



African Journal of Commercial Studies

Publisher's Home Page: <https://ijcsacademia.com/>



Research Paper

Peer Reviewed

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Role of Business Correspondents (BCs) in Financial Services – Reaching in Unreached Rural Areas – A Case Study in Tamil Nadu

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Article Info

Volume 5, Issue 1, July 2024

Accepted : 7 July 2024

Published : 10 July 2024

doi: [10.59413/ajocs/v5.i1.3](https://doi.org/10.59413/ajocs/v5.i1.3)

Abstract

BCs are honest workers working in rural India, elevating the country from the viewpoint of financial services to world-level recognition in terms of financial inclusion by opening bank accounts and collecting deposits, as well as other financial services having networks with commercial banks. As per the Reserve Bank of India's (RBI) FY22 annual report, the total number of business correspondents in villages has increased from more than 11.9 lakh in 2020 to 18.44 lakh in 2021, reflecting the penetration and scale that banks generate partnering with BCs. Ultimately, the rural people who opened a bank account under PMJDY got the benefit. With this background, the study has attempted to study the role played by the BCs in rural areas and to find the problems faced by the BCs, especially women, while rendering services. This present research is carried out based on a case study method and is descriptive in nature. The study was undertaken purposefully in two districts of Tamil Nadu, Dharmapuri and Dindigul. In Dharmapuri, the Indian Bank Morappur Branch and in Dindigul District, the Canara Bank Gandhigram Branch have been selected for the study. It was concluded that the average salary for the BCs here ranges between Rs. 3000 and Rs. 6000. It should be increased considerably; otherwise, the BCs will try to charge additional money from the account holder for their doorstep services. Adopting the BC model in the cooperative sector leads to faster financial inclusion.

Keywords: Business Correspondents, Banks, Cooperatives, Rural, Financial Services

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1. Introduction

The Business Correspondent (BC) model was launched in India in 2006 as an agent banking model (Carolina

Laureti, 2014). It was implemented as a regulator-led initiative to address the lack of convenient savings services for low-income people, especially in rural areas. This model has the potential to promote financial inclusion among

underserved rural populations and bridge the gender gap in financial services. Although India has made significant progress in recent years through technological and policy innovations, there is still a gap in access to essential banking services for rural women (Alreena et al. 2021). BCs are honest workers working in rural India, elevating the country from the viewpoint of financial services to the world level recognition in terms of financial inclusion by opening bank accounts and collecting deposits, as well as other financial services having networks with commercial banks. Through the provision of last-mile delivery of financial services in the absence of physical banking infrastructure, business correspondents (BCs) have effectively communicated the advantages of financial products, facilitated transactions, and primarily operated as the representation of the bank by acting as a miniature branch themselves. According to the annual report for the financial year 2022 released by the Reserve Bank of India (RBI), the overall count of business correspondents in rural areas has risen from over 11.9 lakh in 2020 to 18.44 lakh in 2021, demonstrating the extent of reach and impact achieved by banks through their collaboration with BCs. The BCs are working as per RBI guidelines with commercial banks where the bank cannot provide services in remote areas. Further, to increase the banking business in rural areas under the financial inclusion scheme to cover all the households under the banking folder.

1.2 Statement of the Problem

Third-party agent banking was introduced in India in 2006 to expand the reach of the formal banking sector. This initiative was built upon the regulatory prioritization of financial inclusion, particularly the RBI's 'no frills account drive,' which started in November 2005 (Rangarajan, 2008). The majority of people in rural areas and the unorganized sector have limited access to affordable financial services like savings, loans, remittances, and insurance. This lack of access hinders growth potential in these sectors. Access to affordable financial services, especially credit and insurance, opens up livelihood opportunities and empowers low-income individuals to take control of their lives. This empowerment also contributes to social and political stability. In addition to these benefits, financial inclusion provides formal identities and access to the payment system and deposit insurance, serving as a safety net for savings. Therefore, financial inclusion is considered a crucial element for achieving inclusive growth and overall sustainable development in the country (Prasun Kumar Das, 2009). The role of business correspondents is to increase the presence of banks and provide financial services to rural populations, particularly those with no-frills accounts under the Mahatma Gandhi National Rural Employment Guarantee (MGNREG) Scheme. The number of business correspondents in villages has increased from over 11.9 lakh in 2020 to 18.44 lakh in 2021, indicating the expanding reach and scale of banks through partnerships with BCs. Against this backdrop, this study aims to address the challenges faced by BCs in rural areas and explore the potential for further expanding financial services in these regions. Therefore, the study is titled 'The Role of Business Correspondents in Financial Services - Reaching the Unreached in Rural India: A Case Study in Tamil Nadu.'

1.3 Objectives of the Study

1. To find out the major role played by the BC in rural areas about financial services to the account holders under Prime Minister Jan-Dhan Yojana (PMJDY) Scheme
2. To study the problems and Challenges faced by the BCs in the Study area
3. To suggest suitable measures to improve the services to the account holders under the PMJDY scheme

2. Review of literature

Shigufta Hena Uzma and Suvendu Kr. Pratihari (2019) revealed that the suggested BC model for business sustainability illustrates that expanding the range of financial products, extending coverage, and enhancing service quality can expedite reaching the break-even point for the BC operation. This model could serve as a valuable instrument for main banks in a particular area to advance their BC operation in pursuit of the financial inclusion objective.

Prasun Kumar Das (2009) the study concluded that the BC model had implemented the development of a technological platform. Also, the appointment/engagement of the proper entities as agents by the banks in India has a significant role to play in financial inclusion in the country. The legal status of the BFs/BCs is also unclear, and further clarification is required from the Reserve Bank of India.

Kanika Goel, Wasana Bandara and Guy Gable (2022) The findings demonstrate the importance of considering technical and socio-technical factors for the success of the Information Technology-enabled BC Model.

BIRD (2017) suggests that business correspondents face multiple challenges from every single tier of the model. Some inherent problems with the design of BC models include the model's sustainability, cash management and liquidity concerns, minimum balance maintenance, little transaction volume, etc. In addition to this, an array of additional pragmatic issues confronts BCs, impeding their seamless operation. Three categories—management, administrative, and operational problems—are used to organize the concerns.

Uzma, S. H., & Pratihari, S. Kr. (2019). The banks can identify new business opportunities through the BC channel of financial inclusion for better market penetration and new market expansion for different banking products.

3. Methodology

This present research is carried out based on a case study method and is descriptive in nature; this type of research provides an accurate picture of the characteristics and behaviors of BCs in connection with their role played under study areas. Primary and secondary data sources have been collected from the selected BCs in the study areas and analyzed with suitable statistical tools.

3.1 Sampling

The study was undertaken purposively in two districts of Tamil Nadu, Dharmapuri and Dindigul. In Dharmapuri, the Indian Bank Morappur Branch and in the Dindigul District,

the Canara Bank Gandhigram Branch have been selected for the study. As per the BC registry, there are 138 BCs working under Canara Bank in Dindigul District and 78 BCs working under Indian Bank in Dharmapuri District, of which two from each district were interviewed to get complete details about their role and contribution in providing services and get opinion about their difficulties while performing their jobs, in addition to that, the account holders were interviewed to get their opinion on availing services through BCs.

3.2 Limitations of the Study

The present research is conducted only in two districts of Tamil Nadu, and only a limited number of respondents were interviewed. The findings of the present study cannot be generalized.

4. Results

4.1 Service Provider to BCs through Nationalized banks

FINO Fintech Foundation (FFF) is India's most prominent Business correspondent. The FFF serves over 50 million Indians in 550 districts across 26 states and 4 Union Territories. It efficiently handles INR 100 billion in cash and 130 million transactions annually. Currently, it is the preferred partner for ICICI Bank, Andhra Bank, Canara Bank, Union Bank of India, and IDFC First Bank.

Tata Consultancy Services, a leading IT services, business solutions, and outsourcing firm, has announced that it has won a deal to implement the Smart Card-based Financial Inclusion Solution (FIS) for Indian Bank. This solution aims to extend banking services to unbanked and under-banked areas, reaching over 3.5 million customers in the next three years. Indian Bank has been an early adopter of financial inclusion and is committed to promoting inclusive growth and sustainable development. In collaboration with TCS, the goal is to provide banking services in 5,500 rural villages.

4.2 Analysis

The researcher contacts the BCs personally and gets their details regarding the delivery of financial services in rural areas.

Case 1

Ms. Jaya, BC for Indian Bank Morappur Branch, Dharmapuri Dt. She has been working at BC since 2015. The BC is working 24X7, i.e., during day time, covering ten villages roaming around 20 km per day in two Grama Panchayats, Keragodahalli, and Chetrapatti. The people approach her home in the morning and evening for financial services. More than 2000 new SB and RD accounts have been opened in her service. She is doing all kinds of doorstep services in the unbanked areas, like opening new accounts, SB, RD, and FD, payment services for NREGS workers, OAP, milk payment, and helping with insurance premiums and settlements. The limit allowed for withdrawal is a minimum of Rs.100 and a Maximum of Rs.10000. The limit for accepting deposits is Rs.100 to 20000 per customer. Now, she owns a POS machine worth Rs.40,000. The payment for BC services is Rs3.80 per transaction, which is minimal. She can earn very little on

average of 70-80 daily transactions.

Case 2

Ms. Selvarani is working as BC under Canara Bank, Gandhigram Branch in Dindigul District since 2010. She covers Alamarthupatti, Kalikkampatti, Kottaipatti, and Pilliyarnatham villages in the Author block. She is making services like opening no-frill accounts, small amounts of remittances in their accounts, and a large amount of customer withdrawals (delivering cash). She is creating awareness of savings among the villagers, identifying potential customers, collecting premiums under pension schemes, and helping older adults and illiterates. Apart from these, she delivers financial goods through on-call service. If the salary to the BC is up to 250 transactions per day, she will be able to get Rs. 1115, which is a low level, and if more than 250 transactions, an additional 1 percent will be. Further, she said that approximately 1000 accounts have been opened so far.

Case 3

Ms. Santha (61) is a Widowed disabled senior Citizen and MGNREGS worker, a customer of Indian Bank Branch Morappur. She is 8 Km away from the bank branch, living in a remote village, and is not able to visit the bank directly because there is no bus facility. She now depends only on the BC for all kinds of financial services at her doorstep to get MGNREGS payment and Old Age pension. She is withdrawing cash for her medical expenses and meeting daily life expenses.

Case 4

Ms. Kamachi (56) is an agricultural woman residing in Kalikkampatti Gram Panchayat doing farming activities and having milch animals; she is used to withdrawing money from BC and depositing small savings with BC in their village. She opined that the BC's untired work has saved time and money.

4.3 Role of Cooperatives in Rural Financial Services

It is not at all possible to ignore the role of cooperatives in rural financial services. The cooperative base is essential for the development of economy. So, recently the Ministry of Cooperation, Government of India, has nod the permission for introducing the BC through Cooperative banks is welcoming aspects. Cooperative banks are being closely interconnected with the local members, Cooperative Banks can provide much flexibility to their local customers in delivering financial services through BC. Moreover, Cooperative Banks are more responsive to the changes and needs of the local community. In addition, the BC through Co-operative Banks generate local employment and income generation which enables fastest financial inclusion can be attained and ultimately unserved people will get benefits.

5. Discussion

It was found from the case study that the BCs are working in their allotted villages to provide doorstep services

to the account holders with great difficulties. They must go around several kilometers to reach the customer while carrying cash. The salary which they earning now is very low. It is fixed for per transaction base. Rs. 3.80 is a meager amount. Another case pointed out that they have to complete a minimum of 250 transactions per month to get Rs. 1115, which makes it very difficult to roam here and there to do the transactions. On an average Rs 3000-6000 per month they get as remuneration for their services.

Suggestions

- From the interaction with BCs, it is noted that the salary has to be fixed for BCs on a monthly basis, not on a transaction base. On average, they get Rs 3000-6000 per month as remuneration for their services.
- In addition to the salary, BCs can pay local travel expenses per day. Throughout the day, they roam several km to reach the village people to deliver financial services.
- The respective commercial banks or BCNMs can bear POS machine maintenance expenses. So that the costs for the BCs may be reduced.

- More number A Women BC may be appointed to deliver financial services in each Gram Panchayat so that rural women will get employment opportunities.

6. Conclusions

Identification of business correspondents in rural areas engaged by commercial banks through third-party business correspondent network managers is good, and frequent training is arranged to update on technology aspects. The average BC income has increased by 72% from INR 2,724 in Wave I to INR 4,692 in Wave III. The increase in average monthly transactions and overall PMJDY customer activity has increased income for most BCs (Manoj Sharma, Anurodh Giri, and Sakshi Chadha 2016). The above analysis concluded that the average salary for the BCs here ranges between Rs.3000 -6000. It should be increased considerably, otherwise the BCs try to charge additional money from the account holder for their doorstep services. The BCs are working for financial inclusion schemes in unreached rural areas; they also engage in their personal work and manage these financial services.

Declaration of Competing Interests

The authors declare that they are not aware of any competing financial interests or personal relationships that may have influenced the work described in this document.

Funding

This research received no external funding-specific grant from any funding agency in the public, commercial or not-for-profit sectors.

Conflict of Interest

The authors had no financial or personal relationship(s) that may have inappropriately influenced them in writing this article. The authors declare no conflict of interest.

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Cite this article as: Dr. K. Dhevan (2024). *Role of Business Correspondents (BCs) in Financial Services – Reaching in Unreached Rural Areas – A Case Study in Tamil Nadu.* *African Journal of Commercial Studies.* 5(1),21-25. doi: 10.59413/ajocs/v5.i1.3