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ROLE OF BC MODEL IN FINANCIAL INCLUSION

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INTRODUCTION

Though the adequate academic literature has discussed the close relation between financial development and economic growth. But, much academic discussion has been missing on whether the financial development implies financial inclusion or not. It cannot be generalized that a well-developed financial system includes every individual. Certain segments of the population remain outside the formal financial systems. That is the reason why the importance of an inclusive financial system is widely recognized in the policy circle and financial inclusion is seen as a policy priority in many countries.

In January2006, the Reserve Bank of India issued a new set of guideline allowing banks to employ two categories of intermediaries – Business Correspondents (BCs) and Business Facilitators (BFs) to expand their outreach. According to the guidelines, while the 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 cannot transact on behalf of the bank.

An inclusive financial system is desirable for many reasons like efficient allocation of productive resources, access to appropriate financial services to improve day to day management of finance, all – inclusive financial system can reduce the growth of informal sources of credit (such as moneylenders) which often tend to be exploitative and all – inclusive financial system enhances efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services.

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit are needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. On the other hand, financial exclusion is manifestation of a much broader issue of social exclusion of certain social groups such as the poor and the disadvantaged. For the purpose of this study, we define financial inclusion as a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy. This definition emphasizes several dimensions of financial inclusion viz.

- ✓ Accessibility,
- ✓ Availability, and
- ✓ Usage of the financial system.

These dimensions together build an inclusive financial system. As banks are the gateway to the most basic forms of financial services, banking inclusion/exclusion is often used as analogous to financial inclusion/exclusion.

The objective of financial inclusion is mainly to provide finance on easy terms to the vulnerable and weaker sections of the society to facilitate investment and economic growth in the country. Financial inclusion (FI) enables improved and better social development, in an equitable manner across the country. It enables empowerment of the under-privileged and poor, including women, with the mission of making them self-sufficient and well informed to take better financial decisions. The objective of financial inclusion is to ensure universal access to a wide range of financial services like savings and payment account, credit insurance and pensions. Further, financial inclusion also aims to provide services for business opportunities, education, saving for retirement and insurance against risks including emergency loans. Thus, the main target of financial inclusion is better standards of living and income for a larger number of residents in the country.

The attempt to expand access to the formal financial sector of which financial inclusion is a part is a continuous process. The Government as well as Reserve Bank of India (RBI) has been undertaking concerted measures to extend financial inclusion since Independence. The earlier measures were not yielding the desired results. However, in recent months, the Government of India reviewed the policy to ensure that financial inclusion, in a limited sense of opening of bank accounts, is successful. The Pradhan Mantri Jan Dhan Yojana (PMJDY) has yielded results and nearly 98 per cent of households in India now have bank accounts. Cumulatively, these programmes are transforming India and altering the socio-economic landscape despite their varied impact.

Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM. Banks are required to take full responsibility for the acts of omission and commission of the Business Correspondents that they engage and have, therefore, to ensure through due diligence and additional safeguards for minimizing the agency risk. Basically, Business Correspondents enable a bank to expand its outreach and offer limited range of banking services at low cost, as setting up a brick and mortar branch may not be viable in all cases. Business Correspondents, thus, are an integral part of a business strategy for achieving greater financial inclusion.

Business Correspondents are permitted to perform variety of activities which include identification of borrowers, collection and preliminary processing of wan applications including verification of primary information/data, creating awareness about savings and other products, education and advice on managing money and debt counseling, processing and submission of application to banks, promoting, monitoring, follow – up of recovery. They can also attend collection of small value deposit, disbursal of small value credit, recovery of principal/collection of interest, sale of micro insurance/mutual fund products/pension products/other third party products and receipt and delivery of small value remittances/other payment instruments. It is becoming increasingly apparent that addressing financial exclusion will require a holistic approach on the part of the bank, the bank (State Bank of India) has evolved specific strategies to expand the outreach of services in order to promote financial inclusion. At this juncture, the performance of SBI with respect to financial inclusion needs to be investigated.

Objectives of the Study

The present Study has been undertaken with the following objectives:

- To study Present Status of Financial Inclusion in Bihar,
- To discuss about aspects of Financial Inclusion and Rural Development,
- To study the role of Business Correspondent Model in penetrating Financial Inclusion in Darbhanga District with special reference to State Bank of India,
- To study the contribution of State Bank of India in the policy circle and financial inclusion, and
- To identify problem related to Business Correspondent Model and Suggest remedial measures for the same.

IMPORTANCE OF STUDY

The minimal banking services have the nature of quasi-public goods for which exclusion principal does not function efficiently. So, each citizen of a country should have access to the minimal banking services without discrimination. However, it did not occur in any country. There may be some people who voluntarily exclude themselves. But, the disadvantaged section of the population in each country usually fails to have access to the services of formal financial institutions. It is recently termed as financial exclusion. RBI has reported that the financial exclusion in India leads to the loss of GDP to the extent of one percent [**RBI, Working Paper Series (DEPR): 8/2011**].

The externality of asymmetric information between the financial institutions and the disadvantaged section of the population may be the main cause of this exclusion. Besides, the geographical distance from bank, diffident, financial illiteracy, gender-inequality, paucity of income and collateral assets, lack of proof of identity of the disadvantaged people are the plausible causes of financial exclusion. On the other hand shortage of staff, high transaction cost, economic viability of extension of branch etc. are the common problems of the financial institutions in extending financial services to the disadvantaged section. So, there is a vast scope of achieving total financial inclusion in a country if it adopts necessary steps to reduce the information gap. Against this backdrop, India has taken several steps towards financial inclusion. The prime objective of these steps is to provide banking services at an affordable cost to the weaker section of population. Since 2004 the Government and the financial regulators of India have been encouraging financial institutions to solve these problems. In this context the SHG-centric microfinance programme has also received a deep attention.

Some exclusive steps like facility of 'no frills' account, Kisan Credit Card, had also been adopted and continuing at present to achieve total financial inclusion by 2015. In India financial inclusion has been started with opening 'no frills' account and issuing a few General Purpose Credit Cards for all. However, it is not the end of the story of financial inclusion. It emphasizes on the access to basic formal financial services at an affordable cost in a sustainable manner for the vulnerable people (**NABARD, 2008**). Therefore, Financial Inclusion institutions through holding savings bank account, credit account, insurance policy etc. It may help the person to have affordable access to financial services like formal savings, credit, payments, insurance, remittance etc. It accelerates the circulation of currency and thereby increases the GDP.

In recent times financial inclusion has appeared as a major global agendum. At aggregate level, the common measure of financial inclusion are the number of bank account per adult, geographic branch penetration, geographic ATM penetration, demographic deposit penetration, demographic credit penetration, deposit income ratio, credit income ratio and cash deposit ratio. However, these studies did not develop any composite index of financial inclusion.

Sharma (2007) first computed the financial inclusion indices of 45 countries for the year 2004. She has constructed the index considering the indicators – the number of bank accounts per hundred populations, the number of bank branches per thousand populations and the ratio of savings and credit to GDP of the country. Considering the almost similar indicators **Chattopadhyay (2011)** has developed the financial inclusion index for the major states in India and for all the districts in West Bengal. **Karmakar et al. (2011)** have constructed the financial inclusion for rural areas of the major twenty states in India. They have considered number of rural outlets, number of accounts per outlet, per outlet deposit amount, per outlet credit amount and per account deposit amount as indicator of financial inclusion. In order to assess the performance of the public sector banks the Finance Minist er of India has introduced Financial Inclusion Index based on two criteria, namely, the number of additional branches covered and the number of new no-frill account opened **(Government of India, 2011)**. All the studies have followed the similar methodology used for computation of Human Development Index and considered the dimensions equally important. But each dimension may not be equally important to determine financial inclusion. So to develop a comprehensive index of financial inclusion first, researchers should derive the relative importance (weight) of the indicators then compute the weighted average of the dimension indices. Besides, the indicators used by the studies are not adequate for gauging all possible dimensions of financial inclusion.

There may be other indicators such as participation in SHG, per capita loan outstanding etc. **Varman (2005)** has found that the SHGs in Tamil Nadu have inculcated the banking habits in the rural people. Several empirical studies conducted in West Bengal have shown that SHGs create a smooth path of financial inclusion for the rural poor. The number of total deposit accounts has increased to 734.8 million and credit account to 118.6 million in 2010 for all banks and the number of no-frill accounts in all public and private banks has increased to 33 million in 2009 from seven million in 2006 **(RBI, 2010)**. Besides, KCC scheme has brought 95 million farmers under the purview of the banking system in 2010 as against 84.6 million farmers in 2009 and the SHG bank linkage programme has helped seven million rural people to have access to formal savings and formal credit **(Government of India, 2011)**.

In the group of 36 States and Union Territories, Bihar State lies in the category of low financial inclusion group as per Basic Statistical Returns of Scheduled Commercial Banks in India, 2013, RBI, Mumbai. Financial inclusion in delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Unrestricted 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. It is becoming increasingly apparent that addressing financial exclusion will require a holistic approach on the part of the bank in creating awareness about financial products, education and advice on money management, debt counseling, savings and affordable credit. Technology can be a very much valuable tool in providing access to banking products in remote areas. Hence, the study is extremely relevant in the present age.

HYPOTHESIS

Hypotheses of the study are:

I. Addressing financial inclusion requires a holistic approval on the part of the banks
II. Business Correspondent model is able to penetrate the financial inclusion.
III. Technology can be a very much valuable tool in providing access to banking products in remote areas.

RESEARCH METHODOLOGY

To realise balanced progress, financial inclusion of the community should be attained. Nearly half of our country men/women do not have even bank accounts. But, ironically GDP is shown increasing over the years. To take this paradoxical situation, the RBI, in the year 2006, notified the establishment of Business Correspondent (BC) model for growth. The present study is analytical in nature. Analysis of the BC model has been made.

Data and information for our study has been collected from both the sources viz.

- Primary data source and
- Secondary data source

Primary data collection has been made with the help of:

- Personal interviews of the people of the locality and
- Administration of Questionnaire method.

Secondary data has been collected from different:

- Books,
- Magazines and Journals,

- Newspapers and Economic Dailies,
- Committee Reports,
- RBI Bulletins,
- Reference Annuals,
- Websites etc.

The selection of the problem has been made on the need of research area and the samples are:

- State Bank of India and
- Darbhanga District of Bihar State.

The period of study is 2012 and 2013. However, as per need and availability, we have provided update data too.

The tools for the study which have been used as per the suitability like:

I. Percentages,
II. Ratios,
III. Mean,
IV. Correlation Analysis,
V. Testing of Hypothesis etc.

Collected data have been analysed and interpreted and get represented with the help of:

- Graphs (Histogram and Bar Graph) and
- Charts (Pie Charts) also.

PLAN OF WORK

Our study has been divided into the following five chapters:

Chapter-I: Introduction

The nature of chapter is introductory and has coverage of the research problem, objectives, importance and hypothesis of the study followed by research methodology and plan of work.

Chapter-II: Financial Inclusion and Rural Development

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 Literacy and financial inclusion have been important policy goals of India for quite some time. Despite policy measures and technological innovations adopted by RBI and banking sector, the extent and penetration of financial products and services to marginalized sections of the society, the figures are not encouraging. The policy makers are now formulating a comprehensive action plan for financial inclusion as it is believed that financial inclusion is the only hope for financial development.

Taking banking services to the common man is financial man is financial inclusion. Banking for the unbanked especially in rural Indian context is able to accelerate the process of development. In this chapter, aspects of financial inclusion and rural development have been discussed.

Chapter-III: Inclusive Growth through Business Correspondent Model

Business Correspondent model enables a bank to expand its outreach and offer limited range of banking services at low cost, as setting up a brick and mortar branch may not be viable in all cases. The Business Facilitator or Business Correspondent model is a vehicle for financial inclusion. This chapter has been devoted to elaborate on discussion focused to inclusive growth through the Business Correspondent Model.

Chapter–IV: Role of Business Correspondent Model in Financial Inclusion in Darbhanga District with Special Reference to State Bank of India

The present chapter has made study of role of Business Correspondent model in penetration of financial inclusion in Darbhanga District of Bihar State with special reference to State Bank of India.

Chapter–V: Findings, Conclusion and Suggestions

In the last chapter, findings of the study have been presented and conclusion has been drawn. In order to attain universal financial access to become a reality, suggestions have been made.

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