

Summary of the UGC Minor Project entitled

A STUDY ON EFFECTIVENESS OF BUSINESS CORRESPONDENT MODEL IN THE INDIAN BANKING SYSTEM :

A REVIEW OF ERNAKULAM DISTRICT IN KERALA

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.” Recognizing this problem, the Reserve Bank of India introduced a regulation in 2006 allowing banks to use the services of third-party, non-bank agents to extend their services right to people’s doorsteps.

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. However financial illiteracy, lack of convenience, technological issues and viability has emerged as significant barriers in achieving the goal of inclusive growth.

The Business Correspondent (BC) Model was initiated by the Reserve Bank of India (RBI) in 2006 to promote financial inclusion in India. Under this framework, banks are permitted to use the services of third party agents as BCs to provide banking and financial services, such as credit and savings, on their behalf.

Since the inception of the BC model, a large number of organizations have begun working as BCs for banks. However, while these organizations have been experiencing business growth in terms of client outreach and transaction volumes, many are struggling to remain financially viable. In addition, Customer Service Providers (CSPs) or BC appointed agents who are crucial to the success of the model are also struggling to meet costs and maintain business viability.

In order to meet the objective of financial inclusion and increasing outreach of the banking sector to the unbanked, Reserve Bank of India, in January 2006 permitted banks to use intermediaries as Business Facilitators (BF) or Business Correspondents (BC) for providing financial and banking services. The BCs were allowed to conduct banking business as agents of the banks at places other than the bank premises. The categories of entities that could act as BCs were also specified. Since its inception in 2006, various banks had started promoting the BC Model in all corners of the country.

To further the objective of Financial Inclusion as well to leverage banking services, two kinds of third party banking agents were created – Business Facilitators(BF) who would primarily be involved in processing and opening accounts and Business Correspondents who would , in addition to the BC functions mobilize deposits and disburse credit on behalf of the bank. In the state of Kerala, Ernakulam District was declared as the first district in the country having achieved meaningful "Financial Inclusion" at a function, held on 22nd November 2012 by the Reserve Bank Governor.

The level of awareness regarding the effect of financial inclusion and examined the extent of financial inclusion among various banking customers in Ernakulam district, Kerala in terms of continuous usage of bank account and access. For this purpose a survey was conducted on 75 respondents from Ernakulam District, Kerala. The findings suggest that the literacy level and occupation of respondents are highly influenced to access and continuous usage of bank account. Some of them are certain extent aware about financial inclusion drives and a majority of respondents are fully aware of no-frill accounts. On 22nd November 2012 by the Reserve Bank Governor declared that the Ernakulam District, Kerala was as the first district in the country having achieved meaningful "Financial Inclusion".

Objectives of the Study

- 1) To ascertain the effectiveness of Financial Inclusion by Business Correspondents model from the perspective of customers.
- 2) To ascertain the services and technologies provided by BC agents to Banks
- 3) To make suitable conclusion and recommendation regarding the study.

Methodology

The study was both descriptive and analytical in nature, both primary and secondary data were used for the purpose of the study. Primary data were collected from customers of Business Correspondents agents and banks. Secondary data is collected from the books, journals and various web publishers.

FINDINGS

1. The 60% of the respondents are females and 40 % are male.
2. 46.7 % of the customers were between 40-60 years, 26.7 are between are 21-40 and 13.3% is below 20 years and above 60 years .
3. The rating on the basis of qualification is highly rated by below SSC, where as it is poor in the case of illiterate group.
4. There is a considerable variation observed in the rating given by customers belonging to various occupation groups. Majority of respondents (33.3%) are farmers, 22.7% are own business, 16% are land labours, 10.7 % are salaries people and 17.3% are others.

5. The mean score of the awareness about saving is 3.76, it indicates who have good awareness about savings.
6. The mean score of the awareness of managing debt is 1.7, it shown the poor managing debt of the customers.
7. The mean score of the awareness about various financial services is 2.6, it is indicates that less aware about the financial services.
8. The mean score for awareness of filling application form is 4.0, it indicates the good awareness about filling the application form.
9. The mean score for the awareness of financial literacy campaigns is 2.6, it shown a less awareness in this regard.
10. The mean score of the staff attitude to design the financial product and services according to customer requirements is 1.1, it indicated that a figure of less effectiveness.
11. The mean score of staff tries to understand the customer problem is 3.3, it indicates a good management of customers by the staff.
12. The mean score of staff tries to develop a long term relationship with customers is 1.5, it indicates a below average not effective way of good relationship with customers.
13. The mean score of staff tries to understand customers problem 3.3,it indicates they managed the customers more satisfactorily.

14. The mean score for staffs are able to keep customer account information confidential is 4.33, it indicates more effective.
15. The mean score of handle customers complaints is 2.2,it indicates not satisfactory.
16. The mean score of customers maintain the error free records is 3.9,it indicates a good result.
17. The mean score for the safe of the transactions is 1.8,it indicates is not good.
18. The mean score of the operating hours to convenient to customers is 1.8,it indicates the non satisfactory level of customers.
19. The mean score of availability Business correspondents in remote area is 1.9,which shown the need the number of increase.
20. The mean score of no hidden charges Business Correspondents is 2.11 ,it indicates the level of satisfactory.
21. The mean score of awareness about internet banking is 2.2,it indicates the need of more awareness.
22. The mean score of awareness on mobile banking is 1.6,it indicates need of more awareness.
23. The mean score for awareness on debit card is 3.04, it indicates a good level.
24. The mean score for the awareness on insurance is 2.6,it indicate satisfactorily result.

25. The mean score of the awareness on ATM is 3.2, which is high.
26. The mean score of aware on the cheque book 2.5,it indicates average result.
27. The mean score of customer aware on mortgage is 1.9,it indicates need of more awareness.

SUGGESTIONS

1. Banks should create awareness of easy accessing and optimal utilizations of various financial products under the BC framework.
2. It is suggested 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. Financial literacy and customer education should form an important part of the business strategy and should form part of the commitment by banks adopting the BC model.
4. The Business Correspondents should be able to understand the financial requirements of the customer. In the absence of an appropriate product that suits the requirement of the client then he can be in a position to explain the banks that there is a need for tailor made products as per the needs and requirements of the customer. This will help both the Business Correspondents and the banks to improve their clientele base.
5. The Business Correspondents should be motivated and regular training programs are to be conducted.

6. Awareness programs about the BCs should be conducted to reach wide range to public as well as the rural customers.
7. Ensure the timely response to the customer queries and avoid delay in service.
8. BCs should be ensured to maintain a satisfactory service to the customers and to maintain long term relationship.
9. BC model should be IT enabled so as to ensure that the transactions are immediately uploaded in the bank's records.
10. Business Correspondent model should be customer centric and customer friendly and deliver high quality demand on customer needs.

CONCLUSION

This study attempts to understand the financial viability and behaviour of agents in order to assess the feasibility of the Business Correspondent model from the perspective of various banking customers. The study also mainly focus to assess the clients' perspective and their satisfaction levels. The Business Correspondent model provides more economical and viable remote banking service to rural living customers, transacting at their door step. In unbanked areas the banks have to start new branches but it may be a costly for banks. To solve this cost affairs, the banks could employ the Business Correspondents to act on their behalf. Banks can use the Business Correspondent model and consistently modify the products for both categories and give more importance to usage than access The banks can also render the financial services which are needed for the people. Business Correspondents can provide the needed financial services to the customers as per their requirements. Banks should make this model sustainable and profitable for all the parties concerned by providing diversified products. Banks should also ensure the quality of service to the customers through the Business Correspondents and thereby achieve the objectives of financial inclusion.