

## **Chapter 7**

### **Summary of Findings and Conclusion**

## **7.1 Research Overview**

This study has sought to delve into the outreach of BC agents in North Bengal, the process of their appointment and monitoring, earning capacity, factors influencing the intention of BCs to continue their business through an empirical analysis and the perception of service quality by the BCs clients. This is the first study of its kind in which attempts have been made to empirically determine the factors influencing the intention of BCs to continue operations and lead to financial inclusion of the unbanked population living outside the formal financial system in North Bengal. The research covered all eight districts in North Bengal, including Darjeeling, Kalimpong, Jalpaiguri, Coochbehar, Alipurduar, Uttar Dinajpur, Dakshin Dinajpur and Malda, where the BCs have been serving the disadvantaged sections of the population.

The findings of the study offer an insight into the paradigm of the agent banking system and throw light on improving the efficacy of the Business Correspondent Model. The findings are deemed to be important for the government, RBI, banks, and corporate BCs to develop a strategy for the extension of the agent banking system and effectively implement the financial inclusion initiative. This research has been extensively carried at the field level in all the districts of North Bengal, where a combination of observational research, survey, discussions and interviews were conducted with all stakeholders involved in making the agent banking system operative.

The domain of this research work has tried to capture as much as possible information regarding this model of financial inclusion. Yet limitation remain as it is not possible to have hundred percent coverage of all issues. The limitations will be discussed in succeeding sections after presenting a summary of findings.

## 7.2 Summary of Findings

A brief summary of the findings are given below:

1. The progressive growth in Business Correspondent Agents has led to a spectacular expansion in the number of customer service points in the villages, drawing most of the rural people towards it. They have built trust and a reputation among the unbanked population by providing excellent banking services at a low cost and at a convenient location. Their affiliations with well-known financial institutions have also contributed substantially to their integrity and trustworthiness, resulting in an increase in the number of banking transactions and a rise in the average bank balance in the accounts of rural BC customers retained by the BCs.
2. The increase in outreach of BCs has led to the growth in accessibility of banking products and services by the underprivileged and marginalised population. The number of BSBD accounts opened by BCs have risen from 13.27 million accounts in 2010 to 360.6 million BSBD accounts by 2020. Similarly, the amount of money mobilized to the BSBD account by BCs have increased from 10.69 billion in 2010 to 771.63 billion till 2020. Further, the total money deposited in the BSBD account is 2030.61 billion, out of which approximately 40 percent of the deposit is mobilized by BCs, which indicates the depth of outreach in India.
3. The number of BCs covering the unbanked villages in several districts of North Bengal has risen considerably since the implementation of the PMJDY initiative. The number of bank branches in North Bengal has climbed from 4142 in 2015 to 6172 in 2019, which has grown at a compounded annual growth rate of 8.3 percent. Similarly, it was found that the number of BC outlets in North Bengal has risen from 918 in 2015 to 3722 BC outlets in 2019, which shows a compounded annual growth rate of 32.31 percent. This

clearly indicates the extent of the expansion in the agent banking system to boost the financial inclusion push in the different districts of North Bengal.

4. The appointment procedure of corporate BC and BCs are consistent across the banks. Majority of the bank seeks a request for proposal from the interested participant to offer financial inclusion services in the designated circle of the state. Corporate BCs are typically chosen on the basis of the lowest bid price offered during the bidding procedure. Similarly, the recruitment of BC Agents is typically conducted by the Corporate BCs with the consent of the link bank branch manager across the numerous banks. The agents are local faces known to the public and have a strong reputation and trust in the region. Still, on many occasions, variation has been observed regarding the appointment process of BC agents.

5. The monitoring of BCs is routinely performed by both the corporate BCs and the banks. Every bank ensures that the services offered by the BC Agents are as per the stipulated standards established by both parties. The Branch Manager oversees the BCs relationship with the branch by frequently visiting the CSP and examining the cash management system, customer transaction register, complaint register, customers' feedback, and BCs grievances. The frequency of visits varies substantially across the bank. Similarly, corporate BCs oversee the regular activities of the BC agents. They monitor the number of transactions conducted every day, average customer footfall, transaction receipt, verification of cash, software and hardware system status, and customer complaints and feedback.

6. The number of products and services offered by BCs are cash deposits, withdrawals, remittances, recurring deposits, fixed deposits, PMJJBY, PMSBY, APY, IMPS, AEPS, MGNREGA payments, promoting and nurturing SHGS and JLGs, disbursement of small

value credit, collection of small value credit, collection of principal and interest amounts, recovery of NPAs, bank overdraft facility, creating awareness, processing and submission of applications to banks, issuing mini statements, passbook printing and balance enquiry.

7. It was hypothesized that the commission (income) of the Kiosk model and the POS model do not differ. Thus, after performing the independent two-sample t-test, it was revealed that they significantly differed, rejecting the null hypothesis. BCs who use the Kiosk Model earn Rs.2,75,700 per year on an average, while BCs who use the POS Model earn Rs.1,74,113 per year, and this difference is statistically significant at the 1% level. The mean difference was 101,187, with a t value of 133.526. BCs employing the Kiosk model perform a greater number of transactions compared to the BCs using the POS model. Similarly, the kiosk operator has the potential to perform on-us and off-us bank transactions effortlessly compared to POS BCs, resulting in a larger profit for kiosk BCs.

8. It was further hypothesized that operating expenditures between the Kiosk model and the POS model do not differ. But after performing the independent two sample t test, it was revealed that they varied statistically, rejecting the null hypothesis. BCs utilizing the kiosk model incur an average operating expense of Rs.1,32,015 compared to the BCs using the POS model, which incur Rs.86,550 as an average operating cost. The mean difference was 45,465 with a t-value of 83.757.

9. It was also hypothesized that the profit of the Kiosk model and the POS model do not differ. Thus, after applying the two-sample independent t-test, it was discovered that the profit differed substantially between the Kiosk and POS models at a 1 percent level of significance, with the average annual profit of the Kiosk model being Rs.1,43,685 and the POS model being Rs.87,963 per annum. The mean difference was 55,722 with a t-value of 66.140.

10. The study revealed issues affecting the liquidity of BC Agents, resulting in difficulties with the smooth operation of their business. Many of the BCs confront a scarcity in the availability of liquid currency and e-float money, owing to which transactions are not carried out efficiently. Similarly, it was discovered that corporate BCs lacked cooperation in managing cash and e-float money. A few bank branch Managers provide bank overdraft facilities to their BC Agents in order to meet their liquidity needs, but the majority of branch Managers do not provide such facilities and instead rely on the BC Agents to arrange the liquidity on their own. Further, due to the compulsion of maintaining the BC Settlement Account by a few Corporate BCs, many BCs state that it creates a lot of workload as the cash has to be deposited in the BC settlement account initially. Thereafter, a message or screenshot has to be shared following the deposit to Corporate BCs who thereafter discharge the e-float balance in the BC account. Similarly, if the e-float balance is depleted due to excessive deposits, the BCs have to either wait for additional cash withdrawals or deposit cash in the BC settlement account at the branch, all of which delays transactional activity and raises liquidity concerns for the BCs.

11. It was also revealed that those BCs located in remote locations had to suffer additional transportation expenses and CSP closure to arrange liquidity from the link branch, while those positioned locally were in a much better situation regarding the arrangement of liquidity. Many of the BCs have to carry cash physically to and from the linked branches without adequate security. Even in many circumstances, the time required to deposit and withdraw cash in a branch varies greatly, owing to lower cooperation from the bank personnel. All of these impediments have hampered the BC Agents action.

12. The study also emphasized that training is a critical element that needs significant attention from banks and corporate BC since BCs are the face of the banks and any

deviation in their services leads to distrust and decline in the goodwill of the banks. It also ensures compliance with the regulations and eliminates fraudulent activities, which leads to improved confidence among the clientele. Corporate BCs offer one-day training to the BC Agents after their appointment and are also urged to pursue the BC Certificate Course sponsored by the IIBF to all those BCs who have not completed the course. It was also revealed that many of the BCs were having difficulty resolving technological glitches, handling liquidity and customer queries, resulting in transaction denials. While some of the BCs attempted to resolve the issues through dialogue with their counterparts, many others tried to get support from the corporate BC. Thus, training can play a crucial role in overall development of the BCs.

13. The study also indicated that technical aspects allow transparent transactions between banks and their clients, establishing trust and confidence in the overall agent banking system. The main advantages of BCs are that they can conduct both on-us (home bank) and off-us (non-home bank) transactions, and it is the interoperability service that has added value to the BCs Agent's services. However, there were several hurdles acting as a hindrance to the earning capacity of the BCs, one of them being technology. It has been observed that there were several BCs belonging to various banks who were counseled by the Corporate BCs and Banks not to perform non-home bank transactions since the amount gets blocked on the Financial Inclusion (FI) server with the merchant banker requiring at least a week to resolve the problem. Hence, many BCs avoid making non-home bank transactions. Similarly, network connectivity remains a significant challenge in many rural, semi-urban, and hilly areas, causing difficulties in the proper conduct of transactions, and there are numerous instances where Technology Service Providers frequently fail to respond to queries raised by BCs, resulting in transaction denial.

14. Commission has been identified as an important dimension that determines the BCs intention to continue their operation, which again depends on the availability of cash, technical convenience, and systematic training. BCs have covered a significant portion of the market that was outside of the banking paradigm in the previous decade. The majority of rural villagers have opened accounts with BC Agents, which they find convenient because the BCs are locals and are well known among them, making them comfortable with transacting. This has contributed to the phenomenal growth in the mobilisation of deposits by banks, which was previously outside the banking system. This has also boosted the earning potential of the BCs as customers account balances are a big contributor to their monthly commission earnings. Similarly, liquidity availability, convenient and reliable technological support and systematic training were found to have had a significant positive impact on the earning potential of the BCs.

15. There are certain obstacles which have impacted their commission earnings, such as the emergence of new players in AEPS (Aadhaar Enabled Payment System) transactions, which have led to an increase in competition among the players in the financial inclusion segment, and lack of awareness regarding the functioning of BCs is constraining the growth of their customer base. It was also revealed that the commission calculated by Corporate BCs lacks transparency and there were cases where inaccuracy was observed by the BC Agents. Similarly, many corporate BCs are delaying payment of commission to BC Agents within the specified time period, affecting their liquidity because many BCs rely on commission to sustain their working capital. Furthermore, regulatory measures should be undertaken to expand the number of products and services so that the commission can be enhanced and their viability be ensured.

16. The study investigated the factors influencing BCs intention to continue doing business, and nearly 45 statements were generated based on an extensive literature survey, field observations, expert opinions, and consultations with corporate BCs and banks, five of which emerged from the EFA with nearly 70 percent of the variance, with 23 statements being perfectly loaded. Every statement has a factor load larger than 0.5. The five constructs identified were termed as Liquidity Aspects, Training Aspects, Technical Aspects, Commission Aspects and Intention to Continue Aspects.

17. Even though EFA was conducted for the development of a measure, Confirmatory Factor Analysis was done to confirm the factor structure found by Exploratory Factor Analysis where the overall fit indices of CFA satisfy the conditions essential for an acceptable model fit. It gives better control over unidimensionality and has higher construct validity than EFA. It not only helps to affirm or reject the model but also helps to modify, refine and retest the CFA model using a defined set of criteria. The convergent validity and discriminant validity were perfectly satisfied by the hypothesized model.

18. The study then tried to find out the relationship between endogenous and exogenous factors using the Structural Equation Model (SEM). It is the structural model that defines the relationship among the unobserved variables and shows the relationship between the observed variables. Thus, it was hypothesized that the liquidity of the BC agents do not have a positive impact on their commission earned and it was discovered that the null hypothesis was rejected with a t-value of 3.879 at the 5 percent level of significance. Hence, it was determined that the liquidity of BC agents had a substantial positive impact on their commission earned with a standardised parameter of 0.254.

19. It was also hypothesized that there was no substantial positive effect of training of BC Agents on their commission earned and it was discovered that the null hypothesis was

rejected with a t-value of 4.374 at the 5 percent level of significance. Thus, it was determined that there was a substantial beneficial impact of training of BC Agents on their commission earned with a standardised parameter of 0.279.

20. It was further hypothesized that there was no significant positive influence of technical ease in executing the banking operations of BC Agents on their commission earned and it was discovered that the null hypothesis was rejected with a t-value of 3.873 at the 5 percent level of significance. Thus, it was determined that there was a substantial positive influence of technical ease in executing the banking activities of BC Agents on their commission earned with a standardised parameter of 0.261.

21. It was also hypothesized that there was no significant positive effect of commission earned on the intention to continue their agency banking business, and it was discovered that the null hypothesis was rejected with a t-value of 5.855 at a 5 percent level of significance. Thus, it was determined that there was a substantial positive effect of the commission earned on the intention to continue their agency banking business with a standardised parameter of 0.384.

22. The study also found out the gap between the expected and perceived service quality by the clients of Business Correspondents regarding the banking services offered using the SERVQUAL Model where the quality was measured in five dimensions, i.e., Tangibility, Reliability, Responsiveness, Assurance and Empathy. It was hypothesized that there is no difference between the quality of services as expected by the clients of Business Correspondents and as perceived by them, i.e.  $\mu_p = \mu_e$  and it was found that there is a significant difference between the expectations and perceptions of the BCs customers, with 19 statements having a significant gap, resulting in a rejection of the null hypothesis. It was discovered that the clients were happy with the devices used by

the BCs to execute their banking transactions. Similarly, they were satisfied with the specific attention being given to the aged customers at the CSP and were also impressed with the transactional precision maintained by the BCs. Further, they also identified the gap between the expected and perceived service quality of the BCs. According to the findings, the mean P-E Gap for Reliability is 1.177, with a responsiveness of 1.073, Assurance 0.91, Empathy 0.85, and Tangibility 0.987. There were 19 statements out of 22 that had a significant gap between the BC customers' expectations and perceptions, while customers were satisfied with the BCs service in three statements.

### **7.3 Policy Implications**

On the basis of the findings and analysis of the present study, the following suggestions are being put up which may enable policymakers, bankers and corporate BCs to fill the gaps and address some of the challenges prevalent in the BC Model.

1. The goal of reaching the unbanked areas under the PMJDY initiative is implemented primarily through Business Correspondent Agents. BCs operations were expanded to the majority of the financially excluded villages, which were left out owing to the higher cost of operating bank branches and weaker business potential, making it more difficult to run the brick and mortar branches successfully. Hence, BCs should be widely used to establish their outlets in rural, unbanked regions where conventional banking services may be offered with the ease of comfort at a reduced cost. Since, the number of BCs per village is 0.495, which looks attractive, but the number of people in those villages is much higher to be covered by a single BC. The villages are scattered and it becomes extremely difficult for a BC to cover more than one village in its location. Hence, an effort is to be initiated by the banks so that regular banking services can be provided at their doorstep.

2. BC Agents are the primary focal point in the success of this model. Both banks and corporate BCs should hire BCs solely on the basis of their credibility, which includes having sound banking skills, a good reputation in the community, having worked with the bank branch in conducting transactions, adequate knowledge of the use of technology, the required cash flow to run the business, and good communication skills. Furthermore, he should be able to establish an awareness campaign in collaboration with banks and Gram Panchayats in order to improve trust and visibility in society.

3. The procedure of assigning CSP to BC Agents should be made more transparent, with the Branch Manager participating equally in their selection process, so that a legitimate candidate is picked to pursue banking operations and unauthorised collection may be eliminated.

4. The monitoring of BC Agents is usually done by the District Coordinator of different CBCs, while the Bank Branch Manager visits the BC outlet periodically. It is suggested that the Branch Manager make a surprise visit quarterly and interact with customers at the CSP and randomly match the transaction slip for each transaction performed during the day, as well as verify on the register whether the customers signature are recorded or not. Similar tasks can be performed by the District Coordinator too, who typically visits the CSP every month to supervise the BCs activity.

5. Corporate BCs should adopt the kiosk model to offer banking services through the BC agents as the number of transactions that can be conducted by the kiosk device is comparatively higher than the POS device. Similarly, the interoperability services can be offered without any technical glitches, and the earning potential of a kiosk operator is higher than that of a POS operator.

6. Liquidity is one of the principal aspects influencing the commission earning potential of the BC Agents, and the continual scarcity of cash impacts the BC operation significantly. Therefore, it is extremely important for banks and corporate BCs to verify that the BC Agents have adequate cash and e-float money to complete their banking operations frequently. Efforts should be made by the Corporate BCs through District Coordinators to monitor the liquidity pattern of BC Agents and make surprise visits to the CSP, so that transactional activity may be identified and liquidity status may be handled effectively at the CSP.

7. Banks and corporate BCs should work to enhance the e-float balance limit of BC accounts, which varies across the banks. These balance restrictions have to be enhanced according to the BC requirements. An attempt must be made to raise the balance to such an amount depending on the availability of cash with the BCs, which will result in fewer transaction denials and the requirement to deposit cash multiple times at a bank branch on a single day. Similarly, the need to retain a BC Settlement account by a few corporate BCs should be terminated and the BCs should be allowed to operate with a bank settlement or overdraft account where the BCs can operate the account on the basis of the availability of the account balance. This will give additional flexibility in the management of the liquidity balance.

8. The influence of technical aspects on the earning potential of BC Agents is found to be highly significant. Corporate BCs should ensure that an appropriate mechanism is in place where the BC Agents may contact the TSPs to fix the technical defects and hindrances faced during the conduction of transactions. This may be done either via WhatsApp response or in a call centre where a dedicated staff member can redress the issues in a real-time manner. Similarly, an attempt should be made to create a passbook printing

facility at the BC point that would improve the legitimacy and trustworthiness of the BC system among the rural communities.

9. Interoperability service is the strongest pillar in the success of the BC Model and it is most apparent that all the Corporate BCs and Banks should develop full-fledged interoperability services so that both on-us and off-us transactions may be quickly initiated in the villages. Until recently, only the BCs of SBI have been delivering interoperability services in a full-fledged way, while most other bank BCs have partially embraced it. Banks, working with the Corporate BCs, should ensure that a suitable platform is established or a current system is upgraded to integrate the required updates so that interoperability services can be offered which will help towards the promotion of inclusive finance in the country.

10. Both corporate BCs and banks should ensure that BC Agents regularly issue system printed receipts following each transaction rather than merely announcing the account balance to customers. Similarly, if there are difficulties with handheld devices or laptops or desktops owing to hardware or software malfunctions, an attempt should be made to fix the defects as fast as possible by the TSPs. Similarly, until the TSPs resolve the issue, the machine should be replaced by Corporate BCs or banks, as closing the outlet will place an additional burden on customers to travel to the linked branch or any other nearby outlet to conduct basic transactions, which will have a significant negative impact on the overall system.

11. Network connectivity is still a challenging process in many rural areas and mountainous terrain, restricting frequent access for clients. Both corporate BCs and banks should make an attempt to offer VSAT in all those regions where network connectivity is poor. Further, they should also need to check that the VSAT is frequently utilized by

the BC Agents and any technical difficulties created during its operations should be promptly resolved so that the services continue uninterrupted. Connectivity can also be increased by cooperating with the Gram Panchayat members or Block Level officials.

12. Since the majority of the BC clients are semi-literate or illiterate, they are more prone to fraud, wrongdoing, and serious misconduct. The bank should ensure that a dedicated grievance redressal desk is established at the linked branch so that BC clients may complain or submit their concerns in their own mother tongue, which should be redressed within a defined period on a priority basis. This method may be replicated by many other rural bank branches, which will improve the legitimacy of the agent banking system and will establish a trustworthy link between the banks and BCs.

13. The bank should make a systematic effort to teach the bank staff about the concept and operations of BC Agents so that appropriate collaboration and synergy can be formed, which would enhance the service quality of the agent banking system. Similarly, corporate BCs should offer training on management of technology difficulties and operational hindrances to the BC Agents consistently throughout the banks.

14. Awareness campaigns should be performed both in rural and urban locations to enhance customer awareness of the BC operations. It has been generally observed that there is a huge knowledge gap regarding the operation of BCs and even highly educated clientele are confused regarding the products and services offered by the BCs. Both corporate BC and banks should undertake an awareness session to sensitize the people regarding the BC services so that the benefit of the agent banking system is fully reaped by all the customer segments, generating revenues for the stakeholders engaged in the process, which will further enhance financial inclusion in the country.

15. Commission is a major factor that influences the intention of BCs to maintain their operations. Account opening, deposits, withdrawals, remittances and the average account balance maintained by the clients are the primary sources of revenue for the BC Agents. It has already been more than a decade since BC agents have delivered their services as an extension of the banking outlet and it is recommended that both banks and corporate BCs should create tailor-made products for rural clients to mobilise more deposits in the formal financial system.

16. Banks should focus on raising the percentage rate of commission on various product and service components. This will improve the earning capacity of the BCs, resulting in an expansion of operations in the rural regions. Similarly, more transparency should be introduced by Corporate BCs in computing the commission amount so that confidence may be built up among the stakeholders. The payment of commission is to be done within the stipulated timeframe by the Corporate BCs and any delay in payment should be examined by the Financial Inclusion Manager. Further, the statement of commission should also be provided to the BC Agents to promote more transparency in the system. Corporate BC should consider rationalising the commission sharing ratio, which in some cases is 60:40 where 60 percent of the commission is given to BC Agents and 40 percent is retained by the Corporate BCs.

#### **7.4 Limitations of the Study**

Efforts have been made in this study to address a multiplicity of issues relating to outreach of BCs for financial inclusion, their appointment and monitoring procedures, liquidity, earnings, training, perception of customers, technological problems and others. However, being a successful model for financial inclusion, new challenges are sprouting up every day. Frauds in transactions are not unheard of, however one of the limitations of our study is that such events cannot be unearthed and analysed empirically. This is

because digging out data through observations and surveys could not be done. BC agents need to be financially literate since they handle a large number of financial transactions. Though, it would have been better to gauge the level of their financial literacy and associate it with their level of competency and earnings, yet, this has been left out in the present study as the scope of the investigation would have been much more broadened. Cases of attrition, i.e., dropping off activities as BCs, have also been reported. However, due to a lack of information from the drop-outs as to why they left, it was not feasible to generate their concerns. Similarly, the viability of the BC model for banks and corporate BC was not examined in this research due to the non-availability of the data. Additionally, due to time and cost constraints, the BC research was confined to only eight districts in West Bengal, limiting the findings' generalizability across the country.

## **7.5 Scope of Future Research**

Since the area of research in Business Correspondents is relatively new compared to other specific dimensions of financial inclusion, it is expected that developments in this sector will attract more researchers. As this arena develops, more prospects and problems are expected to surface and will need in depth investigation. As pointed out in the limitation of this study that frauds in financial transactions by BCAs, attrition, level of financial literacy of BCs have not been explored. These areas can therefore be taken up by researchers in future if they adopt suitable research methods and can collect relevant data. Similarly, future research can be carried out to study the moderating role of demographic variables between the liquidity, technical and training aspects and commission aspects along with the mediating effect of commission between these aspects. Further, financial viability analysis of the BC model from the banker's perspective may also be an interesting area of research in future. The author of this thesis intends to explore these untreaded areas with co-researcher in the near future.