Chapter 1

Conceptual Framework and Background of the Study

1.1 Introduction

Financial Inclusion is a process where the unbanked people are provided an opportunity to access financial products and services by bringing them within the financial system of a country. A well-functioning financial system should be inclusive and easily accessible to the large population, which can improve the financial condition of the poor and deprived sections. There are large segment of the population living their livelihood below the poverty line who are being deprived from reaping the benefit arising from the economic growth of a country, the policy should be to provide equal access to all sections of society, irrespective of their financial capacity, due to the banking service being in the nature of public goods.

Financial Inclusion has considered financial access as a key strategy for decreasing extreme poverty by the World Bank and has set a target of attaining universal financial access by 2020. There is no one globally recognized standard definition of financial inclusion and the majority of the definitions use dimensions like access, usage, and quality as criteria for measuring financial inclusion (Beck et al., 2007; Allen et al., 2012; World Bank, 2014; Demirguc-Kunt et al., 2015). Here, the term access signifies the depth of the outreach of formal financial services; usage indicates how individuals utilize financial services; and quality reflects the usefulness of products that match the needs of the customers. Thus, outreach is an essential feature of financial inclusion, since close proximity to the bank branch would contribute towards the formation of banking habits among the clients, leading to a rise in deposits and credit. Similarly, according to the Committee of Financial Inclusion in India, "financial inclusion may be defined as the process of ensuring access to financial products and services needed by all members of the society in general and vulnerable groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players" (Rangarajan Committee, 2008).

The objective is to bring the large unbanked section of society within the mainstream financial system where they can easily access the financial products and services at their doorstep and avail the banking services regularly. Thus, providing vulnerable groups with easy access to safe and affordable financial services accelerates growth while reducing income disparities and poverty.Hannig and Jenson (2010) also opined that "Financial Inclusion aims at drawing the unbanked population into the formal financial system so that they have the opportunity to access financial services ranging from savings, transfer, payments and insurance". The basic policy drive in promulgating financial inclusion is to reduce the population who are basically excluded from the formal financial system and increase their accessibility to products and services offered by them.

According to the Global Findex Database (2017), around 79.9 percent of our population have formal bank accounts, compared to 53.1 percent in 2014. Furthermore, 23.4 percent of those without an account cited the distance between the financial institution and their home as the reason, while 21.7 percent cited a lack of necessary documents, and 51.6 percent stated that someone in their family has an account with a formal financial institution.

The major thrust of policymakers should be to increase the financial access of the deprived section living at the bottom of the pyramid and provide uninterrupted services at their doorstep, too, at an affordable cost, which can potentially be a viable business opportunity for the banks. Catering to the unbanked segment leads to their participation in the country's economic development. Empirically, there is a strong link between the level of financial access in terms of commercial bank branches per 100,000 adults and deposits per 1000 adults and the progressive increase in the countries income level.

In India, there are large sections of the excluded population residing in rural areas who do not have easy access and availability of financial services like account opening, savings, credit, insurance, and remittance facilities in their location, leading them towards the local money lender who charges exorbitant interest, making it nearly infeasible to pay the debt amount. Nearly 51% of the farmer households residing in the country are financially excluded from both formal and informal sources. Furthermore, even though there is a vast network of bank branches, only 27% of the farm households have access to the formal sources of credit (Chattopadhyay, 2011).

Similarly, the Committee on Financial Inclusion formed by the Government of India reported that nearly 73% of the farmers' households have no access to any form of credit through an approved institution. Financial institutions need to adopt a holistic approach to cover the under-banked and unbanked regions through a cost effective delivery channel to provide banking and financial services in a transparent and equitable manner that can be easily affordable to excluded segments of the populace.

1.2 Initiatives for Financial Inclusion in India

Financial inclusion is a policy that has been undertaken by the Government of India, RBI, and policymakers to provide banking services to every nook and corner of the country. The goal is to incorporate the excluded sector into the paradigm of the formal financial system where affordable banking products and services may be offered with simplicity and convenience. Even if the policy is designed to include the excluded sector into the financial purview of a country, it is observed that the bankers are hesitant to compromise and give up their drive for profitability to accommodate the least privileged and unbanked residents of the far flung rural areas. The agenda is to provide banking services with an emphasis on retaining profitability, which has ultimately led to variation in the coverage of the villages throughout the country. While the growth is visible in some places, there are many areas that still lack even basic banking services.

(i) No-Frill Accounts (NFAs) - In November 2005, the RBI introduced the No Frill Account and asked scheduled commercial banks and regional rural banks to offer nil or low minimum balance accounts to customers who wanted to open such accounts. The account will give the facility of zero balance, deposit, and withdrawal facility of cash at the bank branches and ATM overdraft facility, receipt and credit of cash through the electronic payment channel, restricted charges and ATM card facility. Further, it was noted that although the huge number of No Frill Accounts were created by the bank, its performance in terms of growth was overshadowed due to the lower utilization and high inactivity in the accounts. The majority of the accounts were non-operative and remain dormant even though they are designed to cater to the needs of the poor and weaker sections of society. The issues acting as hindrances to its utilization were the expense of accessibility, i.e., the cost incurred for accessing the nearest branch, lack of financial knowledge and stigma connected with it being labelled as a poor person account. Thus, in 2012, RBI changed the title of the account to a Basic Savings Bank Deposit (BSBD) account with an intern to bring uniformity and provide an equitable banking facility to the customers. The number of BSBD accounts increased tremendously, from 73 million with a deposit of 55 billion in March 2010 to 535 million with a deposit of 987 billion in March 2017 (RBI, 2017).

(ii) Simplification of Know Your Customer (KYC) Norms- The majority of low-income households belonging to the disadvantaged section of society lack adequate identity and address documents, which are generating hindrances in opening an account.RBI came up with a modified and simplified KYC requirement for creating a ‘Small Account’ without any officially valid documents. It has specific limitations, such as aggregate credit of one lakh rupees in a fiscal year, balance of 50,000 rupees per year, and aggregate withdrawal and transfer of 10,000 rupees in a month, making it easier for the impoverished sector to open a formal bank account. After 12 months, the customers can convert the small account into a normal saving account by submitting any one of the officially valid documents as both proofs of identity and proof of address, viz., passport, driving license, Permanent Account Number (PAN), Voter Id issued by the Election Commission of India (ECI), Job Card issued by MGNREGA and signed by the State Government Officer, and a letter issued by UIDAI containing details of name, address, and Aadhaar number.

(iii) SHGs Bank Linkage Programme - NABARD launched a pilot project in the year 1992 to provide access to financial services to the rural poor by linking Self Help Groups (SHGs) with the banks. After the initial success of the project, it was transformed into the SHG-Bank Linkage Programme with NABARD funding and support, which was transformed into one of the most obvious microfinance programs in the world. It has successfully contributed to uplifting the poorest of the poor through group-based activities, addressing major issues like social and economic empowerment of rural women. The easy availability of microcredit has resulted in productive activity, improving their financial situation, and allowing poor women to participate in family decision-making. Initially, it was through savings and later loan products were offered that catered to the micro-credit requirements of the rural poor, who were excluded from the formal financial system. The total number of SHGs linked to banks is 87.44 lakh with an amount of Rs.19592.12 crore. Out of the total SHGs, there are 73.90 lakh exclusive women's SHGs with an amount of Rs.17497.66 crore. Similarly, there are 50.20 lakh SHGs having an outstanding loan amount of Rs.75598.45 crore. There are 45.49 lakh exclusive women SHGs whose outstanding loan amount is 70401.73 crore as on March 31, 2018.

(iv) Creation of Financial Inclusion Fund - During the year 2007-08, the Government of India (GOI) announced plans to set up a Financial Inclusion Fund and a Financial Inclusion Technology Fund with an overall corpus of Rs.500 crore each, to be contributed in a phased manner for a maximum period of five years. The objective of the Financial Inclusion Fund was to support 'development and promotional activities among the poor, less privileged sections, and low-income groups in the unbanked areas. Similarly, the goal of the Financial Inclusion Technology Fund was to promote investment in information and communication technology (ICT), improving financial inclusion, strengthening the technology absorption ability of consumers and service providers, and fostering a creative environment. Later, GOI amalgamated the Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) and established the Financial Inclusion Fund with a total capital of Rs.2000 crore.

(v) Kisan Credit Card (KCC)-The Kisan Credit Card Scheme was created in 1998 to enhance the credit demand of impoverished farmers, covering the production, investment, and consumption requirements of the Kisan cardholders. The plan gradually simplified the credit demand of financially excluded poor farmers by providing appropriate and hassle-free credit support through the single window banking system.NABARD has started the work of promoting and popularizing the program among the farmers by cooperating with the formal financial institutions and distributing smart cards and debit card to all the new farmers along with the existing KCC holders. Since its establishment, KCC has garnered popularity among farmers, with 46 million cards already given along with an outstanding credit of 5805 billion as of March 31, 2017 (RBI, 2017).

(vi) General Credit Card (GCC) - The RBI encouraged banks to provide general credit card facilities to their clients based on an assessment of their income and cash flow, with no requirement for security or credit end-use. The total credit facility provided to the customer shall not exceed Rs.25,000, and credit shall be granted on a revolving basis. Banks have the freedom to float their own program to market the product among rural clients. Banks have issued one million general credit cards with an outstanding credit of 35 billion as of March 2010, which has now been raised to 13 million GCC customers with 2111 billion in outstanding credit as of March 2017 (RBI, 2017).

(vii) Adoption of the Business Correspondents and Business Facilitators Model- In January, 2006, RBI issued guidelines to banks to use the services of business facilitators and business correspondents as intermediaries for providing banking services to the large populace residing in rural areas. Business Facilitators can recommend clients and pursue the client's proposal, whilst Business Correspondents can interact on behalf of banks. Initially, intermediaries such as NGOs, Cooperatives Societies, SHGs, insurance brokers, Village Knowledge Centre, Section 25 businesses, registered NBFCs that do not accept public deposits, post offices, and other civil society groups. Furthermore, during the year 2010-11, RBI authorized ‘for-profit’ firms to be engaged as business correspondents. Gradually, the list of eligible entities has been growing. This methodology opened the foundation for the notion of branchless banking in India. The BF/BCs concept delivers banking services to the poorer section of the population dwelling at the bottom of the pyramid at their doorstep. The number of BCs offering services in the villages was 33042 in March 2010, which grew to 95767 in March, 2012.Similarly, the number of banking outlets covered by BCs in villages was 34174 in March 2010 and rose to 5,43,472 in March, 2017 (RBI, 2018).

1.3 Business Correspondents – A Unique Model of Spearheading Financial Inclusion

The intent to bring the financially excluded section within the paradigm of the formal financial system can trace its roots back to the nationalisation of banks during 1969 and 1980 in India. Even though RBI has initiated several measures to increase banking outreach to the poor and underprivileged sections of our society and provide banking services to a large section of our unbanked population, they have not yielded the desired results. During the last few decades, a large and strong banking network has been created across the country. However, there are more than 111.5 million households that do not have any access to formal means of credit and nearly 17 million households are in debt with local non-institutional money lenders (Rangarajan Committee, 2008). The term "financial inclusion" was first used by RBI in its Annual Policy Statement of 2005-06, wherein it raised concern regarding the banking practices prevalent among bankers to exclude the people living at the bottom of the pyramid and urged them to review their practices in order to align them with the objectives of financial inclusion. Moreover, it has regained its importance as there is a growing realisation among policymakers that without including the lower segment of our population, poverty alleviation will be a tedious task. Since it is believed that easy access to financial products and services can improve the financial capability of the weaker and lower income groups, numerous efforts are being made to introduce new and innovative models to increase the banking ambit and provide banking services at the doorstep of the last mile populace.

Even at the global level, an effort is being made to increase access to finance for marginalised and vulnerable groups. The World Bank has declared the objective of achieving universal financial access by 2020, recognising the importance of financial inclusion in fostering economic growth and alleviating poverty. According to the Global

Findex Report (2017), there are nearly 1.7 billion adults in the world who do not have a formal bank account. Similarly, in a lower-middle-income country like India, the percentage of adults aged 15 and up with formal bank accounts increased from 53% in 2014 to 80% in 2017, adding 300 million accounts in just a few years, with the Jan Dhan Yojana scheme serving as the primary driver of the increase in financial inclusion program. Thus, there was a need to bring the unbanked and underbanked population into the paradigm of the formal financial system, making it more convenient to serve the left out section of the population. Further, it was found that banks were setting up brick and mortar branches to increase and expand their outreach towards the unbanked areas, but still large parts of the population were left out of the banking services. It was not feasible to set up brick and mortar branches as their operating costs were too high and unviable in a sparsely populated region with uneven distribution. According to Subbarao (2010), only 30,000 of nearly 600,000 habitations had commercial bank branches, and 40% of the population had bank accounts. Technology has the potential to address the issues related to outreach and credit delivery in rural and backward areas by introducing innovative models and expanding its presence among the rural inhabitants of our country at an affordable cost.

RBI introduced the BC model in the year 2006 to address the accessibility and usage concerns of unbanked and underbanked people. It was one of the most ground-breaking measures adopted by policymakers to increase banking outreach, utilizing agency banking, which brought significant changes in increasing financial inclusion in India. The Central Bank relaxed various regulations from time to time so that the model could be effectively embraced by the stakeholders and achieve its desired objectives. The agent banking system was adopted by the RBI due to its success in enhancing financial inclusion in Brazil, where the banking agents were permitted to offer services like withdrawal, deposits, transfers, mobile phone top-ups, sourcing of loans and credit cards, bill payment, foreign transfers, and collection of loan amounts. The majority of the BC engaged in Brazil were the existing retailers, and more than 100,000 agents were set up by the Brazilian banks covering the length and breadth of the nation, owing to which the model has helped to lower the transaction costs and covered a large section of the populace.

Business Correspondent Model has the potential to serve both the demand and supply side objectives by providing opportunities for the banking sectors and inculcating financial awareness among the customers, which would raise the demand for financial products and services. Similarly, it may provide the appropriate financial products and services at a low cost at their doorstep, reducing travel expenses. This approach has been largely driven by the banks in cooperation with the Corporate BCs, and they have spread their banking coverage to the major unbanked villages in the country through the BC Agents. Initially, individual BCs together with the not-for-profit Corporate BC were authorized to function as BCs with technology such as POS machines, mobile phones, fixed kiosks, swipe cards, and other portable devices. Further, the guidelines also limited the scope and growth of the agents by stating the profile of the BC agents and the distance from the base branch at which the BCs could offer their services, but gradually the guidelines were relaxed by the policymakers and the restrictions and limitations imposed on BCs were removed through multiple circulars issued throughout the year.

During 2010, RBI authorized several individuals and organizations, including for-profit companies, to function as BCs in India, which progressively enhanced their efficacy. Thus, there has been an improvement in the coverage of the unbanked villages with the quick development of BC outlets throughout the country. As of December 2020, there are 55073 bank branches in villages, up from 33,378 in 2010, representing a 64%

increase in bank branches in the last ten years. Similarly, the total number of banking outlets in villages covered by BCs was 34,174 in 2010, which has grown to 12,36,809 in 2020, a staggering growth of 3519 percent in a decade (RBI, 2021). Further, the urban areas serviced by BCs have risen from 447 in 2010 to 3,24,345 banking outlets in 2020. The number of Basic Savings Bank Deposit Accounts opened through BCs in 2010 was 130 lakhs, which has grown to 3601 lakhs BSBD Accounts through 2020, and the amount mobilized through the BSBD account was Rs.1100 crore in 2010, which has also increased to 77163 crores. Further, the number of ICT transactions performed by BCs was 270 lakhs in 2010, which grew to 35183 lakhs transactions through 2020, and the total amount of transactions was Rs.700 crore in 2010, which also drastically increased to Rs.8,28,795 crores by 2020. Gradually, the agent banking system has gained popularity among the rural population with the rise in accessibility.

The BCs network played an essential role during the COVID-19 pandemic in supplying financial services to the last mile population. As fewer than 15% of villages are covered by brick-and-mortar branches, nearly one million agents serve 340 million people in face-to-face transactions, and reaching the unbanked population during the pandemic was a herculean task as the government of India announced two relief packages totalling USD 260 billion, which was nearly 10% of GDP for the poor and vulnerable section of the population. It was a part of Pradhan Mantri Garib Kalyan Yojana so that the hardships encountered by the impoverished people during the lockdown could be minimised. The Government of India categorized BC outlets as essential services so that timely and hassle-free payments could be made to the beneficiaries. Even in those places where there were no banking outlets, the district government put the obligation on the BC agents to offer financial services. Several BCs go occasionally to different villages so that cash-in-cash-out services may be performed. Numerous challenges like overcrowding, ensuring social distancing, sanitising the biometric authentication devices, hiring additional support staff, increased trips to the base branch to rebalance, additional queries and grievances, health hazard and liquidity issues were faced by the agents during this crisis still they pursued their state of operation so that the poor and unbanked population were served during this period.

1.3.1 Business Correspondents – A Global Perspective

Agent banking system has been adopted by many countries in the world to enhance financial access to the large segment of the rural population who are outside the financial ambit of the formal banking system. Various empirical studies conducted throughout the world have found that an inclusive financial system leads towards poverty reduction and also helps in minimising income inequality (Claessens and Perotti, 2007: Beck et al., 2009; Mukhopadhyay, 2016). Similarly, there are several studies citing a positive relationship between financial development and a higher level of economic growth throughout the world (Greenwood and Jovanovic, 1990; Levine, 1997; Demirguc-Kunt and Levine, 2008). Further, it is important to understand and identify the areas in the agent banking system that are successful in different countries and can be adopted in the Indian context so that the agency banking system can be executed successfully in achieving the inclusion of the unbanked population.

1.3.1.1 Brazil

The Brazilian model of agent banking is largely driven by banks such as Bradisco, Banco Popular, and Caixa Federal. Initially, they followed a bank-based agent banking model, and after its success, a non-bank based agent banking model has emerged (EFInA, 2011). The agents mostly included grocery stores, post offices, and other retail outlets, and were equipped with traditional card or POS terminals to conduct the transactions. The

Central Bank of Brazil permitted the agents of the banks to offer various services such as withdrawals, deposits, remittances, bill payments, international transfers, mobile phone top-ups, credit card, sourcing of loans, and collection of loan repayments. Banks were fully responsible for the activities conducted by the agents and were required to check the service quality and prevent frauds. They also appointed an ombudsman so that customer complaints could be redressed. The banking correspondents doubled the number of bank accounts between 2000 and 2008, and the majority of the accounts opened during this period were active and operational. Both the government and the Central Bank of Brazil played a crucial role in creating a suitable environment for the successful operation of the agent banking system by providing regulatory clarity and issuing guidelines for its growth and sustainability. Due to the widespread agent network, the model has reached a large number of people residing in rural and remote areas, reducing the transaction costs. Further, agent banking in Brazil mostly remained focused on transaction and payment services, while the other services like deposits and withdrawals were comparatively lower.

1.3.1.2 South Africa

The financial inclusion status improved tremendously through the corresponding banking model after the introduction of the Mzansi account by four large banks along with the post bank in 2004. It was the financial sector charter through which a social pact was entered between the government, labour, civil society and the formal financial service sector who came together to achieve the usage and accessibility of financial services for the lower segment population. The initiative to join and develop the Mzansi brand was largely taken up by the major banks and post offices, while the smaller banks did not participate in it. There was an extensive advertising and awareness campaign for the Mzansi brand. The major advantage of the Mzansi account was that a client could use one free cash deposit transaction per month, any network of ATMs, any branch of participating banks, and debit card accepting POS devices free of cost. Further, monthly fees or transactional accounts were waived off and Mzansi account holders could withdraw funds at the post office branches irrespective of their accounts being issued by other banks, which resulted in the opening of 6 million accounts by 2008, increasing the banking population from 44.5 percent to 63.5 percent. It was the regulatory discretion given by the South African Reserve Bank to use non-bank third parties to offer banking services that led to this phenomenal growth.

The third party agreements were entered into by the banks subject to legally binding outsourcing agreements and the condition that the agents would perform the services as per the internal policies and standards, identify the weaknesses in their services, and provide the regulators with information on the outsourced functions and activities. This resulted in an enhanced spread of agency banking, leading towards the inclusion of the unbanked population.

1.3.1.3 Kenya

The Government of Kenya through the Central Bank of Kenya introduced the agent banking system by amending its Banking Act in 2009 so that the bank could provide banking services through its agent in an unbanked location. Nearly, 11 banks were given permission by Central Bank of Kenya to carry on the agent banking services out of which 08 banks immediately launched their services. The rules permitted collaboration between microfinance and agency banking through telecom service providers to increase the financial inclusion status of the nation. Further, the introduction of mobile money made a significant contribution to delivering financial services to the unbanked and marginalised population, enabling them to perform transactions like account opening, deposit, loan repayment, and transfers to other parties through integration between banks, service providers, and telecom service providers. M-PESA, the most popular product of Safaricom, has 8.8 million accounts with 15,200 agents, making it the most successful mobile banking model in Kenya. The Kenyan model is primarily a telecom company-led approach sponsored by the Central Bank of Kenya. M-PESA does not pay interest on deposits, nor does it offer any loans to its clients. According to the Global Findex Database (2017), approximately 55% of adults have a formal financial institution account. Kniyanjui (2011) revealed that Kenya Commercial Bank, Cooperative Bank, and Equity Bank have a substantial retail reach through their agent banking network. Both the cooperative bank and Equity bank have succeeded in capturing low income customers with their business strategies.

1.3.1.4 Bangladesh

The Central Bank of Bangladesh issued guidelines on agent banking on December 09, 2013. The two private commercial banks, namely Dutch Bangla Bank Limited and Bank Asia Limited, started offering agent banking services to the people of Bangladesh on a limited scale in 2015, but after two years, they started giving full-fledged services. Agent banking contributes to the formal banking system's reach out to the marginalised and unbanked through its agents. It spanned the gap between the formal banking and unbanked segments and made banking services accessible to the rural populace at a lower cost and greater convenience at their doorstep locations. Almost 16 commercial banks are licensed currently to conduct agent banking activities in Bangladesh, with nearly 60 percent of the market shares being controlled by Dutch-Bangla Bank Limited, 26 percent by Bank Asia, and 14 percent by the remaining banks.

As of September, 2020, almost 28 banks have agent licenses and 24 banks are in business. Similarly, the number of agents designated by all banks has risen to 10,163 agents with almost 14,016 outlets and 82,21,893 accounts being opened till date (Khan, 2021). Various bankers and experts argue that agent banking has developed as an alternative to branch-based banking in those areas where full-fledged offices are not financially feasible. Further, the number of agent banking accounts opened has reached more than 1 crore, with 77.83 percent of accounts opened in rural regions and the remaining 22.17 percent of accounts in urban areas. Similarly, as a result of the Covid-19 outbreak, the number of banking agents increased by 48.11 percent to 12,123 in February 2021, while the amount of transactions through agent banking increased to TK 9064.200 crore, loan disbursement theory banking agents increased to TK 192.8 crore, and deposits collected by bankers increased to TK 16628.5 crore due to improved cost efficiency.

1.3.2 Business Correspondents in India – Genesis and Growth

Business Correspondents is an Information & Communication Technology based model which ensures doorstep delivery of financial product and services to the unbanked people at a lower cost in the rural areas. This alternative delivery channel is also popularly referred to as “Banking correspondent” or “Agent banking “system. Most of the banks follow Corporate BC or Business Correspondent Network Managers model of banking agents. In this model, the banks enter into third party contract with the Corporate BC who are entrusted the task of appointing, training and managing the banking agents and provide the banking services to the customers residing in the unbanked locations including the urban areas. It represent a major departure from the conventional brick and mortar bank branches. There are various stakeholders involved in the Business Correspondents Model who plays a crucial role in ensuring successful delivery of formal financial services in an effective manner to the vast segment of the underprivileged and low income group population who were earlier deprived from the affordable banking services in the rural unbanked areas. The following are the stakeholders involved in this model -

(i) Banks
(ii) Corporate Business Correspondents (CBCs)
(iii) Business Correspondents (BCs)
(iv) Customers

(i) Banks - Banks are entrusted with the major task of covering the unbanked villages, allotted through the Sub-Service Area by State Level Bankers Committee (SLBC). All those villages, which are unbanked and having a population beyond a certain threshold number are required to cover the unbanked villages either through the opening of bank branches or through the fixed point outlets i.e. Business Correspondents. The success of BC model depends to a very larger extent on the initiative, support and cooperation of the bank which plays a crucial role in the entire network of banking agent. Each bank looks after 3 – 10 BCs and their appointment approval is also done by the link bank branch manager. Bank plays an important role in the proper functioning of the BCAs as the entire support related to liquidity, grievance redressal, passbook printing, customer support and financial awareness is provided by the link bank branch. Bank are responsible for the conduct of the BCs/CSP operators. The participating banks in the study includes 06 Public Sector Bank (Allahabad bank, United Bank of India, Central Bank of India, State Bank of India, Bank of Baroda and Bank of India), 02 Private Sector bank (HDFC bank and IDFC bank) and 02 Regional Rural Banks (Uttar Banga Kshetriya Gramin Bank and Bangiya Gramin Vikash Bank) providing banking agents services in the different districts of North Bengal.

(ii) Corporate BCs - Corporate Business Correspondents (CBCs) are also known as Business Correspondents Network Managers (BCNMs) who are appointed by the banks on the basis of the lowest bidding quotation for a circle to offer financial inclusion services through their agents in the unbanked regions. Corporate BC can be a BC for more than one bank in a state, but the BCs at the customer interface should be offering banking services for one bank only. Furthermore, Corporate BCs can be either National Corporate BCs that operate as BCs across several states or Circle BCs that operate in one particular state only. The majority of the Corporate BC are for-profit businesses operating in several states with adequate human resources, offering innovation in the field of agent banking business. Corporate BCs cooperate with the Technology Service Provider (TSP) to deliver the software to the BCs to perform the banking transactions on a real-time basis. Similarly, several banks have created their own core banking platforms to deliver financial services to clients through the BC agents.

Furthermore, many banks appoint individual BCs directly to provide banking services to their end clients. Here, the banks are expected to assume full responsibility for the acts of omission and commissions of the individual business correspondents and are required to undertake comprehensive due diligence and extra precautions to limit the agency risk. BCs are not permitted to collect any additional commission on the product and services provided to the customers apart from the amount indicated in the transaction receipts. Gradually, owing to the increasing amount of financial fraud perpetrated by Individual BCs on their clients, banks have ceased appointing Individual BCs and have gone towards the appointment of Corporate BCs, since the risk connected with Corporate BCs is much less compared to that of Individual BCs.

Corporate BCs operating the agent banking business using the Kiosk model and POS model in the different districts of North Bengal are Atyati Technologies Private Ltd, SAVE Solutions Private Ltd, Drishtee Development and Communication Ltd, Asthana Rural Development and Services Private Ltd, Zero Mass Foundation, IDFC First Bharat Ltd, CSC E-Governance Services India Ltd, Sarna Infocom Private Ltd, Integra Micro System Private Ltd and Senrysa Technologies Private Ltd.

(iii) Business Correspondents (BCs) - Business Correspondents are also known as Business Correspondents Agents (BCAs), Banking Mitra (BM), Customer Service Point (CSP) Operators, Banking Agents, or Bank Sathi. All these terms are interchangeably used in the study. Business Correspondents (BCs) are agents of one bank at the customer' outlet but provide banking services to the clients of all banks using an interoperability system. BCs provide banking operations like account opening, cash deposit, cash withdrawals, transfers, fixed deposit, recurring deposit, APY, PMSBY, PMJJBY, passbook printing, mini statement, balance inquiry, etc. to unbanked clients. They also provide doorstep banking services to the customers by visiting different villages and are the essential link in the success of the financial inclusion initiative. Business Correspondents Agents typically use the Kiosk model and POS model in offering financial services in the different regions of North Bengal.

(iv) Customers – Business Correspondents offer financial services to all customers, whether they live in rural, semi-urban, or urban areas. Their presence is primarily centered in the rural unbanked regions. The majority of these customers are impoverished and disadvantaged, spending their lives at the bottom of the pyramid. They are brought within the ambit of the formal financial system through the BCs.

1.4 Statement of the Problems

Setting up brick and mortar branches in every nook and corner of the country can possibly be an ideal solution for including every person under the formal financial system. However, like all ideals the actual task of financial inclusion has lagged due to the high cost of setting bank branches in distant and topographically inaccessible places. Therefore, one has to shift the focus towards such delivery models which may extend the outreach to the un-banked people living at the bottom of the pyramid in a low-cost and sustainable manner in the long run. The model has to be such that it can deliver service at the doorstep of the client with simplicity and convenience. Despite the fact that the RBI has approved the use of the ICT-based BC (Business Correspondents) Model to achieve its goal of 100 percent financial inclusion, its viability has been a critical issue that policymakers and researchers have focused on. The BC model, launched in 2006 with the objective of increasing financial inclusion by bringing the banker to the doorstep of clients, is relatively new but has an ambitious target ahead. Being a system where a network of bankers, Corporate BCs, BC Agents, and Technology Service Providers (TSPs) collaborate to provide banking services, it is expected that all these partners operate in perfect synchronization for excellent service delivery through this model, but issues in synchronization remain and call for the attention of researchers.

Some investigation has been conducted in this respect, figuring out the hindrances that do impact the smooth operability of the model. RBI (2009) under the Chairmanship of Vijay Bhaskar, reviewed the experience of the Business Correspondent (BC) Model and concluded that, given the transactions done by the BCs are cash-based, the flow of cash is the largest concern. Similarly, processing of a significant amount of cash raises operational risk along with the higher expenditures. The working group also highlighted that, due to a lack of basic financial knowledge among customers, they are prone to misdirection, with clients seeing the BCs as banks rather than acting on their behalf. The working group also observed on the profitability of the business correspondents and highlighted that the commission paid by the banks to the corporate BC is not enough to generate sufficient surplus after meeting the necessary expenses like staff salaries, electricity, rent, and travelling expenses, etc. Similarly, they observed that engaging BCs to offer banking services exposes banks to credit risk, operational risk, legal risk, liquidity risk, and reputational risk, all of which require adequate safeguards.

Furthermore, the rural customers face difficulties in carrying out transactions owing to the numerous technical and connectivity issues which are not always easy to resolve by the banks or BC on a priority basis. These have adverse effects on the volume of transactions as well as customer reliance on the agent outlet. Similarly, one of the key obstacles in attaining financial inclusion is a lack of awareness of the financial products and services provided by banks and BCs. According to Subbarao (2010), financial inclusion and financial literacy are the twin pillars wherein financial inclusion operates from the supply side while financial literacy promotes the demand side. Lack of financial knowledge among the poor and unbanked, time and travel costs, lack of savings in their hands, and a lack of tailor-made products designed for the poor are all challenges that impact the drive toward financial inclusion but have not been adequately explored by policymakers and researchers.

Concerns about the depth or level of financial inclusion in the state of West Bengal and specially the northern part of this state, commonly referred to as North Bengal have also been raised by researchers. Laha and Kuri (2011) examined the inter-state variation in the level of financial inclusion using three measures, namely, the index for penetration, the index for availability and the index for usage, and found that West Bengal ranked 20 with an Index of financial inclusion of 0.13. Out of 18 districts in West Bengal, five districts in North Bengal rank 10 or higher, which clearly demonstrates the extent of exclusion in the state. The Index of Financial Inclusion (IFI) of Darjeeling was 0.17 (2nd); Malda-0.034 (10th); Cooch Behar–0.025 (12th); Dakshin Dinajpur–0.016 (13th); Jalpaiguri–0.011 (14th); & Uttar Dinajpur–0.003 (18th). Similarly, as per the Census of

India (2011), the total number of households availing banking services in the district of Darjeeling was 55.18 percent; Jalpaiguri – 41.99 percent; Coochbehar – 39.41 percent; Uttar Dinajpur – 39.41 percent; Dakshin Dinajpur – 33.72 percent and Malda – 29.78 percent, which clearly indicates the extent of financial exclusion faced by the people residing in the different districts of North Bengal. Even though the population density in the different districts was high, the number of BCs assigned to fulfill their banking requirements in the rural areas is inadequate to cover all the population. Though there has been a good growth in number of BCs in North Bengal, yet the outreach needed when considered in terms of people in the rural areas, is not adequate and is a matter of concern especially when targets are fixed for 100% financial inclusion.

Similarly, many other problems have come to surface from field visits, observations and findings of some researchers. Notably, there is a variation in the appointment process of Corporate BC and BC Agents by the different banks, resulting in inefficiency in their functioning process. Further, any client facing issues during their operation with BCs needs to wait for a long period of time to redress their concerns since no adequate customer grievance redressal process exists. It has also been highlighted that the activities of BC agents and customers suffer owing to the liquidity issue and lack of financial assistance from the corporate BC and banks. Again, lack of tailor-made products, connectivity issues, server problems, inadequate training, incidence of frauds, lack of financial awareness, limited support from the bank branches and delay in payment of commission by the banks and corporate BC are concerns which are limiting the viability of the BC model in India. Similarly, there is need to identify an agent banking model which can be used by the BCs to increase their earning potential along with the better client services The thesis in the following chapter take up these problems in the form of specific objectives and address them in details.

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