2752	655 (23.80)
		Karnampattu	CB	2745	362 (13.19)
		Thandalamkrishnapuram	UBI	2631	1924 (73.13)
4	K. V. Kuppam	Veppur	UBI	3571	1603 (44.89)
		Kilmuttukur	UBI	3431	2174 (63.36)
		Panamadangi	CBI	3430	1641 (47.84)
		Velampattu	UBI	2104	745 (35.41)
5	Vellore	Thellur	CORP	6303	2146 (34.05)
		Anpundi	SBI	3089	1938 (62.74)
		Pulimedu	CORP	2920	1124 (38.49)
		Kuppam	IOB	2157	1497 (69.40)

*Source: Primary Data*

*Note: Figures in the parentheses represent percentage of accounts opened from the population of villages.*