

A SWOT Analysis Banks' Business Correspondent Model of Financial Inclusion

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Abstract

The objective of the present study is to do the SWOT analysis of business correspondent model in terms of financial inclusion. The model enables the banks to extend financial services to the unreached clients beyond their branch network. The weaknesses include the existence of financial illiteracy among rural population, lack of technological development in rural areas and no proper monthly income among the respondent etc. The opportunities include improving relationship between business correspondent and business facilitators and also improving saving and credit access for responders. The threats are unattractive salary to the Business Correspondents, teaching large rural population about the benefits of having bank account and availing banking facilities etc. The study has been done through the secondary data gathered from research papers, journals, newspaper and website of RBI in forms of bulletin etc. In conclusion the banking sector has taken a lead role in promoting financial inclusion which acts as a passport to a range of financial products and services such as short term credit facilities, over draft facilities and credit card. In India, an effort has been made to achieve financial inclusion by using information and communication technology through a Business Correspondent model.

Key words- Financial Inclusion, Business Correspondent Model, Strengths, Weakness, Opportunities and Threats

Introduction

India is a developing country, growth in the banking and financial services can put India into a fast globalize growing path of success and development. Financial inclusion is becoming the “Growing Roots” in Indian banking with providing economic as well as easier banking and financial services to poor and slum peoples of the economy. This concept gets popularity from the year 2000. "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." 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. 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. There is no denying that the BC model has expanded its reach across the country in the last eight years. The RBI's annual report for 2013-14 notes that “Nearly 248,000 BC agents had been deployed by banks as on March 31, 2014 which are providing services through more than 333,000 BC outlets.” Close to 117 million zero-balance accounts have been opened up by the BCs as on March 31, 2014. In addition, there were 60,730 BC outlets in urban locations as on March 31, 2014.

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 Organizations (NGOs)
- Self-help groups (SHGs)
- Microfinance institutions (MFIs)
- Civil Society Organizations (CSOs)

Government has launched different schemes for financial inclusion

- ❖ Launch Jan Dhan Yojana programmed for promoting financial inclusion.

- ❖ In 2005, the RBI pushed banks to provide a “no-frills” zero-balance account with minimum charges for other services.
- ❖ Giving relaxation to banks to open branches in tier 3 to 6 having population below 50000 thousand to open branches with a general permission.
- ❖ Permitting banks to utilize the services of NGOs, MFIs, to provide financial and banking services through the use of Bank Mitr(Business Correspondent)
- ❖ RBI’s vision 2020 has an objective of creating nearly 600 million new customers’ accounts.

Objectives of the study

To achieve the SWOT analysis of banks’ business correspondent model of Financial Inclusion, find its strengths, weaknesses, opportunities and threats.

Source of information

The sources of information for this study includes secondary data i.e. information gathered from the available literature through journals, internet and RBI bulletins.

The SWOT Analysis

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. By definition, Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Also, by definition, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control.



Strengths

1. BC model is Better than bank branch, normally a rural bank branch can serve 3000 to 4000 in 12 to 15 villages with a radius of 15 km. A public sector bank branch may require more than 5 years to unbanked area in India, while a private and foreign banks may require 5 times more. Thus this model intended to reach out to the geographically diverse population particularly rural areas.
2. Scaling up of this model possible within a short span time.
3. This model has a feature of door step banking, in which delivery of financial products and services to the customers. Such a direct relationship between the BCA and customers.
4. Existence of the upper middle and middle income group in the Indian society who along with good spending also save a lot, thus their savings is strength for the economy.
5. Financial literacy programmes or drives should be taken frequently.
6. Business correspondents (BCs) focus on transaction value than account balance as banks pay them in proportion to the transaction value.
7. Promoting, nurturing and monitoring of Self Help Groups/Joint Liability Groups/Credit Groups/others;
8. Sale of micro insurance/mutual fund products/pension products/other third party products, Receipt and delivery of small value remittances/other payment instruments.
9. The government has fixed a target of issuing Adhaar to almost every Indian by 2016. The flow of subsidies in the accounts opened under Jan Dhan Yojana which are Adhaar seeded may increase the usage of these accounts and banking facilities by the rural households.

Weakness

- 1) Due to shortage of sufficient funding, BCs at the village level are unable to mobilize and conduct group meetings in the case of SHGs/JLGs.
- 2) The BCs have to visit the branch they are linked to almost every day for making cash transactions. It is, therefore, not possible to establish a link to branch and their residence.
- 3) Lack of awareness about banking facilities and availability of different financial products and services among rural population is a big weakness of the economy.

- 4) The Business correspondents can be used to provide banking facilities but in absence of branches of banks the BCs Cannot receive trust and good response from the rural people as for them banking facilities simply mean a brick and mortar branch.
- 5) Operational hurdles, such as cash handling (transporting, safekeeping, etc.), irregular accounting, frauds, and misappropriations.
- 6) Current regulations require BCs to complete accounting and settle cash with bank branches within 24 hours of a transaction, which may not be possible due to the huge distances involved.
- 7) Weakness of implementing financial inclusion focuses on bad debts of members of vulnerable groups, no proper income among members, and lack of awareness about various financial services.

Opportunities

- 1) A survey can be done on the targeted group to know about their choices and preferences about the type of financial products required.
- 2) Existing institutions such as Garmin banks can be used effectively to expand access to financial services to the Poor.
- 3) Better information on business viability of BCs could be beneficial for all the stakeholders to analyze this model better.
- 4) 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 being participants up-to-date on the current efforts and data in offered at present.
- 5) BCs and banks should try to build client confidence by initially offering services such as remittances and then graduate to savings products.
- 6) BCs and their staff need to be encouraged to gain minimum banking knowledge and skills. Common programmes should be instituted by the regulator or banks themselves and support may be provided through government-sponsored social programmes.
- 7) The country has a large unemployed population which can be utilized for promoting financial inclusion by making them a part of the delivery mechanism of the process in the form of business Correspondents (BCs) and business facilitators (BFs) and this

unemployed population of the economy can be used for spreading financial literacy and bringing about financial inclusion.

Threats

- 1) Convincing village people, educating them about financial matters and imparting financial literacy to them again is a challenge.
- 2) The gamuts of activities undertaken by Business correspondents are also very small.
- 3) There is a problem of rising overdrafts in the no frill accounts making them non operational.
- 4) Most customers are quite comfortable with the biometric verification system.
- 5) Poor internet connectivity and power supply disruptions have been causing inconvenience in some areas.
- 6) RBI annual report (2011-12) observes, despite the efforts of the banks to provide training to BC staff, the capacity for internalizing new technologies, new products and systems remain a big challenge.
- 7) RBI report on Business Correspondent model (2009:7) reveals that computer based technology is an issue because of lack of standard-training and maintenance.

Conclusion

This paper studies the strength, weakness, opportunities and challenges which is faced by the client agent as well as banks. In order to extend the banking services to the un-banked / under-banked villages in the country, the bank has initiated a branch-less banking model, by appointing eligible individuals as Business Correspondents. The Business Correspondent (BC) will be an agent of the bank appointed on contract basis and will be authorized to undertake transactions on behalf of the bank, including collection of small value deposits, disbursal of small value credit, sale of micro insurance and other financial products.

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