Chapter 2

Review of Literature, Objectives, Scope of the Study and Research Methodology

2.1 Review of Literature

Financial inclusion has drawn the attention of a large number of researchers, notably in the last decade. The role of Business Correspondents in financial inclusion has attracted researchers too, but in a much lower span than the broad area of financial inclusion. The review of literature presented in this thesis covers a decade of important work that has been done in these areas. The review is aimed to be indicative and cannot claimed to be comprehensive as inclusion of all research done in these areas would have resulted in an unimaginable voluminous document. The reviews are presented in different sections below.

2.1.1 Financial Inclusion and Financial Access

Kandari et al. (2021) intended to investigate the relationship between financial inclusion, socioeconomic variables, and demographic factors, with ownership of bank accounts, use of mobile banking, and availing of loan facilities being the major indicators of financial inclusion investigated. It was carried out on 780 rural households in Uttarakhand. The study discovered a strong positive relationship between socioeconomic variables and financial inclusion, as well as that the likelihood of a customer having a bank account, using a mobile banking facility, and availing credit increases as financial literacy increases, whereas women are more vulnerable than men in terms of mobile usage and credit availability. As a result of the research, it was concluded that an effort should be made to target the economically disadvantaged population first, and then financial literacy should be extended throughout the region so that unbanked individuals may be brought into the formal banking system.

Singh (2021) performed research to examine the demand-side obstacles impacting credit demand and financial inclusion in India. The study approach was descriptive and exploratory, with primary data obtained from lower socio-economic classes and statistical techniques such as exploratory factor analysis and structural equation modeling employed. The study showed operational and implementation challenges, financial literacy, and affordability as the major latent factors, while usage and access attributes further impact financial inclusion, which necessitates major policy attention so that financial inclusion can be enhanced and supply-side measures can be complemented.

Negre and Cook (2021) attempted to investigate the role of instant payment systems and interoperability in enhancing financial inclusion, where instant payment refers to a digital payment that can be processed in real-time and is available 24 hours a day, seven days a week, at the lowest possible cost, and interoperability improves customer convenience by allowing them to make payments and transact easily with customers belonging to other organizations. According to the study, interoperability increases competition, lowers service costs, and results in an expansion of service offerings, which improves customer experiences and strengthens the payment system, leading to the use of instant payment services and accelerating financial inclusion in the country.

Dahiya and Kumar (2020) intended to investigate empirically the relationship between financial inclusion and economic development in the Indian economy. They identified access, usage, and penetration of financial services as the most important aspects of financial inclusion. According to the study, there is a substantial positive relationship between the use of financial services and the rate of GDP per capita growth. It further argued that merely having access to and penetration of financial services is insufficient to accelerate financial inclusion and that using banking services is far more essential in transforming savings into investments that enhance a country's GDP. They also advised the government to make a concerted effort to improve banking habits among rural people through financial literacy initiatives, which will raise their knowledge level and allow them to handle their funds more efficiently, resulting in improved economic growth.

Demirguc-Kunt et al. (2020) stated that financial inclusion has the potential to accelerate development through the use of various financial services, including digital services. It assists individuals in escaping poverty by accumulating money in their accounts for their health, education, and business, as well as managing financial emergencies that may lead to destitution. Digital technology must be supported by a better payment system, good physical infrastructure, consumer protection safeguards, and better regulations and financial services must have a tailored-made product to meet the needs of disadvantaged groups, such as those with low literacy and those who are first-time financial services users. Furthermore, users should be able to utilize their accounts to make or receive payments, as well as save money, securely and easily. In India, over 48 percent of the population with a bank account is inactive, which is double the norm for emerging economies. The users must attempt to use accounts rather than cash. Financial service providers must provide trustworthy and convenient products, as well as an appealing option for utilizing their accounts to pay their obligations.

Dutta (2017) attempted to measure financial inclusion in West Bengal to understand its impact on the financially disadvantaged rural and semi-urban poor residing in the remotest corners of the country. According to the study, financially educated households have a better grasp of conventional financial services as compared to semi-literate or illiterate households. Similarly, rural people with bank savings are generally more satisfied with security for the banking services collaboration and support from bank employees.

Demirguc-Kant et.al. (2017) on the other hand stated that the problems of financial inclusion and access to finance are completely opposite. There are certain groups of individuals that do not wish to use financial services, even when they are inexpensive and easily available. The opposite is also true in case of certain people who wish to utilize financial services but cannot access them because of excessive service fees, lack of access to the papers necessary to create accounts or the unavailability of banking services. Efforts should be made by policymakers to bring people who have been inadvertently excluded from the mainstream financial system into the system so that they can access banking services at a lower cost.

Pant (2016) conducted a study to analyze the policy measures undertaken in Nepal to promote financial inclusion and put forth specific strategies to increase access to the formal financial system for the excluded populations. Some of the proposed measures to promote financial inclusion include the use of bank accounts, the implementation of financial literacy programs, mobile banking penetration and the use of digital financial services, the redesign of business strategies to serve the lower-income segment, the formulation of the National Financial Inclusion Roadmap, the facilitation of MFIs and the monitoring of progress and the measurement of financial inclusion outcomes.

Sharma (2016) tried to examine the relationship between the different dimensions of financial inclusion and economic development in the Indian context, using data for the period 2004-2013. Financial inclusion, in all of its manifestations, has been proven to be a key economic driver. Furthermore, it was observed that higher banking penetration, the availability of banking services, and deposit usage of banking services resulted in higher economic growth. Similarly, the government's efforts to foster inclusive growth through the Pradhan Mantri Jan Dhan Yojana Scheme, as well as financial literacy and information dissemination, are critical to the financial system long-term viability and growth.

Gwalani and Parkhi (2014) attempted to evaluate the numerous models of financial inclusion adopted in India. They suggested that the adoption of the model is not sufficient to enhance financial inclusion, but that necessary regulatory and legislative reforms need to be made to the country's financial system. Due to high society coverage, it is possible to serve the unbanked section and make a reasonable profit, but there are major constraints such as high service costs, inadequate incentive structures, limited staff, lack of adequate credit facilities and inadequate technology that hinder their growth even though MFIs have catered to the last mile of the population, but due to lack of proper regulation, they are also suffering. Thus, a tailored model is a necessity for an hour that will lead to a country's financial progress.

Massara and Mialou (2014) argued that Financial Inclusion may be assessed through three-dimension i.e. access, usage and quality. Here, the access dimension pertains to the physical and breadth of financial goods and services where the individual may get the product and services at a service point. Similarly, the usage dimension examines an individual's potential to derive long-term purpose and utility from specific financial services. The quality dimension examines the relevance of financial products and services to the satisfaction of the clients.

Forster et al. (2013) conducted a study to identify factors that affect the relationship between proximity and access. It has applied geospatial information system data to locate a population cluster with the number of customers needed to make the outlet financially sustainable with a reasonably affordable price policy. It was also discovered that a single teller kiosk needed at least 2000 customers per month to function in both urban and rural areas, while a full-service agent needed 700 customers per month to ensure its sustainability in urban areas.

Allen et al. (2012) conducted a survey of 1,24,000 people in 123 countries to investigate the extent of their financial account use, in which they found that almost 91 percent of adults in high-income countries had accounts at a formal financial institution, 72 percent of whom used their accounts regularly, while in developing countries, only 41 percent of adults used them. They also discovered that those who withdraw more than three times per month prefer electronic payment accounts over banks, indicating that once people start using their accounts and conducting transactions, they will gradually shift to digital transactions.

Bhanot et al. (2012) studied and found that the accessibility of North-East India is exceptionally low, providing banks with numerous opportunities to enter a new market in the distant region. Financial information from several sources has assisted in growing inclusion, but the bank should continue to cooperate with policymakers and the government to speed financial information to a large section of society. Similarly, as part of their social obligation to society, banks should make a real effort to assist low-income people in mountainous and rural locations so that they can be brought within the financial domain.

Khan (2012) opined that financial inclusion plays an important role in a growing economy like India because bringing the unbanked segment of the productive sector into the formal financial system will augment domestic demand driven by income and consumption growth, creating a multiplier effect in the economy. Furthermore, the additional savings generated from the bottom of the pyramid will result in banks expanding lending and investment. Increased engagement of the disadvantaged and under-banked people in the formal sector would improve their financial situation, living standards, income generation, and resilience to future shocks.

Collins et al. (2009) claim that improved financial access will encourage people to save money and have easy access to credit, which will eventually lead to much more small-dollar borrowing and increased financial resilience, allowing them to build assets and invest in their education and businesses.

2.1.2 Business Correspondent Model

Jaiswal and Dhar (2021) studied the operational challenges experienced by BCs while servicing the unbanked population and suggested measures to deal with the impediments. The study revealed lower commission, lack of awareness, liquidity issues, lack of continuous accessibility, digital transaction obstacles and lack of an effective grievance redressal system as the major factors influencing the operations of the BC Agents. Further, they suggested that tailor-made products and services should be offered to people and commission should be paid regularly on a specific date, awareness programmes have to be conducted along with the branch officials, liquidity support should be provided by the banks and corporate BCs, uninterrupted services should be offered by BCs, interoperability service has to be enhanced and a proper grievance redressal mechanism has to be established so that operational difficulties can be encountered at the grassroots level.

Alehegn (2020) investigated the challenges faced by the Commercial Banks of Ethiopia regarding the adoption of agency banking where he found that lack of trust with agents, frauds, liquidity issues, lack of customer awareness, inadequate training for agents and bank staff and technological challenges are the main constraint behind the adoption.

Chassin and Balaba (2020) offer developing ideas on outreach expansion and improved usage through better touchpoints and highlight the necessity of agent liquidity management. According to the report, lack of liquidity is recognized as the main problem encountered by the agents next to the network outages. Similarly, the issue of liquidity with agents is considered to be the primary reason for customer discontent, depriving users of their own money and sometimes it also leads to split transactions influencing the cost of withdrawal by the consumers. Further, they indicated that agent liquidity management may be smoothened and enhanced by providing liquidity planning, liquidity monitoring and liquidity rebalancing.

Dhar and Jaiswal (2020) tried to empirically examine whether transactions denial and customer dissatisfaction result due to liquidity management problems. The study applied EFA, CFA and SEM to identify the constructs, verify the factor structure and find the causal relationship among the factors. The study identified rebalancing frequency and distance, float adequacy and finance, fluctuation in demand and support from banks as having significant influence on disruption and denials of transactions by BCs and stated that proper remedies have to be adopted by BCs and banks to counter the liquidity challenges.

Muniarty et al. (2020) reported that the agent banking system effectively and efficiently connects unbanked and under-banked inhabitants within the formal financial system at a reduced cost and motivates them to avail the services physically to perform cash transactions, account registration, micro-insurance, etc. at the agent outlets.

Palaon et al. (2020) explored the business satisfaction, continuity and viability of branchless banking agents in Indonesia. According to the survey, the two major reasons to remain as banking agents are to enhance profitability and to serve the local community.

Similarly, banks may give routine counseling to agents to develop their abilities in servicing clients, educate them about various financial products and provide monthly transaction targets and enhance their moral satisfaction. Further, the government and regulators can frame policies where social assistance benefits can be provided by agents to the consumers and increase the quality of infrastructure and internet network which will boost their purpose to continue the business.

Margaret and Ruth (2019) conducted a study to investigate the influence of agent banking services on their company's performance in Kenya. The study revealed that the factors that motivate the entrepreneur to register for agent baking services are the highly favourable agency banking regulation by CBK, strong indication of potential growth in their business income after registering as a banking agent, availability of banking services attracts more customers to the stores, their image and reputation increases due to the association with the sponsor banks. Further, it was found that various factors of an agency banking like turnover per month, client footfall stimulate the entrepreneur to stay as banking agents.

Abrol (2018) performed research on the Business Correspondent Model where demand and supply-side issues in Jammu and Kashmir were studied. The primary problems experienced by the BCs were liquidity issues, technology issues, limited services, lack of financial literacy, commission issues and lack of recognition, which are acting as a constraint in the smooth functioning of BCs business.

Ahmed and Ahmed (2018) analyze the method followed by Agrani Bank in extending banking access to an unbanked majority in the rural parts of Bangladesh through Agent banking. The study showed that they have utilized non-conventional ways, like the use of technology and creativity, in delivering services to left out people with adequate security while availing of real-time banking. Agent banking functions are adequately controlled by Bangladesh banks regulations and to reduce the agent banking service risk, banks have chosen agents that have regular cash handling experience and business in the region. Similarly, consumers get quick messages after the confirmation of their purchase. Agent banking is progressively extending its services and is being regarded as a viable method of boosting financial inclusion in the country.

Cull et al. (2018) conducted a study on the activities of agents in the Democratic Republic of Congo where they discovered that the microfinance institutions supplied POS equipment, biometric fingerprint readers to ease KYC compliance. Further, the support given in terms of call centres, weekly monitoring, overdraft facilities and premises branding increases the number of transactions, leading to a greater commission for the FINCA DRC agents. Similarly, the increase in the competition has led to a reduction in their average monthly commission income. They observed that agents can be more effective among the urban poor lacking financial alternatives in densely inhabited regions that have a significant level of commercial activity compared to a less densely populated location where the foot traffic is low at the agent point.

Kiarie et.al (2018) investigated the liquidity management challenges of the Agent Network in nine African and Asian nations. As liquidity is a significant problem in guaranteeing the credibility and sustainability of the agent network, it is important to create an innovative strategy to ensure adequate liquidity at the end of the process. The major challenges cited as obstacles for most countries were unforeseen fluctuations in client demand, long queues at the rebalancing point, lack of resources to acquire enough float and the necessity to shut down to rebalance the e-float. Furthermore, it was observed that the cost of rebalancing in proportion to the monthly revenue of agents is the greatest in Indonesia and Pakistan. Similarly, approximately 20 percent of daily transactions in

Tanzania were rejected owing to a lack of e-float, with the agent reflecting the necessity of arranging and managing the liquidity efficiently.

Bersudskaya (2017) performed a study in Kenya to investigate the attitude, perception and behavior of agency banking. He interviewed the agent network manager, bank support staff, industry expert, banks, and MNO agents in Nairobi and discovered that agents may be actively engaged in running the agency business by managing the liquidity proactively, investing in float, and educating consumers. Further, he also suggested that there has to be system reliability before the launch of BC business and proper processes are framed so that complaints can be efficiently redressed within the time frame and negative word of mouth can discourage potential agents as well as the current and potential users of financial services.

Ho (2017) argued that traditional banks are least cost-effective in delivering services to rural clients compared to agent banking. An average rural customer has to drive approximately 8 to 20 km to the closest branch to obtain banking services, whereas it is extremely convenient for rural clients to access the same services from the local agent outlet. Agent banking services are a win-win scenario for the banks, agents and clients since the banks can grow their customer base by bringing new customers within their reach and can minimize their infrastructure and manpower costs, resulting in increased revenue. Similarly, banking agents gain by earning additional income through a high number of transactions owing to their easy accessibility and affiliation with well-recognized banks. Further, customers gain benefits owing to easier access to financial institution services which were earlier beyond their scope by reducing their travel time and expenditures along with the case of convenience and lower transaction fees. Further, agents may sell a greater variety of banking products and services to the customers at a lesser cost and bring the people within the baking ambit of the economy.

Kilonzo et al. (2017) performed a study to assess customers' perceptions regarding agent banking in Kenya. The study revealed that banking products offered at agent outlets and the speed of agents in service delivery had a significant impact on the customer. Similarly, the unavailability of certain services like cheque books, credit facilities, debit cards, foreign exchange and cash transfers to other banks influences customers' perception. Further, agency banking adoption has positively enhanced the cost of accessibility and ease of convenience by offering banking services beyond working hours to people who are busy throughout the day and week.

Onwonga et al. (2017) performed research to determine the obstacles encountered by agency banking in their expansion in Kenya. According to the study, customer attitude, technology needs, and customers' data confidentiality are positively connected with the expansion of agent banking. They also advised that lenders should enhance the technologies utilized for serving customers. Similarly, customers' data security should be strengthened so that the privacy of the customers is not compromised, an awareness campaign should be launched and more tailor-made products and services should be offered to accommodate unbanked clients through agency banking.

Santu et al. (2017) studied five commercial banks in Zimbabwe that were actively running agent banking and discovered that technical progress, policies and procedures, and control issues were the main factors that led to the successful operation of agent banking. Operational risk, liquidity risk, reputational risk, and legal risk were identified as fundamental concerns in agency banking. Similarly, the bank-specific challenges of agent banking operations include remote agent placement, lack of competent client handling, non-compliance with standards and procedures, and cross-selling problems.

Kochar (2016) evaluated the doorstep delivery of financial services through branchless banking in rural India where it was found that the opportunity cost associated with financial transactions through bank branches has been eliminated and, since BCs earn commission on each transaction, there is an incentive to mobilize households to save regularly, resulting in more inclusion. Further, different welfare payments and transfers to families are channeled through bank accounts which allow agents to earn commission on each such transaction, providing regular revenue to the agents.

Krishna and Kuberudu (2016) sought to examine the function of BCs in the financial inclusion of the East Godavari district. The study found that BCs should be provided with adequate remuneration so that uninterrupted services can be provided in rural and difficult terrains, the regular training program should be conducted, transaction costs should be lowered, technology should be improved, connectivity problems have to be redressed, and transaction limits have to be increased. Similarly, they recommended that the cash limit of BCs should be increased, the bank should inform customers that they are responsible for the actions of BCs, qualified BCs should be recruited, technology should be utilized optimally to cover remote areas, BCs should be monitored by the bank branches frequently, and the BC model should be made customer-friendly and customer-centric, and customer awareness should be increased through financial literacy camps.

Gitau (2014) sought to investigate the function of agency banking and its influence on the operational performance of a commercial bank. The study revealed that banking agents had been effective in diverting existing customers from overcrowded branches by giving a supplementary convenient channel and tapping more clients at a cheaper cost from a different geographical area, which was an expensive affair for bank branches. Agency banks have enhanced the performance of commercial banks by lowering bank premises building expenditures, human resource expenses, training expenses, and equipment like furniture and computers. Similarly, the ease of convenience of accessing banking services at an extended hour has encouraged rural customers to avail their services regularly, resulting in an increase in bank revenue at minimum cost, regular income for BC agents and bringing the unbanked population into the formal financial sector by the government.

Kolloju (2014) conducted a study on financial inclusion using the Business Correspondent model, highlighting the efforts made by BCs to enhance financial inclusion in rural areas while also strengthening the relationship between the unbanked segment and the formal financial system. According to the author, BC provides a large level of exposure to rural people, who may readily obtain basic banking services without paying any additional cost. Furthermore, a lack of proper financial education among rural people is hindering the efficient utilization of the services offered to customers under this model. The author also argues that if banks provide adequate support to the BCs in their operations, the BC model has the potential to bring the country's rural unbanked population into the formal financial system.

Chiteli (2013) intended to examine the competitive strategy followed by commercial banks in employing banking agents. The study revealed that banking agents have extended their business to different geographical areas, decongested bank branches and increased the number of clients, while they have experienced problems like liquidity risk due to lack of enough cash to satisfy customers' demand. Similarly, credit risk may emerge owing to one party not settling the transaction and operational risk due to potential losses stemming from a failed transaction, system failure, and external events. Further, commercial banks have encountered various problems, such as reputational risk, technical risk, consumer protection and legal risk.

Stanford (2013) conducted a survey in Brazil where he found that nearly 44% of Brazilian households have at least one formal savings product and 66% of Brazilian households have at least one formal credit product. Similarly, it was revealed that approximately 31 percent of Brazilian households make installment purchases and 34 percent of heads of institutions have their names on the bad credit register. Furthermore, it has been observed that banking correspondents have primarily catered to the urban population, expanding their access to financial services within five km of the service point, while they are more than 10 km away from the banks in rural regions. Almost 68% of Brazilian households make at least one payment to their banking correspondent, and 9% pay their power bills once a month. However, a deep dive into the Brazilian use of banking correspondents revealed that the majority of users use the channel for bill payment, deposits, and withdrawals, with the majority being the poorer and excluded sections, implying that banking correspondents have had a far-reaching impact on changing the lives of the disadvantaged sections who have been financially excluded from the formal system of the economy.

Kumar (2013) found that the branch network has a strong positive impact on accelerating the financial inclusion process in India and the measures taken by the Central Bank to relax the opening of the branches, the establishment of business correspondents to serve the rural masses and the enhancement of the ATM Kiosks are delivering the desired results for policymakers.

Chattopadhyay (2011) stated that the Business Correspondents Model can be effectively utilized to address both the demand and supply-side issues of financial inclusion. Since local people are employed to provide banking services, it is simpler for the least educated and disadvantaged section to receive financial services through the BCs without having to visit bank branches. Similarly, they are also promoting financial awareness among the rural population through financial literacy camps.

Lauer et al. (2011) identified operational, technological, compliance, and reputational risk that may occur due to the usage of agent banking. The operational risk is due to insufficient training, lack of capacity, and essential instruments that include fraud, unauthorized fee collection, data entry mistakes, poor cash management, disrespectful service and inability to handle customer concerns. The technological risk may emerge due to software or hardware failures or malfunctions leading to service unavailability and loss of information. Legal and compliance issues may occur as a result of agent theft or privacy law breach and abuse of customers data. Reputational risk develops owing to underperformance by agents, liquidity deficits, leaking of confidential customer data, and negative coverage due to system failures.

Natu et al. (2008) researched to examine an innovative mechanism to enhance financial inclusion by integrating it into social security systems. It focused on expanding the customer's access along with its use by offering a consistent revenue stream, albeit for a limited period in a year. The research proposes that BC be able to open an account and pay weekly wages to the beneficiaries when credited to their account. The expense of transit, as well as the opportunity cost of time needed to visit the bank branch, would be avoided and BCs may provide savings and credit services to the beneficiaries of social programs at their doorsteps.

2.1.3 Service Quality in Banking

Mujinga (2019) performed research to find out the quality of services offered by retail banks in South Africa. The study employed the SERVQUAL model based on customers' perceptions and expectations, utilizing gap analysis on 184 retail banking clients. It was observed that retail banking consumers anticipate a greater level of service compared to the one they are receiving from the banks. Further, there is the largest gap identified in reliability, responsiveness, and empathy dimension with responsiveness having the most negative gaps that call for a measure to improve the staff degree of contact with customers in redressing their inquiries. Similarly, the reduced negative gap in a tangible dimension indicates that the retail banks are very close to satisfying the consumer expectation for the physical infrastructure, dress code, and material distribution to clients.

Hamzah et al. (2017) sought to determine the dimension of SERVQUAL from the customers' perspective and its link with the perceived overall SERVQUAL in retail banking in Malaysia. The study revealed that the four aspects of SERVQUAL, i.e. tangibility, empathy, reliability and security, and online banking impact the total SERVQUAL in banking. Further, the quality performance of tangibility, empathy, reliability and security, and internet banking is essential for banks to satisfy their customers and build the trust of consumers, and increases the reputation of banks.

Kakouris and Finos (2016) sought to empirically examine the service quality perception of consumers of banks in Serbia. They employed the SERVQUAL instrument for assessing the service quality using the standard 22 item questionnaire with a five-point scale dimension to 287 respondents. The study showed an overall Servqual gap of -0.507 with the greatest observed Servqual difference for the Reliability dimension being -0.598 and the lowest gap was discovered in the Assurance dimension being -0.440. Similarly, there was a negative Servqual gap of -0.496 in the Tangibility dimension,-0.464 in Empathy dimension, and -0.527 in Responsiveness dimension, which shows that there was a degree of discontent among consumers about the service quality of those banks.

Ali and Raza (2015) sought to examine the link between service quality and customer satisfaction among Pakistani Islamic bank clients. A Modified SERVQUAL model with a compliance component was created that was administered to 450 clients of Islamic banks and the sample data was statistically evaluated using EFA followed by CFA and SEM. The conclusion of the study revealed that all six aspects, i.e. assurance, responsiveness, tangibles, empathy, reliability, and compliance of service quality were unique constructs and had a positive and substantial effect on customer satisfaction. Further, each factor has a favourable and substantial relationship with the quality of the service of Islamic banks.

Choudhury (2014) examined the influence of a different dimension of service quality on customers' word of mouth in the context of the retail banking business. The expectation part and perception portion of the questionnaire were created to measure the customers' service quality level on a seven-point scale. The outcome of the study revealed substantial support for the prediction of perceived service quality on word of mouth communications with the four dimensions of service quality, i.e. attitude, competence, tangible, and convenience having a great impact on influencing the word of mouth about the banks.

Lau et al. (2013) conducted a study to measure the service quality in the retail banking sector in Hong Kong. A Servqual model was adopted and a questionnaire was administered to 119 retail bank customers to identify the influence of the five dimensions of the Servqual model of customer satisfaction. The study found that all the five dimensions, i.e. empathy, tangibility, responsiveness, reliability, and assurance were found to be important predictors of customer satisfaction. Further, it was recommended that employees of the banks should provide professional services, pay extra attention to customers need and protect the customers privacy by avoiding revelation of any data to marketers.

Kumar et al. (2009) tried to determine the factors affecting the service quality of banks by applying the SERVQUAL model using dominance analysis. A systematic questionnaire was used to obtain information from 308 Malaysian bank clients. The study identified four dimensions, i.e. tangibility, reliability, competence, and convenience, which have a substantial difference between perception and expectations of the bank customers. Furthermore, tangibility has the smallest gap while convenience has the largest gap. Similarly, the dominant approach was used to lower the SERVQUAL gap by 76%, implying that banks should be more responsive and convenient to their clients.

In addition to these literature, some more research on Service Quality has been discussed in Chapter six where the study has been stated by Ananda & Devesh (2018) ; Mongi & Mokaya (2018) ; Suri (2017) ; Tan, Chew & Hamid (2016) ; Masila, Chipkulei & Shibairo (2015) ; Salma & Shahneaz (2013) ; Rao & Lakew (2011) ; Santhiyavalli (2011) and Ezirim (2005).

2.1.4 Operational Aspects of Business Correspondents

Some research on the operational aspects of Business Correspondents have also been reviewed in Chapter four as a precursor to carrying out empirical analysis. Details of the review are available in the aforesaid chapter.

Intention to continue their business - Aghaei and Sokhanvar (2019); Hung et al. (2017); Kassim and Ramayah (2015); Al-Harrasi et al. (2014); Ndungu (2014); Ombutora and Mugambi (2013); Koe et al. (2012); Uddin and Bose (2012); George et al. (2011); Kautonen et al., (2011); Moriano et al. (2011); Wu (2010); Mas (2009); Schwarz et al., (2009); Parker (2004); Krueger et al., (2000); Bird (1998); Kruegar and Carsrud (1993); Ajzen (1991).

Liquidity Aspects - Gupta et al. (2020); Frydrych (2019); Kiarie et al. (2018); Mehrotra et al. (2018); Kiarie and Bersudskaya (2017); Mehrotra and George (2015); Pandey & Wright (2015); Kolloju (2014); Maurer et al. (2013); Ujjawal et al. (2012); Flaming et al. (2011) and Medhi et al. (2009).

Commission Aspects - Alehegn (2020); Uddin and Sultana (2019); Amit (2018); Patel et al. (2018); Roy (2017); Kochar (2016); Ndungu and Wako (2015); PWC (2015);

Kumar & Balasubramanian (2014); SIDBI (2014); Grameen Foundation and Enclude (2013); Kapoor and Shivshankar (2012) and Flaming et al. (2011).

Technical Aspects - Bhat et al. (2021); Genga et al. (2018); Nanjero et al. (2017); George et al. (2016); Mehrotra and George (2015); PWC (2015); Pandey & Wright (2015); Shukla (2015); SIDBI (2014); Microsave (2014); Kumar & Balasubramanian (2014); Aduda et al. (2013); Wright et al. (2013) and RBI (2012).

Training Aspects - Nisha et al. (2020); Ahimbisibwe et al. (2018); Mehrotra et al. (2018); Patel et al. (2018); (CRFIM, 2017); Kiarie and Bersudskaya (2017); Tiwari and Srivastava (2017); George et al. (2016); Wright (2015); Shukla (2015); PWC (2015); Kapoor & Shivshankar (2012); APMAS (2012) and Platt & Tiwari (2012).

2.2 Identification of Research Gaps

The review of literature reveals that a varied emphasis of work has been undertaken in an attempt to delve into the models and strategies of financial inclusion and access in India and other countries in the world. Agency banking has been explored as an alternative to the brick and mortar model in terms of cost-efficiency, service quality, efficacy in the mobilisation of household savings, influence on financial inclusion, technological aspects and even fraud. However, a large research gap exists in empirically finding as to how factors such as liquidity problems in BC operations, earnings by the BCs, technology operations, and training obtained by BCs can influence the intention of these banking agents to continue working in this system. This thesis aims to address this gap. Further, very little information has been brought out through the earlier studies as to whether the commission generated through BC activities is sufficient to cover the expenses of banking operations through kiosks and handheld devices and then generate a surplus for the people who worked as BC Agents. Research gap also exists in the areas of appointment and monitoring of BCs by Corporate BCs and banks. Though diverse practices exist, no research work has yet attempted to focus on these aspects, though they represent one of the key facets of working of the agency banking model. Attempts have been made to dent with this gap in this thesis.

Further, while the supply side of this model can be investigated by concentrating on these aspects, the research gap which exists regarding the demand side needs to be explored too. Though service quality has been assessed for banks, no research has yet been conducted to assess whether the customers who subscribe to this model are satisfied with the service quality of the BCs. This research attempts to fill this gap.

Furthermore, there is no evidence of research carried out by other researchers focusing on the outreach of the BC model in North Bengal. The Index of Financial Inclusion in West Bengal is 0.257 with penetration at 0.227, availability at 0.372 and usage at 0.185, as pointed out by Chattopadhyay (2011). North Bengal is made up of eight districts in West Bengal, with the majority of its people residing in rural areas and brick and mortar branches being located in urban areas. This poses a significant challenge in bringing the unbanked population within the banking system through agency banking.

In an attempt to fill up the research gaps, the objectives of the study are stated below.

2.3 Research Objectives

i. To gauge the outreach and spread of Business Correspondents in India and especially in North Bengal.

ii. To critically examine the appointment and monitoring processes of Business Correspondents by banks and corporate BCs

iii. To examine the activities carried out by the Business Correspondents, the income being generated from these activities and find whether the income is enough to generate surplus for the BCs after meeting operating and fixed expenses.

iv. To examine whether income, expenses and profits differ between different operating models of BCs.

v. To identify and measure the various factors responsible for influencing the intention of BCs to continue their business.

vi. To investigate whether the quality of service perceived by the customers from the BCs and the expectation of quality of services from them differ.

2.4 Hypotheses

The main proposition or principle hypotheses of this study is that the agency banking model has been expanding in North Bengal, delivering the services as expected and generating a good self-employment opportunity for the BCs.

The specific hypotheses are as follows:

i. The profits earned from BC activities are positive and the income and operating expenses of the Kiosk model and POS model do not differ.

iii. Liquidity aspects, training and technical aspects are the factors that determine the commission earned by the BCs.

iv. The amount of commission earned by the BCs in turn determine the intention of the BCs to continue their business.

v. There is no difference in the expectations and perceptions of the BC customers regarding the quality of services given to them.

2.5 Significance and Scope of the Study

The significance of the study stems from the fact that exploration of facets of outreach and spread of this model, the appointment and monitoring process of BCs, the viability of their operations in terms of income and expenses, intention to continue as BCs and satisfaction of customers have the essence of ground reality as the major portion of data collected was through rigorous field research. However, considering the amount of information to be collected from BCs, clients of the BCs and bankers, the scope of the research was confined to eight districts of West Bengal. These districts together comprise what is known as North Bengal. The confinement of the field research to these regions was also based on consideration of time to be spent and the expenses to be made. As viewed as precedence from other research in this area, most of the studies have limited their scope to specific areas. This does not present future studies to be conducted in other geographical regions through banking agents or Business Correspondents which in real sense will bring financial inclusion system to the doorsteps of the impoverished.

2.6 Research Methodology

2.6.1 Data Source

To carry out the research, both primary and secondary data were collected. The secondary data was obtained from various sources, ranging from the Business Correspondents Registry of the Indian Bank Association, the RBI database, the Bank website and the Corporate BCs website and officials. Similarly, primary data was collected through extensive field research. The field investigations comprised participatory observational research, where substantial time was spent with numerous BC agents to observe and note their operations and problems. Personal interviews, focus group interviews with BC agents, corporate BCs, and bankers also formed a major source of collecting primary data. Two sets of structured questionnaires were also personally administered to the sample BCs operating in various districts of North Bengal and to the customers of BCs.

2.6.2 Sampling

Sampling is the process of selecting respondents for research in such a manner that they reflect the characteristics of the population. The major objective behind using sampling is to collect information about the population through the sample so that the results obtained from the sample adequately represent the population, leading to the generalization of the study. It is also important that the sample chosen truly reflects the population, so that unbiasedness can be removed and a proper conclusion may be formed from the findings of the study.

Population and Sampling Frame – The population for this study comprises of all Business Correspondent Agents functioning in the eight districts (Coochbehar, Darjeeling, Alipurduar, Jalpaiguri, Kalimpong, Malda, Uttar Dinajpur & Dakshin Dinajpur) of North Bengal, offering financial services to customers in urban, semi-urban and rural areas. For fixing the sampling frame, the banks, which had at least 50 BCs in North Bengal, was taken up for the study. A sampling frame is a list of all items in the population. It is proper to mention here that "a population is general and the sample frame is specific" (Turner, 2003). In case of this study, banks such as Union Bank of India, UCO Bank, Punjab National Bank, Indian Overseas Bank, Corporation Bank, Indian Bank, Syndicate Bank and Axis Bank could not provide the list of BCs as they had less than 50 BCs and probably their focus on agent banking was low. The sampling frame was therefore constituted of BCs whose complete list was obtained from the concerned banks. The population therefore consisted of 3329 BCs and the sampling frame consisted of 3176

BCs.Therefore, 3176 BCs as indicated in Table 2.1 from 08 Public Sector Banks including two Regional Rural Banks and 02 Private Sector Banks constituted the sampling frame when the primary field survey started in September 2018.

Sample Size – Before conducting the study, it was kept in consideration that a large sample size would be necessary because it is widely accepted that to employ sophisticated statistical techniques like Structural Equation Modelling (SEM), large sample size is necessary for the results to be reasonably stable (Kline, 2005). A sample size of 100 is regarded as modest, while a sample size of between 100 and 200 is considered moderate, but this is not always the case because it relies on model complexity, and a sample size of more than 200 cases is considered large. According to Hair et al. (2010), a sample size of 200 is recommended to test the theoretical model using the Structural Equation Model.

Sample Size Estimation: Sample size estimation is done using the following formulae as suggested by Aaker et al. (2008).

$$n = \frac{\frac{z^2 \times \hat{p}(1-\hat{p})}{\mathcal{E}^2}}{1 + \frac{z^2 \times \hat{p}(1-\hat{p})}{\mathcal{E}^2 N}}$$

Z = Z score (1.96)

Ɛ = Margin of Error (6%)

N = Population Size (3176)

$\hat{P}$ = Population Proportion (50%)

The minimum number of sample size required is 247. It was decided that the sample for this study would have to exceed 247 and each district would have to be proportionately represented. Accordingly, lists of BCs for each district was prepared separately and 10% of the BCs from each district was sampled by generating random numbers. The sample was thus initially fixed at 318 BCs as shown in Table 2.1. However, after collecting and processing the questionnaires, it was discovered that 13 filled in questionnaire were incomplete, so they were rejected and only 305 questionnaires were used in the final study. Thus, the final sample size stood at 305 BCs out of which 190 carried out their operations through Kiosk model and 115 through POS model.

Table – 2.1 Sample Distribution of BCs according to Districts & Banks

DISTRICTS	ALIPUR DUAR	COOCH BEHAR	DAKSHIN DINAJPUR	DARJEE LING	JALPAI GURI	KALIM PONG	MALDA	UTTAR DINAJPUR	TOTAL BCs BANK-WISE
ALLAHABAD BANK	4	10	22	6	16	0	49	24	131
UNITED BANK OF INDIA	17	38	53	37	64	0	95	57	361
CENTRAL BANK OF INDIA	64	101	11	46	68	39	20	25	374
STATE BANK OF INDIA	48	158	121	102	201	67	255	218	1170
BANK OF BARODA	0	21	3	18	29	0	27	11	109
BANK OF INDIA	13	19	17	18	18	0	12	13	110
HDFC BANK	8	20	17	16	14	0	0	11	86
IDFC FIRST BANK	0	26	2	7	13	0	68	19	135
UTTAR BANGA KSHETRIYA GRAMIN BANK	64	169	0	60	97	0	0	0	390
BANGIYA GRAMIN VIKASH BANK	0	0	58	0	0	0	110	142	310
TOTAL BCs POPULATION DISTRICT-WISE	218	562	304	310	520	106	636	520	3176
POPULATION PROPORTION%	10%	10%	10%	10%	10%	10%	10%	10%	10%
TOTAL SAMPLE	22	56	30	31	52	11	64	52	**318**

The demographic aspects of Business Correspondents include gender, age, marital status, jobs, educational qualifications and yearly income. The demographic characteristics of the BCs are presented in Table 2.2.

Table 2.2 – Demographic Profile of the Business Correspondents

Demographic Profile	Categories	Frequency	Percentage (%)
Gender	Male	198	62%
	Female	121	38%
Age	20-30	99	31%
	30-40	132	41%
	40-50	68	21%
	50-60	17	6%
	60 and above	3	1%
Marital Status	Married	147	46%
	Unmarried	166	52%
	Separated	6	2%
Educational Qualification	MP/Secondary	60	19%
	HS	80	25%
	Graduation	134	42%
	Post-Graduation	20	6%
	Other Degree	25	8%
Annual Income (₹)	up to 50,000	35	11%
	50,000 – 1,00,000	57	18%
	1,00,000 – 1,50,000	74	23%
	1,50,000 – 2,00,000	83	26%
	2,00,000 and above	70	22%

It can be observed from Table 2.2 that almost 62 percent of respondents are male and 38 percent of respondents are female.

Similarly, as far as the age group is concerned, nearly 41 percent of the respondents belong to the age group of 30-40 years, followed by 31 percent of the respondents in the 20-30 years age group and 21 percent in the age group of 40-50 years, with 6 percent of the respondents belonging to the 50-60 years age group, followed by 2 percent in the age band of 60 years and above, as shown in Table 2.2.

Nearly 46 percent of the respondents are married, while 52 percent of the respondents are unmarried and 2 percent of them are separated, as indicated in Table 2.2.

There is about 42 percent of the respondents who are graduates, followed by 25 percent of respondents having upper secondary. Similarly, 19 percent of the respondents have completed madhyamik pariksha or secondary examination, 8 percent have obtained various degrees and the rest 0.6 percent have post-graduation as indicated in Table 2.2.

According to Table 2.2, 26 percent of total respondents have an annual income of INR 1,50,000 – 2,00,000, 23 percent have an income in the range of INR 1,00,000 – 1,50,000, and 22 percent have an annual income of more than 2,00,000. Similarly, 18 percent of the respondents lie in the income bracket of INR 50,000 – 1,00,000 and 11 percent of the respondents receive a yearly income of up to INR 50,000.

2.6.3 Tools and Techniques for Data Collection and Analysis

The data collected was analyzed using statistical techniques such as descriptive statistics, exploratory factor analysis, confirmatory factor analysis, structural equation model and independent two sample t-test and paired t test using statistical tools like MS Excel, SPSS 23 & AMOS 20.

For the collection of relevant information and required data, several research techniques were applied. First and foremost, participatory observational research was conducted on more than 60 BC agents to record points regarding their operations, liquidity, transit to banks, dealing with banks and their problems. Further, personal interviews with several bank managers and corporate BC officials and focus group discussions with BC agents were also conducted to get insight into their operational challenges and grasp their perspectives on the viability of the agent banking model. Based on this information, a structured questionnaire was prepared for the BC Agents. The responses to each statement in the questionnaire are collected on a five-point scale, with 5 indicating strongly agree, 4 indicating agree, 3 indicating neutral, 2 indicating disagree and 1 indicating strongly disagree. The questionnaire was pilot tested on 45 BC agents and then revised to remove the defects. After the data collection, it was statistically evaluated to find out its feasibility and discussed with the domain knowledge expert, after which it was finalized for the final survey. The reliability of the scale was found to be 0.715 as shown in Table-2.3, which is higher than the stated acceptance level (Hair et al., 2010).

Table 2.3 - Reliability Statistics

Cronbach's Alpha	No. of Items
0.715	49

The second set of questionnaires were prepared for customers of the BCAs to evaluate their expectations and perceptions of services obtained from BC agents. The details of this questionnaire and sample respondents are given in Chapter 5.

2.7 Plan of the Study

This chapter has been divided into seven chapters.

- The first chapter, ‘Conceptual Framework and Background of the Study', introduces the concepts of financial inclusion, its initiatives in India. Next, it elucidates the concept of Business Correspondents, its global perspective, genesis and growth, along with the different BC Systems in India. This chapter also explains the statement of the problems and the significance of the study.

- The second chapter, 'Review of Literature, Objectives, Scope of the Study and Research Methodology', covers the previous studies regarding Financial Inclusion, Business Correspondents and Service Quality. Next, it identifies the research gap and scope of the study and then describes the research questions and the research methodology.
- The third chapter, 'Business Correspondents – Outreach, Appointment, Monitoring and Business Viability', examines the outreach of the Business Correspondents in India and specifically in North Bengal. Following that, the procedures for appointing and monitoring BCs, as well as their income, expenses and profit were investigated.
- The fourth chapter 'Intention to continue as Business Correspondents – An Investigation into the Influencing Factors' has been studied. Here, the study has tried to identify the factors influencing the intention of BCs to continue their business.
- The fifth chapter is 'Confirmation of Identified factor structure and Identification of Relationships between the Constructs through Structural Equation Modeling'. The present study attempts to confirm the factor structure identified through Exploratory Factor Analysis and tries to find the relationship between the endogenous and exogenous variables.
- The sixth chapter, 'Service Quality of Business Correspondents – Perception of Clients, explored the quality of services as expected and as perceived by the customers of the BCs.
- The seventh chapter, 'Summary of Findings and Conclusion', is the final chapter of the present study, which includes the findings and their policy implications along with the scope of future research and limitation of the study.

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