

Evaluation of BC/BF Model

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Abbreviations Used

ASCBs	All Scheduled Commercial Banks
ATM	Automated Teller Machine
BC	Business Correspondent
BF	Business Facilitator
BM	Branch Manager
BSNL	Bharat Sanchar Nigam Limited
CAB	College of Agricultural Banking
CFSP	Committee on Financial Sector Plan
CGAP	Consultative Group to Assist the Poor
CMF	Channel Management Facilitator
CMIE	Centre for Monitoring Indian Economy
CRD	Centre for Rural Development
CSC	Common Service Centre
CSO	Civil Society Organization
DCC	District Consultative Committee
DIT	Department of Information Technology
EFTPOS	Electronic Funds Transfer Point Of Sale
FINO	Financial Information Network & Operations Ltd.
FIP	Financial Inclusion Plan
FLCC	Financial Literacy and Credit Counselling
GoI	Government of India
GPRS	General Packet Radio Service
GSM	Global System for Mobile Communications
GSMA	Global System for Mobile Communications Association
IIBF	Indian Institute of Banking and Finance
IT	Information Technology
JLG	Joint Liability Group
KCC	Kisan Credit Card
KVIC/B	Khadi and Village Industries Commission/Board
KYC	Know Your Customer
MFI	Micro Finance Institution
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MNO	Mobile Network Operator
MPFI	Mobile Payment Forum of India
NABARD	National Bank for Agriculture and Rural Development

508 ABBREVIATIONS USED

NBFC	Non-Banking Financial Company
NeGP	National e-Governance Project
NGO	Non-Governmental Organization
NHB	National Housing Bank
NPA	Non-performing Asset
NREGP	National Rural Employment Guarantee Programme
NRFIP	National Rural Financial Inclusion Plan
NSSO	National Sample Survey Organization
OBC	Other Backward Class
PACS	Primary Agriculture Cooperative Society
PNB	Punjab National Bank
RBG	Rural Business Group
RBI	Reserve Bank of India
RBO	Regional Business Officer
RRB	Regional Rural Bank
RUDSETI	Rural Development and Self Employment Training Institute
RUSU	Rural & Semi-Urban
SB	Savings Bank
SBI	State Bank of India
SBLC	State Bank Learning Centre
SC/T	Scheduled Caste/Tribe
SGSY	Swarnajayanti Gram Swarozgar Yojana
SIDBI	Small Industries Development Bank of India
SLBC	State Level Bankers' Committee
UT	Union Territory
UTI	Unit Trust of India

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EXECUTIVE SUMMARY

The Backdrop

Inclusive growth is the *mantra* today. Not only in India, the *mantra* is being chanted in several emerging economies and developing nations. Financial inclusion is an integral part of inclusive growth. The Reserve Bank of India (RBI) is passionate about financial inclusion and it has exhorted banks, the nerve system of the financial system, to pursue the goal of financial inclusion in equally passionate way. The RBI devised the Business Correspondent (BC)/Business Facilitator (BF) model in 2006 to increase the outreach of the banking facilities in the financially excluded areas and among the financially excluded citizens.

Rationale for the Study

Almost four to five years have elapsed since the BC/BF model has been introduced and, therefore, it was felt that an evaluation of the model be carried out so as to bring about mid-term course corrections.

Objectives

The basic objective of the research project, as the title denotes, is to evaluate the BC/BF model. For this purpose, we focussed on the following objectives:

- ◆ To study the origin and scope of the BC/BF model.
- ◆ To examine the socio-economic profile of BCs/BFs.
- ◆ To investigate the implementation of the model in actual field level situations.
- ◆ To assess the financial viability of the BC/BF model.
- ◆ To spell out improvement in policies for increasing the efficacy of the BC/BF model.

Scope of the Study

Since the State Bank of India (SBI) is the market leader in implementing the BC/BF model, we set out to evaluate how the SBI has been implementing the model. The SBI is the lead bank in the highest number of districts. This further bolstered our preference as to why we should take up the project in the SBI.

Sampling Methodology and Sample Size

The study was conducted in two Circles of the Bank, namely, (i) Mumbai Circle representing the Western region and (ii) Hyderabad Circle in the Southern region. We selected one district each from these Circles, viz., Nashik district (Mumbai Circle) and Anantapur district (Hyderabad Circle). In both the sample districts, all the BCs and BFs - individual and institutional - were surveyed. Feedback was collected from customers and non-customers of BCs/BFs. Further, information was collected from Bank's field-level functionaries like the Branch Managers and Channel Management Facilitators (CMFs).

The fieldwork was conducted in March 2011 and the ultimate sample composition and size were as under:

TABLE ES-1: SAMPLE COMPOSITION AND SIZE

Sample Unit	Sample Districts		Total
	Anantapur	Nashik	
1. Individual BCs	22	0	22
2. Individual BFs	25	39	64
3. Customers of BCs	127	0	127
4. Customers of BFs	106	149	255
5. Non-customers	104	108	212
6. Branch Managers	18	24	42
Total	402	320	722

Database and Questionnaire

Both primary and secondary data were collected and used in the study. Appropriate questionnaires were designed and used to collect data from the sample units. Measures of central tendency (mean and mode) and measures of dispersion were used to analyze the data.

Structure of the Study

The study report is structured as follows:

- Chapter 1 deals with the need, objectives and methodology of the study;
- Chapter 2 deals with the literature review on Financial Inclusion including the origin and scope of the BC/BF model;

- Chapter 3 presents in brief the bank-wise position of BC/BF model;
- Chapter 4 analyzes the field-level data and information pertaining to BCs and BFs separately including their socio-economic profile. It is divided into two sections:
Section 1 - Analysis of BCs
Section 2 - Analysis of BFs
- Chapter 5 describes the findings in respect of customers of BCs/BFs including their socio-economic profile. It is divided into two sections:
Section 1 - Customers of BCs
Section 2 - Customers of BFs
- Chapter 6 does a similar exercise for non-customers of banks;
- Chapter 7 focuses on the Branch Managers' opinion;
- Chapter 8 attempts a viability analysis of BC/BF model; and
- Chapter 9 is divided into two sections:
Section 1 summarizes the study findings and
Section 2 enumerates policy recommendations to improve the functioning of the BC/BF model.

Limitations of the Study

In any study of social sciences, limitations particularly originating from quality of data due to time and cost constraints do remain. Secondly, the limitation of human cognitive abilities while collecting data from BCs/BFs and customers, and the functionaries at various levels constituted the second source of limitations.

Review of Literature

The chapter reviewed the available literature to trace the genesis of financial inclusion, the international and national scene, and efforts put in by the Governments and banking industry over the years.

Initiation of BC/BF Model

Taking a cue from the international experiences, the

RBI Working Group headed by H.R. Khan explored various options and innovative approaches of linking the Civil Society Organisations (CSOs)/other entities with banks to expand the latter's outreach. It felt that the linkages can be established under two broad models, one wherein the banks may use a wide array of CSOs and others for supporting them by undertaking non-financial services and the other under which institutional agents/other entities support the banks for extending financial services. The first may be called the "Business Facilitator Model" and the second, the "Business Correspondent Model".

Taking these recommendations into account and with the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, the RBI had permitted banks to use the services of Non-Governmental Organizations (NGOs)/Self Help Groups (SHGs), Micro Finance Institutions (MFIs) and other CSOs as intermediaries in providing financial and banking services through the use of BF and BC Models vide their Circular of January 25, 2006.

A broad working definition of financial inclusion is as under:

"Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

Rangarajan Committee, 2008

The Government of India constituted a Committee on Financial Inclusion chaired by Dr. C. Rangarajan, the report of which was submitted in January 2008.

The committee recommended that a National Rural Financial Inclusion Plan (NRFIP) may be launched with a clear target to provide access to comprehensive financial services, including credit, to at least 50% of financially excluded households, say 55.77 million by 2012 through rural/semi-urban branches of commercial banks and Regional Rural Banks (RRBs). The remaining households, with such shifts as may occur in the rural/urban population, have to be covered by 2015. Semi-urban and rural branches of commercial banks and RRBs may set for themselves a minimum target of covering 250 new cultivator and non-cultivator households per branch per annum, with an emphasis on financing marginal farmers and poor non-cultivator households.

Development and Technology Funds

There is a cost involved in this massive exercise of extending financial services to hitherto excluded segments of population. Such costs may come down over a period of time with the resultant business expansion. However, in the initial stages some funding support is required for promotional and developmental initiatives that will lead to better credit absorption capacity among the poor and vulnerable sections and for application of technology for facilitating the mandated levels of inclusion. The Committee has, therefore, proposed the constitution of two funds with the National Bank for Agriculture and Rural Development (NABARD) - the Financial Inclusion Promotion & Development Fund and the Financial Inclusion Technology Fund with an initial corpus of Rs.500 crore each to be contributed in equal proportion by the Government of India (GoI)/RBI/NABARD. This recommendation has already been accepted by the GoI. The Government initiated these funds and in the budget 2011-12, the contribution has been increased by another Rs.100 crore.

The RBI Working Group to Review the BC Model (Chairman: Shri P. Vijaya Bhaskar) in its report has made recommendations on realizing the full potential of the BC model, cash handling, financial education and consumer protection.

From the literature review, it can be seen that hitherto no evaluation study has been carried on the subject of BC/BF model in India. Therefore, this study by us can be regarded as a pioneering effort.

BC/BF Model - A Bank-wise Snapshot

This dealt with the various models adopted by banks in this regard - with particular reference to the SBI, commission structure followed, coupled with the Government support extended for the same.

The RBI, vide their notification dated January 25, 2006, allowed banks to implement the BC/BF model. Banks were given the freedom to stipulate the maximum transaction amount through BC channel. Similarly, banks were allowed to get the approval of their Boards for payment of commission as they desired. Accordingly, the SBI came out with a Board-approved model on implementing BC/BF channel with their circular in April 2007. Therein, the Bank has stipulated a maximum transaction limit of Rs.10,000 per transaction (deposit/withdrawal/remittance) per person per day. The commission structure was also devised keeping in

view the competitive rates paid by other organizations like Post Office.

The SBI is in the forefront of implementing Financial Inclusion initiatives. The activities are implemented/driven by its own staff with the support of BCs/BFs appointed by the Bank.

Analysis of Field-level Data on BC/BF Model

BC Model

- ◆ BC model for financial inclusion was studied in Anantapur district where the technology used was Kiosk Banking.
- ◆ Younger and educated people had adopted the BC model.
- ◆ The BCs were comfortable with the technology but the low internet connectivity in some places was creating problems for the BCs to scale up their operations.
- ◆ The business brought in by the BCs so far was insignificant.
- ◆ As the income levels at present were low, the BCs were dependent mostly on other activities like agriculture, insurance business, etc.
- ◆ BCs were mainly taking up deposit related activities, while the cross-selling and loan sourcing were comparatively miniscule.
- ◆ BCs were receiving required support from the branches and CMFs, but the communication structure between these parties needed to be improved further.
- ◆ BCs wanted more publicity for their activities by the Bank branches.
- ◆ Customers were reluctant to pay charges for their transactions.

BF Model

- ◆ BF model was studied in two districts, viz., Anantapur in Andhra Pradesh and Nashik in Maharashtra.
- ◆ Younger, educated lot had taken up this activity which augurs well for procurement of business.
- ◆ Majority of the BFs had prior experience of 1-3 years in marketing.
- ◆ It was observed that the training given to the BFs was not sufficient to handle large variety of banking products.

- ◆ None of the BFs had passed the Recovery Agents Certification of the Indian Institute of Banking and Finance (IIBF), which allows them to take up loan recovery.
- ◆ Clarity in respect of area of operations was missing in the case of most of the BFs.
- ◆ Preliminary survey of the area of operation was not done by any of the BFs, but the visits by the researchers indicated that there was tremendous potential available in the areas allotted to the BFs.
- ◆ The average income per BF worked out to Rs.7,363 per month in Anantapur district and Rs.11,741 in Nashik district.
- ◆ The average amount of deposits sourced by BFs worked out to Rs.10.8 lakh per BF per month in Anantapur and the same was Rs.3 lakh in Nashik.
- ◆ The average amount of advances sourced by BFs worked out to Rs.7.56 lakh per BF per month in Anantapur and the same was Rs.26 lakh in Nashik.
- ◆ BFs expected more response from the branches for their business.
- ◆ The branch staff, in most of the cases, was not very comfortable with the business shown by BFs, as they felt that the walk-in customers of the branches were being shown as their customers by BFs and they were booking the business in their names. At the same time, the BFs argued that they were in fact trying to bring in those existing customers who were about to leave, back to the branch books.
- ◆ The BFs were appointed to serve the needs of unbanked villagers and their bringing in business from the existing customers might not serve the purpose of financial inclusion. This needs to be thought of by all concerned.

Customers of BCs

- ◆ The average distance of the nearest branch for the customers of BC was 9.41 kms which indicated that the selection of BC was properly done by the officials.
- ◆ The BCs were serving the right kind of customers, as 75.6% of the respondents belonged to the annual income group of less than Rs.50,000/-.
- ◆ In more than 90% of the cases, the BCs introduced themselves to the prospective customers. This

suggested that proper publicity from the Bank branch was lacking.

- ◆ The number of transactions was slowly picking up, but the shift from saving the money at home to saving the money in the Bank via BCs was quite noticeable.
- ◆ Customers were happy that they were being provided with banking services at their places of stay through BCs and they expressed satisfaction on the services rendered by the BCs.
- ◆ The customers were reluctant to pay charges to the Bank for their transactions.

Customers of BFs

- ◆ Majority of the BFs were concentrating in and around their Bank branches and were not going to the unbanked or under-banked villages as they should.
- ◆ The BFs in Anantapur as also Nashik district were not serving the right kind of customers in terms of income levels.
- ◆ In general, the BFs introduced themselves to the prospective customers. This implies that proper publicity from the Bank branch was lacking.
- ◆ All the customers of BFs in both the districts were of the opinion that they were being treated at par with the Bank's regular customers.
- ◆ Customers were happy that they were being provided help in handling banking services through BFs and they expressed satisfaction with the services rendered by the BFs.
- ◆ The shift from saving money at home to saving in Bank after implementing the BF model was quite noticeable in both the sample districts.

Non-customers

- ◆ Majority of the respondents were aware that the Bank had appointed BCs/BFs in their villages.
- ◆ More than 90% of the respondents were interested to open accounts with the help of BCs/BFs, which showed the vast potential available in those unbanked or under-banked villages.

Branch Managers

- ◆ Many of the BMs were happy about the BC/BF model, but the experiences from the BCs were quite varied and, therefore, they were unable to judge their performance in an objective manner.

- ◆ In respect of BFs, the performance was quite visible, and hence, the BMs were able to judge and guide the BFs suitably in getting business.
- ◆ The performance of CMFs was also too varied and a concrete opinion on their performance could not be evolved.

Viability Analysis of BCs

An attempt was made to assess the viability of BC doing Kiosk Banking and also it was attempted whether it was profitable/useful to the Bank by engaging his services.

From the assumptions and actual field level information, it became clear that with proper planning, guidance by CMFs and hard work by BCs, the business can generate an income of Rs.2,500 to Rs.5,000 per month for BC, with a total salary income of Rs.40,000 during the year and breaks even by 11 months onwards. By end of the year, it can start generating more incomes which will be increasing afterwards. However, it is to be noted that the months 1, 2, 3, 8 and 9 will be generating negative returns if he takes salary as a fixed cost, which will be a de-motivating factor for the BC. However, the other useful returns from the improvement in the existing business and support from the Bank in the initial cost incurred by way of promotion exercise will help in mitigating this stage. The reasons for initial losses basically depend on the following factors:

- a. Initial business levels do not match the fixed cost incurred for the same.
- b. In this business, while fixed cost is more, the component of variable cost is comparatively less.
- c. Based on the increase in volumes of business, the fixed cost can be recovered over a period of time.
- d. Initially, the BC has to concentrate more on publicity, create awareness about his services and educate the prospective customers for banking. As such, the volumes will be low.
- e. In addition, in the example, the months 1, 2 and 3 were taken as lean months.

On an analysis of the model from the Bank's point of view, there comes a loss of Rs.2,37,990 through the BC operations in the first year. Incidentally, proportionate expenses with regard to the personnel employed with this model across the Bank will also add up to the loss. This is a de-motivating factor to the Bank to expand BC model to other needy areas. This has to be compensated by the RBI/Gol by way of cost to be borne by them

or tax exemptions, etc. At the same time, similar to the advances granted to SHGs which are treated as Agriculture Credit, the advances handled through BCs should also be treated as Agriculture Priority Advances, which may encourage the banks to take up BC model on a higher scale.

Similarly, it is calculated that the branch opened at a place (instead of BC point at that place) if continued with a business growth of 20% every year (average business growth of many bank branches), the branch will break even in the sixth year.

As the banks are mandated to open a banking outlet in all the villages having population of more than 2,000 by March, 2012, opening of a BC outlet may be the best option compared to opening a bank branch. However, if the branch is established in a village providing all the facilities (unlike the restricted services offered by a BC), the village economy will grow at a rapid pace, which will compensate the losses incurred by the branch over a period. So, it is to be decided by the Bank Managements whether to go for a BC outlet or a branch. If it is feasible to have a BC outlet at the beginning and over a period of 10 years or so, the Bank can think of migrating these accounts to a newly opened full-fledged branch in the village. In such case, the BC outlet has to be moved to next unbanked village after opening of a full-fledged branch at the present BC outlet.

Viability Analysis of BFs

From the assumptions and actual field level information, it became clear that with proper planning, guidance by CMFs and hard work by BFs, the business can generate a decent income of Rs.2,500 to Rs.5,000 per month for BF, with a total salary income of Rs.40,000 during the year. In addition, the additional income generated after meeting the salary and variable expenses will be more than the security deposit of Rs.25,000/- with the Bank. With proper guidance, the break-even can be reached in the first month itself, as there is no fixed cost.

However, the banks may think on the desirability of utilising the services of BF instead of a regular/contract officer where the productivity will be more coupled with more business to the Bank.

Recommendations

SELECTION:

- ◆ Selection of the BCs/BFs should be from either the same village in which they stay or from the

nearby villages so that villagers can trust them. Thus, the trust deficit that was observed between villagers and BCs/BFs could be minimized and financially excluded villagers would come forward to be enrolled as the Bank's customers.

ALLOTMENT OF VILLAGES:

- ◆ Allotment of villages to the BCs/BFs should be done with utmost care. The number of villages to be allotted to a BC/BF should not exceed three to four and these villages should be contiguous. This would streamline the operations of BCs/BFs and will be beneficial to the Bank. The appointment letter to BCs/BFs itself should contain the list of allotted villages.

TRAINING:

- ◆ IIBF's certification exam for BCs/BFs should be made mandatory for them. It is important to note that with sound knowledge on products and processes, one can convince the customers and ably guide them in money matters. The marketing skills will also improve further. Just like the requirement of certification for doing insurance business, mutual fund business and debt recovery, the same should be made applicable in respect of this IIBF certification. In order to make it easier for the BCs/BFs the exam may be conducted in regional languages also.
- ◆ Banks can also impart training to the BCs/BFs in the beginning about their banks, systems and procedures which should be both intensive and extensive. Training on product knowledge should be the prime focus.
- ◆ Continuous updation of the knowledge base either through direct classroom training or through distance learning is very much required.

TARGET SETTING:

- ◆ Targets should be set for BCs/BFs. To begin with, the targets should include: number of accounts, amount and number of transactions.
- ◆ Targets should be regularly monitored; otherwise targets lose their relevance. While evaluating performance vis-à-vis targets, special weight needs to be accorded to the extent the BCs/BFs have touched unbanked and under-banked villages.

COMMISSION:

- ◆ Suitable commission structure is to be evolved to ensure viability of the BC/BF activity.

PUBLICITY:

- ◆ Banks have to provide adequate publicity about the placement of the BCs/BFs in the villages. The cost of such publicity should be borne by the Bank as the commission received by the BCs/BFs may not be sufficient to cover this cost. In rural areas, a number of tools are available like small films, puppet dance and village folk songs/dances which can be displayed in the evening at Gram Panchayat office or important locations in the villages. The films/acts, which are in local language, should focus on how savings will help in improving the life of an individual. At the end, the conclusions like benefits, opportunities gained are to be explained by the local bankers. Then, they should introduce the newly placed BCs/BFs to the villagers. They should also distribute various pamphlets which will provide the details of the products offered through BCs/BFs. Thus, the information will reach the grass root level. As these villages are unbanked for years together, the culture of banking is to be created in the villagers slowly but steadily. At the same time, banks should plan for bulk account openings, which will bring better business to the BCs and enable them to break even faster. The presence of bankers will improve the confidence levels of the villagers and also increase the trust on the bank as well as BCs/BFs. Proper and planned publicity will result in a win-win situation for bankers and BCs/BFs as well as the villagers.
- ◆ The NABARD-initiated Farmers' Clubs may also be effectively used for publicizing the information among villagers/farmers.

LINK BRANCH:

- ◆ The concept of BCs/BFs is new to the villagers and, therefore, it has to get the initial momentum. Hence, proper publicity by the Bank branch becomes important. As the business brought in by the BCs/BFs is reflected in the branch books, branches should take necessary steps to create awareness among the villagers about the BCs/BFs posted in their villages. Frequent visits and campaigns initially by the branch staff would create the needed awareness.

- ◆ In the Gram Sabhas/Awareness meetings, bulk account opening may be envisaged, which will ultimately improve the performance of the model in the long run.
- ◆ In the meetings, it is also necessary to educate the customers about the importance to insist for 'system generated receipt' for each and every transaction. This is an important customer protection measure.
- ◆ The recent 'SWABHIMAAN' campaign jointly launched by the Indian Banks' Association and Ministry of Finance should be utilized fruitfully to improve the awareness among the prospective customers about the availability of banking services at their doorstep.
- ◆ The services of local elementary school teachers, who are generally trusted by villagers, may be hired by the Bank to educate the villagers about the benefits of savings and the need to use banking services through BC/BF channel.

BANK CONTROLLERS:

- ◆ The involvement of the operating staff at the ground level is crucial for the success of any grass root level programmes. Therefore, the Controllers of the branches should involve the local branch-level functionaries, *ab initio*, in the selection of the BCs/BFs till they are attached to their allotted branches. This will, in addition, help in owning the model by the branch staff.
- ◆ The communication gap between BCs/BFs and branches should be minimized to the extent possible to ensure that both the parties work in harmony for the overall benefit of the Bank. Towards this end, monthly/bi-monthly meetings may be conducted at the district level by the Controllers with all the stakeholders of the models.
- ◆ More activities should be allowed to the BCs to handle at their customer points. This will have three benefits (a) reduce congestion at the branches, (b) make possible for the branch staff to attend to more important customers/businesses and (c) improve the viability of the BC model.
- ◆ The activities to be allowed may be: Accounts of SHGs, Pension accounts, Scholarship accounts and Social security benefits. Besides, the loan repayments of accounts held in the Core Banking of the branches may also be allowed, which will again reduce the burden of the villagers to go to the towns to deposit their money for loan repayment.
- ◆ Bank controllers, along with the government functionaries at the district level, should create an environment in which the educated (and disguisedly unemployed) youth of the villages feel incentivised to take up the BC/BF activity and work in their own areas. This will result in suitable employment to the youth on one hand and better business opportunities for the Bank on the other.
- ◆ Necessary Customer Grievance Redressal mechanism should be put in place to make the customer comfortable with new model of banking. This will improve the trust/confidence levels on the BC/BF model.
- ◆ Know Your Customer (KYC) verification, at the time of account opening, is an important aspect in the BC/BF model. As such, banks should give this utmost importance. The 'Financial Inclusion Centre' concept rolled out by the SBI may be followed by all banks for effective supervision of BC/BF activities which takes care of KYC verification as well.
- ◆ From the beginning, the BC should be encouraged to take up the BF activities as well, because a BC can also act as BF as he is 'BF+'.
- ◆ Regarding the technology to be used, the Controllers have to take the decision as per the local eco-system. Technologies like internet based Kiosk banking, smart card based mobile banking, General Packet Radio Service (GPRS) system based technologies, etc., should be attempted according to the need and adaptability at the local level.
- ◆ The insurance of cash, cash-in-transit of the BC outlets may be covered by the link branches along with their cash insurance.

BUSINESS CORRESPONDENTS:

- ◆ BCs have to survey their areas of operation and improve their knowledge about potential customers and businesses.
- ◆ Conducting village meetings is extremely important. BCs, with the help of link branch functionaries, should create awareness among villagers about the importance of savings and guide them towards the customer points to open accounts with them.

- ◆ At the same time, they can identify the potential for advances, cross-selling and can source this business to the branch books which will help in improving their commission income.
- ◆ They should place all the necessary display boards indicating the Bank's name, customer point details, available banking services, service charges, do's and don'ts, etc., prominently.
- ◆ They should not charge from customers any amount more than what is prescribed by the Bank.
- ◆ They should follow all systems and procedures, as stipulated by the Bank. They should maintain all the requisite registers like cash book, visit book, etc.
- ◆ All the BCs have to be encouraged to carry out the BF activities for earning higher income and early break-even.

BUSINESS FACILITATORS:

- ◆ Like BCs, BFs should acquire knowledge about the potential customers and businesses in their areas of operations.
- ◆ They should maintain cordial relations with all the government functionaries of the villages where they are working, to tap the potential whenever available.
- ◆ They should guide the prospective customers correctly. For this, they should always be thorough and up-to-date with knowledge of banking products and services.

BRANCH MANAGERS:

- ◆ There is a need to change the mindsets of the BMs and even their controllers. They should internalize the fact that the BC/BF model is workable as also fruitful both to the Bank and the villagers. Hence, they should pay attention to this model in a much more serious way.
- ◆ The BMs should utilize the services of the BCs/BFs for the purpose they are appointed, instead of asking them to do miscellaneous work in the branch.

- ◆ The BMs should also constantly monitor the performance of BCs/BFs and guide them wherever and whenever required.

RECOVERY AGENT EXAM BY IIBF:

- ◆ All the BCs and BFs have to be advised to pass the "Recovery Agents test of IIBF" so that they can undertake recovery of Non-performing Assets (NPAs) in the villages and get attractive commission on the recoveries they made.

REWARD & RECOGNITION:

- ◆ Every bank may come out with a scheme for reward & recognition of the highly-performing BCs/BFs. This will create a spirit of competition and enthusiasm among them which will help in large-scale spirited implementation of the Financial Inclusion initiatives.

SEPARATE SUBSIDIARY FOR BC/BF ACTIVITIES:

- ◆ GoI/RBI may permit the banks to float a separate subsidiary for carrying out BC/BF activities. This will also help in allowing concessions in direct taxes or releasing funds/subsidies for implementing these initiatives.

Introduction, Objectives and Methodology

The Backdrop

Inclusive growth is the *mantra* today. Not only in India, the *mantra* is being chanted in several emerging economies and developing nations. Financial inclusion is an integral part of inclusive growth. The RBI is passionate about financial inclusion and it has exhorted banks, the nerve system of the financial system, to pursue the goal of financial inclusion in equally passionate way. However, India being a vast country and many citizens residing in remote and inaccessible areas, banks encounter a lot of difficulties in reaching out to them through brick-and-mortar branches. Even in places where bank branches are operating, many citizens are not fully aware of the banking facilities or how to avail of these facilities. Therefore, the RBI devised the BC/BF model in 2006 - wherein the banks may use various organisations for supporting them by undertaking, non-financial banking services with the name 'Business Facilitators' and financial services with the name 'Business Correspondents' - to increase the outreach of the banking facilities in the financially excluded areas and among the financially excluded citizens. While devising the model, the RBI has given considerable flexibility to banks to operationalize the BC/BF model taking into account the respective bank-specific situations.

Rationale for the Study

Almost four to five years have elapsed since the BC/BF model has been introduced and therefore it was felt that an evaluation of the model be carried out so as to bring about mid-term course corrections.

Objectives

The basic objective of the research project, as the title denotes, is to evaluate the BC/BF model. For this purpose, we focussed on the following objectives:

- ◆ To study the origin and scope of the BC/BF model.
- ◆ To examine the socio-economic profile of BC/BFs.
- ◆ To investigate the implementation of the model in actual field level situations.

- ◆ To assess the financial viability of the BC/BF model.
- ◆ To spell out improvement in policies for increasing the efficacy of the BC/BF model.

Scope of the Study

Since the SBI is the market leader in implementing the BC/BF model, we set out to evaluate how the SBI has been implementing the model. The SBI is present all over India (13,542 branches as at the end of March 2011), and therefore, by studying its experience we can obtain a fair and reasonable assessment of the regional trends and patterns of the implementation of the BC/BF model. Our experience with the evaluation of other country-wide projects and programmes gave us the wisdom that India being a vast country with wide diffusion of socio-economic and cultural pattern, the performance of the BC/BF model cannot be independent of these factors. Therefore, by concentrating on just ONE bank, i.e., the SBI, it was equivalent to conducting a study in more number of banks, and the results could be reliable and comprehensive. This could also be time-saving and cost-effective. Thirdly, since the research team belonged to the SBI, we were confident of getting complete field support from our Corporate Centre and Circles in data collection and information gathering process. Finally, the RBI Report of the High Level Committee to Review the Lead Bank Scheme (Chairperson: Usha Thorat) (2010) had entrusted responsibility on the lead banks in the districts as far as financial inclusion is concerned. And SBI is the lead bank in the highest number of districts. This further bolstered our preference as to why we should take up the project in the SBI.

Sampling Methodology

The study was conducted in two Circles of the Bank, namely, (i) Mumbai Circle representing the Western region and (ii) Hyderabad Circle in the Southern region. The Circles were selected in consultation with the officials working in the Rural Business Group (RBG) located at the Corporate Centre of the SBI in Mumbai.

In the second stage, we selected one district each from Mumbai Circle and Hyderabad Circle in consultation

with the officials of the Outreach Departments in the respective Circles. While Nashik district was selected from Mumbai Circle, Anantapur district was selected from Hyderabad Circle. The rationale for selection of these two districts was (a) the support that would be available for the field work in the districts, (b) relatively high-scale implementation of the model and (c) the diversity of the districts (Nashik having very fertile land with better irrigation facilities and infrastructure, and Anantapur being the second dry district in the country). In both the sample districts, all the BCs and BFs - individual and institutional - were surveyed. It was also decided to collect feedback from about 500 customers and non-customers of BCs/BFs. Further, information was collected from Bank's field-level functionaries like the Branch Managers and CMFs.

The fieldwork was conducted in March 2011 and the ultimate sample composition and size were as under:

TABLE 1.1: SAMPLE COMPOSITION AND SIZE

Sample Unit	Sample Districts		Total
	Anantapur	Nashik	
1. Individual BCs	22	0	22
2. Individual BFs	25	39	64
3. Customers of BCs	127	0	127
4. Customers of BFs	106	149	255
5. Non-customers	104	108	212
6. Branch Managers	18	24	42
Total	402	320	722

Database and Questionnaire

Both primary and secondary data were collected and used in the study. Appropriate questionnaires were designed and used to collect data from the sample units. Pre-testing of the questionnaires was done in Nashik and Anantapur districts and questionnaires were modified accordingly before starting the field-study. Based on time and cost considerations, data were collected by the Research Team with the help of two trainers from State Bank Learning Centres (SBLCs) Pune and Aurangabad in Mumbai Circle and another two trainers from Tirupati SBLC in Hyderabad Circle. Guidance and help were also taken from concerned officials in the respective Regional Business Offices (RBOs) including CMFs.

Sources of secondary data constituted various research reports available in the public domain, e.g.,

reports/speeches of Top Executives from RBI and NABARD.

Measures of central tendency (mean and mode) and measures of dispersion were used to analyze the data. Reliability test was employed while determining the viability of the BC/BF model.

Structure of the Study

The study report is structured as follows:

- | | |
|-----------|---|
| Chapter 1 | deals with the need, objectives and methodology of the study; |
| Chapter 2 | deals with the literature review on Financial Inclusion including the origin and scope of the BC/BF model; |
| Chapter 3 | presents in brief the bank-wise position of BC/BF model; |
| Chapter 4 | analyzes the field-level data and information pertaining to BCs and BFs separately including their socio-economic profile. It is divided into two sections:
Section 1 - Analysis of BCs
Section 2 - Analysis of BFs |
| Chapter 5 | describes the findings in respect of customers of BCs/BFs including their socio-economic profile. It is divided into two sections:
Section 1 - Customers of BCs
Section 2 - Customers of BFs |
| Chapter 6 | does a similar exercise for non-customers of banks; |
| Chapter 7 | focuses on the Branch Managers' opinion; |
| Chapter 8 | attempts a viability analysis of BC/BF model; and |
| Chapter 9 | is divided into two sections:
Section 1 summarizes the study findings and
Section 2 enumerates policy recommendations to improve the functioning of the BC/BF model. |

Limitations of the Study

In any study of social sciences, limitations particularly

originating from quality of data due to time and cost constraints do remain. Secondly, the limitation of human cognitive abilities while collecting data from BCs/

BFs and customers, and the functionaries at various levels constituted the second source of limitations.

Literature Review

The chapter surveys the available literature on financial inclusion in India. Along with the literature survey, the chapter tries to trace the origin and scope of financial inclusion.

Origin of Financial Inclusion in India

In the **RBI Annual Policy for 2004-05**, the Governor observed:

“There has been expansion, greater competition and diversification of ownership of banks leading to both enhanced efficiency and systemic resilience in the banking sector. However, there are legitimate concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in the unorganized sector. While commercial considerations are no doubt important, the banks have been bestowed with several privileges, especially of seeking public deposits on a highly leveraged basis, and consequently they should be obliged to provide banking services to all segments of the population, on equitable basis.”

V.S. Das (2008) emphasized that ‘Financial Inclusion’ as a goal was envisioned 40 years ago, in a sense even earlier when Pandit Jawaharlal Nehru made his famous ‘tryst with destiny’ speech in Parliament and set the tone for the emergence of an egalitarian society. Major banks were nationalized in 1969 with the objective of taking banking to the masses. While it is true that the goal is yet to be fully achieved, one cannot deny the progress made during the period, particularly the policy and institutional framework which have laid the foundation for attainment of financial inclusion. We have traversed a long journey since 1969, which has seen the evolution of several policies, models and schemes, successes and failures in our endeavour to attain financial inclusion as also inclusive growth. The Lead Bank Scheme was formulated as a model for facilitation of economic development through the banking system. There was phenomenal growth in bank branches and their outreach, greater emphasis on lending to the priority sectors, schemes for alleviating poverty, impressive strides in microfinance, etc. The

period also witnessed the emergence of financial institutions such as NABARD, Small Industries Development Bank of India (SIDBI), Unit Trust of India (UTI) and National Housing Bank (NHB), which have played a useful role in this context. Today, we can proudly say that the country has a sound well-regulated banking system, which is designed to serve all sections of the population. Our banks, particularly those in the public sector, have contributed significantly in the nation’s economic development, including development in the rural areas. Much, however, still remains to be done.

The Hon’ble Finance Minister has taken cognizance of the need to further accelerate the availability of banking services in rural areas and leverage the existing socially active organisations in the process. In response, the significant statement contained in paragraph 48 in the **Union Budget 2005-06** read as follows:

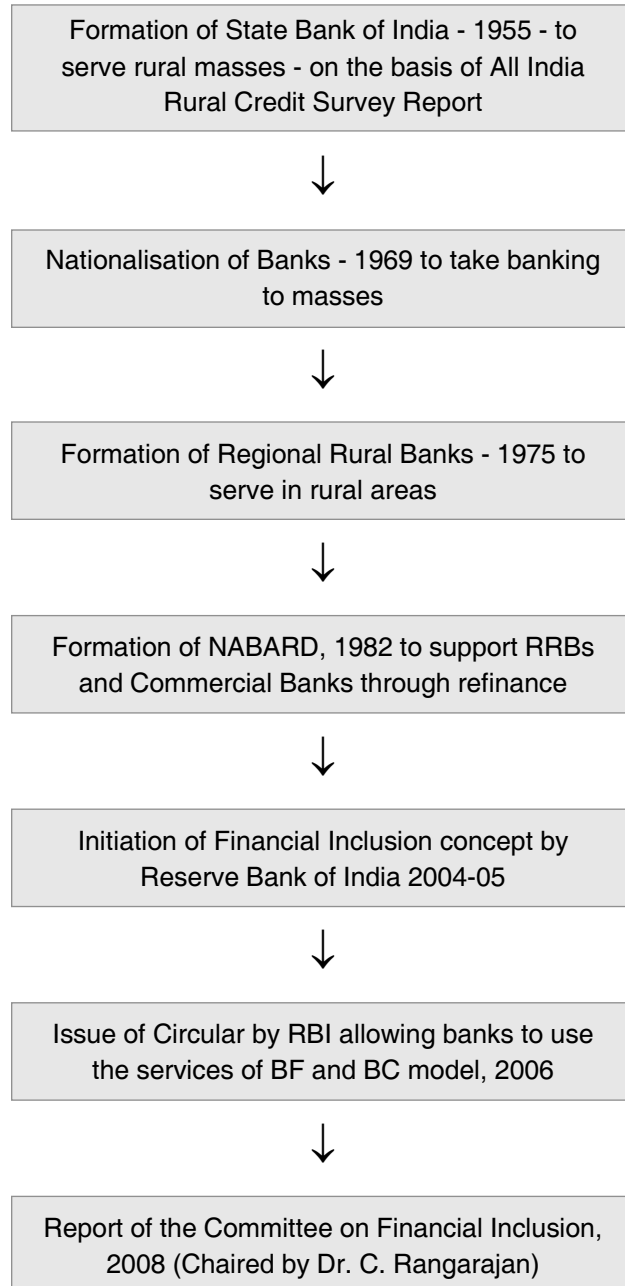
“Government intends to continue with its effort to turn the focus of commercial banks, regional rural banks (RRBs) and cooperative banks towards providing credit, especially production credit, to rural households and farm households. Particularly in agricultural credit, innovations are possible. I propose to request the Reserve Bank of India (RBI) to examine the issue of allowing banks to adopt the “agency model”, by using the infrastructure of civil society organisations, rural kiosks and village knowledge centers, to provide credit support to rural and farm sectors.”

Financial inclusion has been defined as the “provision of affordable financial services” (**RBI, 2006a**) to those who have been left unattended or under-attended by formal agencies of the financial system. These financial services include “payments and remittance facilities, savings, loan and insurance services” (*ibid.*).

Micro finance has been looked upon as an important means of financial inclusion in India (**RBI, 2006b**). The Indian concept of micro finance encourages access of SHGs to banks both as means of savings and providers of loan services. However, going a step further, we can say that micro finance has to act proactively not just as a means of financial inclusion and also has to work

towards reducing dependence of poor borrowers on various informal sources of credit that are often notorious for the onerous terms at which they offer credit. An effective financial inclusion is possible only with the accomplishment of the second.

FLOW CHART ON STAGES OF FINANCIAL INCLUSION IN INDIA



Initiation of BC/BF Model

Taking a cue from the international experiences (detailed elsewhere in the chapter), the **RBI Working Group headed by H.R. Khan (2005)** explored various options and innovative approaches of linking the CSOs

and other entities with banks to expand the latter's outreach. It felt that the linkages can be established under two broad models, one wherein the banks may use a wide array of CSOs and others for supporting them by undertaking non-financial services and the other under which institutional agents/other entities support the banks for extending financial services. The first may be called the "Business Facilitator Model" and the second, the "Business Correspondent Model". These two models are briefly described below:

Model A: BF Model for Non-Financial Support Services

Scope of Activities

Viewed from the supply side, the banks may need several functions to be outsourced so that the transaction efficiency increases. These functions are in the nature of facilitation support services and may include (i) identification of borrowers and fitment of activities; (ii) collection of applications and verification of primary information/data; (iii) preliminary appraisal of credit based on standard norms set by banks and using local data/information (a simple credit scoring model may be employed); (iv) marketing of the financial products including savings/providing product information; (v) processing and submission of applications to banks; (vi) promotion and nurturing SHGs/JLGs; (vii) post-sanction monitoring; (viii) monitoring and handholding of SHGs/JLGs/Credit Groups/others; and (ix) follow-up for recovery.

Types of Facilitators

It is envisaged that a large number of institutions/persons, who currently interface between the rural poor and banks, can be leveraged to provide such support services under well-defined terms and conditions by way of contractual arrangements. These agencies may be NGOs, Farmers Clubs, Functional Cooperatives, IT-enabled rural outlets of corporate entities, Postal agents, insurance agents, well-functioning Panchayats, etc. The banks may also leverage a large number of Rural Multipurpose Kiosks and Village Knowledge Centres set up under private or Government initiatives under this Model. Over time, the facilitators may be encouraged to increasingly use available technological solutions and connectivity for disseminating latest product information, processing, filing of loan applications, viewing account details, etc. In addition to the above, depending on the comfort level that the banks may have, Agri Clinics/Agri Business Centers financed

by banks, Krishi Vigyan Kendras, KVIC/KVIB units, etc., can also be utilized for this purpose.

The banks may also consider engaging, on contract basis, properly identified and trained youth/individuals including retired bank employees having familiarity with the local culture and language to work as facilitators. Based on experience and review, such persons may also be allowed to handle cash at a later date under the BC Model described below. Such persons working under the contractual agreements can expand the reach of the banks at a very low cost and bring in a system of performance-linked incentives often not found feasible in the prevailing organisational structure. NABARD's scheme of promoting Individual Rural Volunteers for promotion of SHGs is an example of using individuals for expanding the outreach. Banks may also consider engaging such farmer-volunteers for expanding their rural reach. A number of banks have set up/are in the process of setting up Rural Self Employment/Entrepreneurship Institutes (e.g., RUDSETIs set up by Syndicate Bank, Canara and Dena Bank, Maha Bank Self Employment Training Institute (MSETI) and Gramin Mahila Va Balak Vikas Mandal set up by Bank of Maharashtra) as separate society/trust for training and capacity building of prospective borrowers. Such societies/trusts can have an exclusive wing which may initially with support of the trainees of the institute undertake the function of BFs.

Model B: BC Model for Financial Services as "Pass Through" Agents

Scope of Activities

Apart from the facilitation support, it may be possible to use several institutions as agents for providing assistance in financial functions on behalf of banks. Properly identified "Business Correspondents" under contractual arrangement may be allowed to function as "pass through" agents. Besides the functions described under Model A above, the correspondents would provide other value-added services, such as, (i) disbursement of small-value credit, (ii) recovery of principal/collection of interest and (iii) sale of micro insurance/mutual fund products/pension products. In respect of all such transactions, the correspondents will be authorised to accept/deliver cash either at the doorstep of the customer or any other convenient locations subject to the cap fixed by the parent bank. The BCs may be monitored closely and based on their satisfactory performance over a period of time, say not less than one year, and

subject to the comfort of the bank, they may also provide services like collection of small deposits, receipt and delivery of remittances/other payment instruments, subject to certain limits and compliance with statutory and regulatory requirements in this regard.

Types of Correspondents

BCs could be, subject to a process of vigorous screening, agencies like registered Non-banking Financial Companies (NBFCs), NGOMFIs set up under Societies/Trust Act, Section 25 companies, societies under MACS, and Government/corporate supported IT-enabled outlets which already conduct cash transactions on behalf of the corporate entities with appropriate contractual agreement which would bind the principal corporate entity for the action of their field-level agents. Another agency as a group that merit attention for being used as the BCs are the Primary Agricultural Credit Societies (PACS). Though the current state of finances and management of a large number of PACS is a cause of concern, they have deep roots in rural India with experience of financing large numbers of small and marginal farmers for over a century. Hence, it would be worthwhile to leverage the well-running PACS both as BCs/BFs to act as intermediaries to increase the outreach of the banking sector in rural areas. For this, a due diligence of the PACS can be undertaken covering certain critical aspects, such as, (i) an elected board with a broad-based membership, (ii) a well-defined and transparent loan policy, (iii) availability of trained staff with knowledge of the local area, (iv) up-to-date accounts, (v) reasonably good financials with recoveries of not less than, say, 70%, (vi) absence of large/long un-reconciled amounts in sundry/intermediate heads of accounts, and (vii) absence of any major audit observations, and cases of large misappropriation/fraud pending against its office bearers or staff. Organisations like RUDSETIs/other Trusts/Societies set up by banks, as mentioned above, may also be developed to function as BCs.

It was expected that the arrangements envisaged under Models A and B would go a long way to fill the gaps that exist now. These models have the potential to leverage both the existing network of bank branches on one hand and the plethora of informal and formal agencies engaged with the poor in particular and the rural sector in general to achieve the objectives of expanding the effective outreach of the formal financial system.

The Group was also seized of the concerns arising out of risks associated with third party intermediation arrangements and analysed the various risk mitigation measures.

Taking these recommendations into account and with the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, the RBI has permitted banks to use the services of NGOs/ SHGs, MFIs and other CSOs as intermediaries in providing financial and banking services through the use of BF and BC Models, vide their Circular of January 25, 2006.

Pallavi & Bhaskar (2009) opine that given the definition of financial inclusion, any means for financial inclusion, to begin with, has to be not just easily accessible but also *affordable* to the borrowers, who do not have access to formal financial system. Secondly, it should ensure that over time the borrowers are able to reduce their dependence on informal sources of finance and a certain degree of loyalty towards SHGs, which can work towards *permanent* or *effective* inclusion of these borrowers into the formal banking network.

All-India Debt and Investment Survey (1991) points out some encouraging facts. In so far as All Scheduled Commercial Banks (ASCBs) including RRBs are concerned, 48% of their total branches (32,303 branches which translates to a population of about 23,000 per branch), 31% (13.67 crore) of their deposit accounts and 43% (2.55 crore) of their borrowal accounts are in the rural areas. Such an unprecedented expansion of the formal financial infrastructure has reduced the dependence of the rural populace on the informal money lending sector from 68.3% in 1971 to 36.0% in 1991.

Extent of Financial Exclusion - NSSO Survey 59th Round

(a) General:

- ◆ 51.4% of farmer households are financially excluded from both formal/informal sources.
- ◆ Of the total farmer households, only 27% access formal sources of credit; one-third of this group also borrows from non-formal sources.
- ◆ Overall, 73% of farmer households have no access to formal sources of credit.

(b) Region-wise:

- ◆ Exclusion is most acute in Central, Eastern and North-Eastern regions - having a concentration of 64% of all financially excluded farmer households in the country.
- ◆ Overall indebtedness to formal sources of finance alone is only 19.66% in these three regions.

(c) Occupational Groups:

- ◆ Marginal farmer households constitute 66% of total farm households. Only 45% of these households are indebted to either formal or non-formal sources of finance.
- ◆ About 20% of indebted marginal farmer households have access to formal sources of credit.
- ◆ Among non-cultivator households nearly 80% do not access credit from any source.

(d) Social Groups:

- ◆ Only 36% of Scheduled Tribe (ST) farmer households are indebted. Scheduled Castes (SCs) and Other Backward Classes (OBCs) - (51%) are indebted mostly to informal sources.

Analysis of the data provided by the **RBI** through its **Basic Statistical Returns** reveal that critical exclusion (in terms of credit) is manifest in 256 districts, spread across 17 States and 1 Union Territory (UT), with a credit gap of 95% and above. This is in respect of commercial banks and RRBs.

As per the Centre for Monitoring Indian Economy (**CMIE**) (**March 2006**), there are 11.56 crore land holdings. 5.91 crore Kisan Credit Cards (KCCs) have been issued as at the end of March 2006, which translated into a credit coverage of more than 51% of land holdings by formal sources. Further data with the NABARD on the doubling of agricultural credit indicates that agricultural loan disbursements during 2006-07 covered 3.97 crore accounts.

Thus, there are different estimates of the extent of inclusion through formal sources, as the reference period of the data is not uniform. Consequently, this has had an impact on quantifying the extent of levels of exclusion (**Rangarajan, 2008**).

It is important to understand both the supply and the demand side perspectives that lead to such a wide gap in availability of financial services. The exclusion of a large number of the rural population from the formal

banking sector may be for several reasons from the supply side, such as: (a) persons are un-bankable in the evaluation/perception of bankers, (b) the loan amount is too small to invite attention of the bankers, (c) the person is bankable on a credit appraisal approach but distances are too long for servicing and supporting the accounts and expanding branch network is not feasible and viable, (d) high transaction costs particularly in dealing with a large number of small accounts, (e) lack of collateral security, (f) inability to evaluate and monitor cash flow cycles and repayment capacities due to information asymmetry, lack of database and absence of credit history of people with small means, (g) human resources related constraints both in terms of inadequacy of manpower and lack of proper orientation/expertise, (h) adverse security situation prevailing in some parts of rural India, (i) lack of banking habits and credit culture, (j) information-shadow geographical areas, and (k) inadequacy of extension services which is crucial to improve the production efficiency of the farmers leading to better loan repayments.

From the demand side, there are several reasons for the rural poor remaining excluded from the formal banking sector, such as: (a) high transaction costs at the client level due to expenses such as travel costs, wage losses, incidental expenses, (b) documentation, (c) lack of awareness, (d) lack of social capital, (e) non-availability of ideal products, (f) very small volumes/sizes of transactions which are not encouraged by formal banking institutions, (g) hassles related to documentation and procedures in the formal system, (h) easy availability of timely and doorstep services from money lenders/informal sources and (i) prior experience of rejection by indifference of the formal banking system.

It needs to be noted that the initiatives that may be taken further to expand the banking outreach have to necessarily provide solutions for the comprehensive financial services to the rural sector. Thus, for example, the inability to save or withdraw savings from the formal sector may revert even those who are brought into the banking mainstream to the informal sector as it responds well to emergency needs. **(H.R. Khan, 2005)**

The Government of India constituted a Committee on Financial Inclusion chaired by Dr. C. Rangarajan, the report of which was submitted in January 2008.

A broad working definition of financial inclusion is as under:

“Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.”

Rangarajan Committee, 2008

The committee recommended that a National Rural Financial Inclusion Plan (NRFIP) may be launched with a clear target to provide access to comprehensive financial services, including credit, to at least 50% of financially excluded households, say 55.77 million by 2012 through rural/semi-urban branches of commercial banks and RRBs. The remaining households, with such shifts as may occur in the rural/urban population, have to be covered by 2015. Semi-urban and rural branches of commercial banks and RRBs may set for themselves a minimum target of covering 250 new cultivator and non-cultivator households per branch per annum, with an emphasis on financing marginal farmers and poor non-cultivator households.

Development and Technology Funds

There is a cost involved in this massive exercise of extending financial services to hitherto excluded segments of population. Such costs may come down over a period of time with the resultant business expansion. However, in the initial stages some funding support is required for promotional and developmental initiatives that will lead to better credit absorption capacity among the poor and vulnerable sections and for application of technology for facilitating the mandated levels of inclusion. The Committee has, therefore, proposed the constitution of two funds with NABARD - the Financial Inclusion Promotion & Development Fund and the Financial Inclusion Technology Fund with an initial corpus of Rs.500 crore each to be contributed in equal proportion by Gol/RBI/NABARD. This recommendation has already been accepted by the Government of India. The Government initiated these funds and in the budget 2011-12, the contribution has been increased by another Rs.100 crore.

BC Model

Extending outreach on a scale envisaged under NRFIP would be possible only by leveraging technology to open up channels beyond branch network. Adoption of appropriate technology would enable the branches to

go where the customer is present instead of the other way round. This, however, is in addition to extending traditional mode of banking by targeted branch expansion in the identified districts. The BF/BC models riding on appropriate technology can deliver this outreach and should form the core of the strategy for extending financial inclusion. The Committee has made some recommendations for relaxation of norms for expanding the coverage of BFs/BCs. Ultimately, banks should endeavour to have a BC touch-point in each of the 6,00,000 villages in the country.

RBI has permitted banks to use the services of NGOs/SHGs, MFIs and other CSOs as intermediaries in providing financial and banking services through the use of BF and BC Models. However, the committee observed that the response of the banking system has been of low key and the model is yet to be fully grounded.

Following **recommendations** in respect of the BF/BC Model are made by the Rangarajan Committee:

BFs: Originally, only individuals who were insurance agents could act as BFs while no individuals could be placed as BC. This was later widened to include retired officials, viz., Government servants like postmasters, school teachers and headmasters, who were considered by the RBI as eligible to act as BFs. Banks may make use of this relaxation and use individuals as indicated above as BFs. Banks may appoint ex-servicemen/retired bank staff as their BFs. Banks should ensure that the banking awareness created by BFs get converted to business potential by providing suitable banking services like mobile outlets. Banks may facilitate easy roll-out of this mobile banking model through simplification and rationalization of back-end processes and front-end procedures so that banking operations are made more customer-friendly.

BCs: In addition to the institutions allowed at present by the RBI to function as BCs, individuals like locally-settled retired Government servants, e.g., postmasters, school teachers, ex-servicemen and ex-bank staff, whose relationship with the banking system through a pension account has already been established, may be permitted to act as BCs. Further, MFI-NBFCs may be allowed to act as limited BCs of banks for only providing savings and remittance services. Technology has to be an integral part in sustaining outreach efforts through the BC model. Ultimately, banks should endeavour to have a BC touch-point in each of the six lakh villages in the country. In order to sustain and encourage the

arrangements, banks may formulate suitable incentive mechanism for BCs linked to the number of accounts opened/transactions put through by them. Further, banks may consider placing BCs even in areas having their own branches.

To begin with, the BC model envisaged by the RBI could be implemented widely. In due course, when the BCs reach a higher level of turnover, they should bear commensurate financial responsibilities.

Banks may appoint any individual/institution of their choice as BCs, after exercising due diligence. This will facilitate greater acceptance of the BC Model by banks.

Funds may be provided to specialized institutions which provide capacity building inputs to BCs. Such funding support could be extended on priority basis to most excluded areas/sectors of the society.

State Level Bankers' Committee (SLBC) convener banks may initiate discussion with their respective State Governments regarding routing government payments through BCs using the smart card or other relevant technology on a pilot basis.

SLBCs may undertake a study to identify organisations having the capacity to serve as customer service points and BC. In States like Andhra Pradesh and Kerala, the VOs and Kudumbashree structures already exist and these can be used as customer service points.

Training modules for BFs/BCs may be prepared in vernacular and in culture sensitive pictorial forms.

Early data on viability of BC model for banks

Data were collected from 4 Bank on BC relationship. These were SBI/FINO Fintech, SBI/Zero Mass Foundation, KBS/IGS, SBI/Eko. When aggregated, this data covered 2.4 million clients reached over a combined 39-month period. The revenue and cost data reflect the combined results and overall the Rs.16.33 revenue per client is only one-fourth of the total costs incurred of Rs.62.71 to date.

TABLE 2.1: REVENUES EARNED BY REPORTING BANKS USING BC MODEL (RS./CLIENT)

Total Revenue	From Credit	From Savings	From Payments	Others (balancing figure for rounding off at different stages)
16.33	11.94	1.03	3.25	0.11

TABLE 2.2: COSTS INCURRED BY REPORTING BANKS (RS./CLIENT)

Total Costs	Paid to Tech vendor	Paid in Taxes	Paid for Capex	Paid to BC	Cost of Capital	Expenses for Staff	Expenses for Operations	Others (balancing figure for rounding off at different stages)
62.71	33.79	8.59	6.14	5.15	4.37	3.61	0.64	0.42

Source: CAB, ACCESS, CGAP Report

The costs and revenues indicated above are not directly comparable. Some of the costs are not current in nature and need to be amortised over a longer period as they are in the nature of investments in client development and systems development for business expansion.

The RBI Working Group to Review the BC Model (Chairman: Shri P. Vijaya Bhaskar) (August 2009) in its report has remarked as under:

“It may be seen that while some public sector banks and a few private sector banks have experimented with the model, none of the foreign banks have done so. Overall, the data reveal that out of 50 public sector and private sector banks, only 26 banks have so far reported appointing of BCs. Most of the banks that have employed BCs have appointed section 25 companies/ Trusts/Societies as BCs. Further, almost all the Section 25 companies appointed as BCs have been floated by the technology service providers who had provided the smart card or biometric solutions for account openings, etc.”

The major recommendations of the Working Group are summarised below:

Realising the full potential of the BC model: Given the right impetus, the BC model has the potential to speed up the process of financial inclusion in the country and bring the vast majority of population within the banking fold. The Group recognises the fact that the process of financial inclusion involves the three critical aspects of (a) access to banking markets, (b) access to credit markets and (c) financial education. The BC model should, therefore, encompass each of the above three aspects in order to be able to address the issue of financial inclusion in a holistic manner. The full scope of the model can be realised not just by opening no-frills accounts but by synthesising the above three aspects as integral components of the model. Towards this end,

there should be proper understanding and appreciation of the BC model by all stakeholders, in particular, by banks. Banks need to appreciate the benefits arising out of adopting the ‘branchless’ BC model and implement the same with missionary zeal so as to achieve the ultimate goal of financial inclusion.

Cash handling: Entities which have cash inflow/out-flow as part of their normal activities may be generally considered to take on the role of BCs so that the issues relating to cash handling are addressed. Banks could think in terms of streamlining cash management by adopting ‘Cash Routes’ wherever warranted with suitable cash transit insurance to be borne by the banks.

Financial Education and Consumer Protection: Banks need to scale up their efforts substantially towards educating the clientele in their respective vernacular languages regarding the benefits of banking habit. For this purpose, extending necessary financial support from the Financial Inclusion Fund administered by NABARD may be considered.

Information regarding BCs engaged by banks may be placed on the banks’ websites. The Annual Reports of banks should also include the progress in respect of extending banking services through the BC model and the initiatives taken by banks in this regard. Banks may also use print and electronic media (including in the vernacular language) to give wide publicity about implementation of BC model by them.

The banks may educate their customers through various means - print, electronic, etc. - the role of the BC and their obligation towards the customers, in the vernacular language.

The banks need to ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of the BCs.

Banks may put in an appropriate grievance redressal mechanism, which should be widely publicised and

also placed in public domain. The details of the grievance redressal officer should be displayed at the premises of the BC as also at the base branch and made available by the bank/BC at the request of the customer.

Ensuring Viability of BC Model

The BC model can succeed only if the banks own up the BCs as their agents. Banks may need to have a re-look at the compensation structure for BCs.

The range of services to be delivered through the BC should be ramped up to include suitable small savings, micro-credit, micro-insurance, small value remittances, etc.

Banks may be permitted to collect reasonable service charges from the customer, in a transparent manner, for delivering services through the BC model.

Suitable guidelines may be issued by the RBI in this regard, especially keeping in view the profile of customers using these services.

Banks may bear the initial set-up cost of the BCs and extend a handholding support to the BCs, at least during the initial stages. Banks may also need to bear the costs relating to transit insurance of the cash handled by BCs.

In order to improve the viability of the BC model, banks may consider providing reasonable temporary overdrafts to the BCs free of interest charges.

Regulatory Issues

The RBI may permit banks to allow, with suitable safeguards, the BCs in the North Eastern Region to account for the transactions in the bank's books by the end of the second working day from the date of the transaction.

As regards cases referred to District Consultative Committees (DCCs) for relaxation of distance criteria, they should give their decisions at the earliest and in any case within a period of three months from the date of reference to them. In case no decision is conveyed by DCCs within this period, the banks may be permitted to treat it as a 'no objection' for relaxation of the distance criterion.

Risk Mitigation Measures

To address the various risks involved in rendering banking services through the BC model, banks need to put in place suitable and adequate risk mitigation measures. Further, banks may be guided by the in-

structions contained in the guidelines on 'Outsourcing of Financial Services' issued by the RBI on November 3, 2006, as relevant, while implementing the BC model.

Others

The RBI may issue suitable clarification to the banks to the effect that in case the customer desires, he may be allowed to carry out the transactions at the base branch.

Banks may adhere to the RBI guidelines on adoption of appropriate technology while implementing the BC model. Further, providing the required support to banks from the Financial Inclusion Technology Fund for the above purpose may be considered.

Banks may also develop suitable training modules in the local language/s, in order to provide proper attitudinal orientation and skills to the BCs. The IIBF has already developed training modules for BCs. These modules may be translated in vernacular languages and leveraged extensively so as to reach a wider group.

Additional eligible entities as BCs: The Vijay Bhaskar group also suggested for considering additional entities for appointment as BCs in rural and semi-urban areas. As regards Common Service Centres (CSCs) as BCs, a few pilots should be run in at least in a couple of States before deciding on further action.

Under National e-Governance Project (NeGP), there is a scheme for establishing 1,00,000+ CSCs, primarily in rural areas of the country. These Centres would be broadband internet enabled and would provide all government and private services at the doorstep of the citizen. The Scheme is being implemented in public private partnership. CSCs have significant potential to accelerate e-Financial Inclusion.

The Committee on Financial Sector Plan (CFSP) for the North Eastern Region (Chairperson: Smt. Usha Thorat) observed that as regards the North Eastern Region, the RBI may issue suitable instructions to banks to implement the recommendation made by it that where a local organization/association not falling under any of the forms of organization listed in the RBI guidelines is proposed by a bank after due diligence and is recommended by DLCC for being approved as BC, the Regional Office of the RBI may be given powers to grant suitable exemption from the RBI guidelines.

Mobile Technology and Financial Inclusion

In recent times, since growth of mobile phone has been phenomenal and it has emerged as a ubiquitous convergent device (anybody, anytime, anywhere appli-

ances), mobile banking and m-payment has attracted a lot of attention globally. Realizing its potential for e-Financial inclusion, **Department of Information Technology (DIT), Government of India, in April 2007, prepared a state-of-the-art study on international best practices** on mobile payments, thereafter organized a brainstorming session of stake-holders to chalk out future course of action and then joined hands with another emerging initiative in the form of Mobile Payment Forum of India (MPFI) (<http://www.mpf.org.in>). The MPFI website contains a lot of useful materials on mobile payment.

On a quick analysis about the manner in which mobile payment system is evolving in the world, certain attributes stand out:

Mobile payment is evolving both through the route of banking channel as well as e-money concept (pre-payment instrument).

In developed world, m-banking is complementary to the traditional payment systems. In developing world, because of wider penetration of mobile phones, their affordability and easy reach and more needs of micro-payment and micro-finance, mobile payment is gaining momentum through e-money concept driven by Mobile Network Operators (MNOs).

As per a recent Mobile Money Market Sizing Study carried out jointly by CGAP and GSMA Association released in Washington DC in June 2009, more than a billion people world-wide lack bank accounts but do have mobile phones, providing opportunity to achieve greater financial inclusion. This study, conducted in 147 countries, is not the first m-banking forecast, but it is the first to focus on people without bank accounts. The study also seeks to understand how savings, credit and more can be offered through mobile phones.

Some of the oft-quoted success stories of mobile payments in developing countries through e-cash route include Philippines (Smart Money & G-Cash) operated by MNOs, Kenya (M-PESA), South Africa (WIZZIT) and Zambia (Celpay).

From the above review, it can be seen that hitherto no *evaluation study* has been carried out on the subject of BC/BF model in India. Therefore, this study by us can be regarded as a pioneering effort.

International Experiences

BCs in Brazil

BCs are fully serviced retail agents for banks. Using

technology (such as EFTPOS - Electronic Funds Transfer Point of Sale - devices and communications networks) and business arrangements with retailers (such as grocery stores, drugstores, gas stations, the postal company, and the lottery outlet chain), BCs offer services including savings deposits, credit withdrawals, bill payments, new account openings, money transfers, insurance and government benefits including pension receipts to people active in Brazil's informal economy.

The largest operators of BCs are:

- ◆ Caixa Economica (state-owned, 14,000 BCs)
- ◆ Banco Postal, run by Banco Bradesco (private, mostly postal outlets, 7,900 BCs).
- ◆ Banco Popular, owned by Banco do Brasil (state-owned, 6,200 BCs)
- ◆ Lemon Bank (private, 3,500 BCs)

The BC model is technology-intensive. The banks use a combination of the following devices at a retail outlet, post office, etc.: an EFTPOS device, a bar scanner that scans bills for bill payment transactions, an entire PC, a PIN pad, and some forms of teller machine with a screen. Banco Popular has three configurations (depending on the transaction volume) - a simple EFTPOS device, a PC with high-speed connection, and a stand-alone mini branch with several computers. Some BCs are always online, and others dial up every few hours to update the central server.

Operational approaches differ. Banks such as Caixa and Banco Postal identify retail outlets themselves and handle all equipment, training, contracting, etc. Lemon Bank and Banco Popular are start-up banks that have lean operations and use intermediaries to identify, train and support BCs. Banco Popular has only 80 staff, but 7,900 BCs and 2.8 million new clients are in its fold in less than two years of operation. These banks use private companies to manage the correspondents. These are private companies, which were previously focused on technology networks and management, and today contract and monitor BCs on the banks' behalf. Management companies assume all liability for cash handled by the BCs.

It is difficult to determine how poor the customers of BCs are. Clearly, the channel has had great success in bringing the "unbanked" into the financial system: there are now more than 27,000 BCs, and the four banks mentioned above have acquired roughly 8 million new account-holders in the past three to four years.

Most bankers when asked about micro-credit claim that the small personal loans they offer through BCs are exactly that. However, the central bank is now encouraging banks to make “productive” micro-credit loans. Under this definition the bank must use a loan officer, can charge up to 4% p.m., and can lend up to Rs. 5,000 (US\$ 2,000). But since it only involves an EFTPOS device and a store employee, the BC channel is not well-equipped to make loans of this type yet. To overcome this, those banks that are focused on lending (Banco Popular, Banco Postal and Caixa) will have to partner with local MFIs/NGOs who can appraise and monitor clients better, or build a scoring methodology using account transaction patterns to help assess risk.

Teba Bank of South Africa

In South Africa, Teba Bank (changed its name to UBank in October 2010) which was providing financial services to the mining industry since 1975, started targeting low-income households in small towns and rural areas having limited banking facilities since 2000, after it was granted the licence to operate as a micro finance bank. The bank engages agents who are given hand-held mobile Point of Sale (PoS) devices. This wireless device has a built-in GSM modem, card reader and micro printer. The customer can use their debit card at the terminal to deposit and withdraw cash, make balance enquiry and transfer funds. Under this arrangement, physical cash can be deposited with/dispensed by agents. Typical agents in this model are the neighbourhood grocery stores and their accounts at the bank are instantaneously debited or credited.

ACCION's Service Company Model of Latin America

ACCION International, a microfinance resource institution based in the USA and working in the American continents, has promoted the “Service Company Model” to expand microfinance operations. The model has been successfully replicated by SOGE BANK/SOGESOL in Haiti and Banco del Pichincha/CREDIFE in Ecuador. The Micro-finance Service Company is a non-financial company that provides loan origination and credit administration services to a bank by way of sponsoring, evaluating, approving, tracking and collecting loans, for a fee. The loans themselves are on the books of the bank. The Service Company can be a wholly-owned subsidiary of the bank or may involve additional investors. **(Excerpts from the report of H.R. Khan, 2005)**

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BC/BF Model - A Bank-wise Snapshot

The chapter deals with the various models adopted by banks in this regard - with particular reference to State Bank of India.¹

As per the RBI Report on Trend and Progress of Banking in India 2009-10, as at end-March 2010, 5.06 crore no-frills accounts were opened by the banking system. This figure represents a huge growth in number of accounts (only 0.88 crore no-frills accounts were opened as on March 31, 2009), but the challenge is in keeping these accounts operational. Many such accounts have become dormant as the poor often find it difficult to save and deposit money into their accounts. In order to keep these accounts operational, banks have been advised by the RBI to provide small overdrafts in such accounts and up to March 2010, Rs.27.54 crore were provided as overdrafts by banks in such accounts.

Here are some achievements by select banks under financial inclusion:

TABLE 3.1: NUMBER OF 'NO-FRILLS' ACCOUNTS OPENED BY SELECT BANKS

Bank	Number of 'no-frills' accounts opened as on 31 st March, 2010
Punjab National Bank	53,81,000
State Bank of India	38,83,000
Bank of India	32,63,000
Indian Bank	22,31,000
Canara Bank	21,80,000
Bank of Baroda	20,00,000
Andhra Bank	18,61,000
Axis Bank	12,00,000
Oriental Bank of Commerce	9,10,000
Corporation Bank	5,50,000
IDBI Bank	4,34,000

(Source: Annual Reports/Press Releases of concerned banks)

With a view to increasing banking penetration and promoting financial inclusion, domestic commercial banks were advised in January 2010 by the RBI to draw up specific Board approved Financial Inclusion Plans (FIPs) to be rolled out over the next three years. Banks were advised to devise FIPs matching with their business strategy and to make the FIPs an integral part of their corporate plans. The RBI has not imposed a uniform model to allow each bank to build its own strategy in line with its business model and comparative advantage.

Performance of Various Banks

State Bank of India: In the area of Micro Finance and Financial Inclusion, the SBI remained the market leader with a market share of around 31% in SHG-Bank Credit Linkage programme having credit linked so far 17.13 lakh SHGs and disbursed loans to the extent of Rs.11,562 crore. Coverage of unbanked villages increased from 53,000 in March 2009 to 1,03,938 by March 2010. The Bank has gone beyond the usual domains of technology in terms of platform, solution, operational details and service content in a very aggressive manner to serve the excluded common citizen with minimal costs including SBI Tiny Card. The Bank has rolled out Kiosk Banking, operated at internet enabled PC (Kiosk) with bio-metric validation across 7 States and 49 districts. Major Service Centre Agencies (SCAs) like SREI Sahaj, 3-i Infotech have been engaged as BCs besides appointing about 26,800 Customer Service Points (CSPs)/outlets of BCs/BFs. Some of the national level BCs/BFs are India Post, ITC, National Bulk Handling Corporation and Reliance Dairy.

The Bank has been rated as the best Public Sector Bank for Rural Reach by Dun and Bradstreet and has been awarded the Best Microfinance Award for the year 2009 by the Asian Banker for financial institutions across the Asia-Pacific, Gulf and Central Asia regions. The Bank has also been awarded Visionaries of Financial Inclusion - Year 2009 by Financial Information Network & Operations Ltd. (FINO).

1. However, as the exact structure of models is not available in the websites or various articles, in most of the cases the data on their achievement in Financial Inclusion are given.

Punjab National Bank: Under the branchless banking model of the financial inclusion, the bank has launched a drive for biometric smart card based technology enabled financial inclusion with the help of BCs/BFs in Indo Gangetic Plain where the bank has a major presence. The bank has been implementing 40 projects under the Branchless Banking Model in rural as well as urban areas covering 16 States. The bank has engaged 637 BCs/BC Agents and 2,029 BFs/BF Agents for implementing the financial inclusion activities. In order to mitigate the difficulty faced by the migrant labourers in remittance of money to their families in their home states, the bank has devised a system whereby the customer can remit funds using his mobile handset. IL&FS Education and Technology Services Ltd., is the Technology Service provider and M/s SammaN Foundation is the BC. Three thousand Banking Kiosks are going to be opened during the FY 2010-11. The bank has opened 20 FLCCs in different districts of the country.

IIBF has launched a certificate course specially designed and developed for BCs/BFs so as to make them conversant with the various products of the bank and guidelines on banking operations before putting them on job. An important feature of the certification process is the faculty profile building through “Train the Trainers programme” under which the faculty of accredited institutions is given training. This programme has the support of NABARD by way of reimbursement of the course fee paid by the successful candidates so as to support the capacity building of BCs/BFs through this certification course. PNB is effectively utilising this programme to train BCs/BFs.

PNB's JAN MITRA RICKSHAW PROJECT launched in association with Centre for Rural Development (CRD), an NGO, will help the rickshaw pullers to access quality rickshaws and become owner of the same after three years (max.). They will have 'no-frills' accounts with the bank along with health and medical insurance cover.

In recognition of its efforts towards financial inclusion, the bank has been conferred with **Skoch Challenge Award 2010 for “Livelihood Linkage”** of the milk producers in Bulandshahr District, Uttar Pradesh.

Bank of India: The bank is using IT-enabled solution on end-to-end basis using handheld device terminals and biometric smart cards by adopting BCs/BFs. One hundred forty-six villages have been made as money lender free villages under the Debt Swap Scheme.

Indian Bank: The bank has identified 1,468 villages to provide banking services through technology-based BC Model under financial inclusion. Total Financial Inclusion (involving all banks) has been achieved in UT of Puducherry where the bank holds SLBC responsibility and in Cuddalore (TN) and Kollam (Kerala) where the bank has Lead Bank role. Contact-less Smart Cards have been introduced for payment of wages under National Rural Employment Guarantee Act and Social Security Pension in select districts of AP.

Canara Bank: The bank has achieved total financial inclusion in all the 26 lead districts spread across five States. The bank has brought out two comic books in Kannada and English, namely “Money” and “Savings” for financial education of the people. The bank has piloted Smart Card Technology in two villages near Bangalore for financial inclusion. The bank has an MOU with the Government of Karnataka for implementation of Smart Card Technology for payment of NREGP wages and Social Security Pension in three districts. The bank has installed Biometric Voice enabled ATMs in nine semi-urban locations all over the country. The bank has provided 25 vehicles in 25 potential districts to facilitate the branches to reach the rural poor and the excluded families by using the vehicle. The vehicle is called ‘Canara Gramina Vikas Vahini’.

Bank of Baroda: The bank has achieved 100% financial inclusion in 21 out of 44 of its lead districts. It has opened Financial Literacy and Credit Counselling Centres (FLCCs) christened as “SAARTHEE” at Ajmer, Rai Bareilly, Amethi and Vadodara. These centres will be providing financial literacy and credit counselling to needy persons. It has approved **Financial Inclusion Plan** for providing banking services in the un-banked/under-banked 20,000 villages during the next three years. The banking services will be provided to these villages through Information and Communication Technology based models like smart cards, micro ATM, mobile vans and brick-and-mortar branches, wherever feasible. The bank expects to open more than 41 lakh no-frill accounts and also generate substantial amount of business in terms of deposits, advances, remittances and selling of insurance products under this plan.

The bank has opened **Micro Loan Factory** at Sultanpur in U.P. during the year 2009-10. It is already having mobile micro finance loan factory at Rai Bareilly. The Micro Finance Loan Factory has a mobile van with

facilities and all related stationeries/documents on SHG financing. It is manned by officers who are duly authorised to sanction and disburse loans up to Rs.25,000 to SHGs on the spot and at their doorsteps.

Andhra Bank: The bank has planned to implement the following ICT based models for implementation of Financial Inclusion Plan - i. Smart cards or Point of Terminals, ii. Mobile Banking modes, iii. ATMs/Mobile ATMs including biometric compatible and iv. Other branchless banking modes. Under the Smart Card Project for Electronic Benefit Transfer of Government Schemes - MGNREGS and Social Security Pensions, 10.88 lakh members have been enrolled so far, of which 4.50 lakh were issued smart cards.

The bank has launched the project of lending to SHGs through Smart Cards on a pilot basis in four branches in Andhra Pradesh covering 2,300 Self Help Groups. The SHGs of these branches are undertaking their banking transactions through smart cards without visiting the branches.

The bank will cover 1,144 un-banked villages of its service area having population more than 2,000 by the year 2011 and all the 3,000 villages with population below 2,000 by the year 2013.

Axis Bank: The bank plans to cover 5,500 villages for financial inclusion by March 2011 and scale it up to 12,000 villages in five years' time. Axis Bank is looking at opening 18 lakh no-frills accounts, Rs.40 crore of deposits and Rs.10 crore of advances through its financial inclusion initiative. The 18 lakh accounts would include 12 lakh accounts they have already opened for government-sponsored schemes.

The bank is looking at several low-cost delivery models such as smart card, mobile banking and point of transaction device. Axis Bank has also set up separate financial inclusion team.

Oriental Bank of Commerce: As part of its Financial Inclusion Plan 2010-11, the Bank proposes to:

- ◆ install 20 new biometric ATMs and issue 2 lakh fresh Biometric Cards.
- ◆ mobilize 3.64 lakh fresh No-Frill Accounts.
- ◆ appoint 1,000 BCs during the year.
- ◆ form 50,000 new SHGs/JLGs during the year.

Corporation Bank: The bank has branded the BC locations as "Corp Grameena Vikas Kendras" which are using innovative technology products and services.

The BCs are provided with a handheld terminal and the individual customers would be provided with Smart/Radio Frequency Identification Cards (RFIDs). The bank has 1,200 BCs as on March 31, 2010 spread over various states and they collectively clock nearly 22,000 transactions a month. The bank is handling the NREG wage payouts and the Social Security Pensions Payments also. The bank has been awarded the 'Inclusion Champion of the Year - 2009' by SKOCH Foundation, New Delhi.

IDBI Bank: The bank has already launched a scheme for opening "No Frills Accounts" known as "Sabka Account". The account can be opened with a minimum balance of Rs.250. The bank is providing banking services to a few villages in Satara district (Maharashtra State), with the help of a dedicated mobile van. The van covers 5 villages by visiting them once in a week, mostly on "Bazar day" of the village. The FI Plan will initially be concentrated in the state of Maharashtra where IDBI Bank has large number of branches. BCs would be appointed in the State in such numbers keeping the 30 km criteria for rural and semi-urban centres in mind. Considering the limited branch network available with IDBI Bank at present in other states, the roll-out may be phased out over subsequent years except for those villages which are allocated to them by the respective SLBCs. Majority of proposed addition of branches in RUSU branches will act as "Base Branch" for villages to be covered under BCs network.

Syndicate Bank: Seven hundred and ten BCs were appointed by the bank as of August, 2010. The bank has so far sanctioned General Credit Cards to 22,000 borrowers.

ICICI Bank: Financial inclusion initiatives have been a part of its core business strategy, being achieved through different channels and technologies. FINO, a company sponsored by the ICICI Group, is working with a number of players in the financial sector for customer acquisition and servicing using the smart card model. The bank is working with 20 BC partners having 56 branches across nine states and serving over 1,00,000 customers. They are also focusing on enrollment of beneficiaries under government schemes like NREGS and SSP as well as migrant workers in urban areas.

HDFC Bank: Over the next five years, the bank is planning to bring 10 million households currently excluded from basic banking services under the fold of

financial inclusion. The bank provides 'No Frills' savings accounts through all its branches as a stepping stone towards financial inclusion. These accounts are offered only to customers who do not have any other bank account (are un-banked) and who are either beneficiaries of a government welfare scheme or have annual incomes less than a defined threshold (constitute the bottom of the economic pyramid). Apart from the basic "no-frills" savings account, the bank also offers these segments other accounts such as "no-frills" salary accounts and limited KYC accounts. The bank works with the SHGs either by appointing BCs or through its own branch network. To this effect, the bank has opened 27 branches catering exclusively to this target segment.

Adaptation of RBI guidelines by SBI to implement the model

RBI, vide their notification dated January 25, 2006 allowed banks to implement the BC/BF model. Banks were given the freedom to stipulate the maximum transaction amount through BC channel. Similarly, banks were allowed to get the approval of their Board for payment of commission as they desired. Accordingly, the SBI came out with a Board-approved model on implementing BC/BF channel with their circular in April 2007. Therein, the Bank has stipulated a maximum transaction limit of Rs.10,000 per transaction (deposit/withdrawal/remittance) per person per day. The commission structure was also devised keeping in view the competitive rates paid by other organizations like Post Office.

The SBI is one of the leading banks in implementing Financial Inclusion initiatives. The activities are implemented/driven by its staff with the support of BC/BF appointed by the Bank. The organization structure is presented hereunder:

Corporate Centre: General Manager (Rural Business - Outreach)

[Reporting to the Chief General Manager (Rural Business) and having the support of Dy. General Managers, he will play the anchor role in Financial Inclusion]

Local Head Office: Dy. General Manager (Rural Business - Outreach)

[Reporting to the Chief General Manager of the Circle and hav-

ing support officers, he will play the anchor role in Financial Inclusion at Local Head Office level]

Regional Office:

Chief Manager (Rural)

[Reporting to the Asstt. General Manager of the Region and having support in the form of Financial Inclusion Centre, Channel Manager (Rural)/Channel Management Facilitator, he will play the anchor role in Financial Inclusion at Regional Office level]

Outreach Business Manager (Financial Inclusion Centre)

[Working under the Asstt. General Manager of the Region, he will play the anchor role in Financial Inclusion - BC Model - at Region level]

Channel Manager (Rural)/Channel Management Facilitator

[Working under CM (Rural) and coordinating with FIC, he will play the anchor role in Financial Inclusion - BF Model - at Region level]

The Financial Inclusion Centre would be a back-office support structure for the BCs/BC points. Its activities would include uploading of accounts opening forms received from the BCs in the Core Banking, ensuring regular supply of stationery, account opening forms, sign boards to the BCs, monitoring of settlement of accounts, visits to BC points to ensure compliance of instructions by them, custody of agreement and account opening forms, sanction of loans sourced by BCs to be made available to the BC points, marketing of the Bank's products at BC points, verification of compliance with KYC norms by BC points, etc.

Analysis of Field-level Data on BC/BF Model

Section 4.1: Analysis of BCs

This section details the business brought in by BCs into the Bank's books, issues in regard to Cash Management, handling of businesses like number of accounts opened, number of loan applications sourced, with a reference to the primary data collected from the field. Nashik district did not have any active BCs as on the date of field-level investigation.

There were 22 BCs employed by the SBI in Anantapur district. All of them had been given Code numbers to incorporate the same in all the documents and systems so that data capturing can be done at the Server level by the Bank. All the BCs were using the Kiosk Banking technology for operating the CSP. The connectivity was from various communication providers like BSNL and Airtel. It was observed that at the remote places of the district the connectivity was becoming a problem, as most of the time they were unable to get good signals.

Age-group

Table 4.1 provides the classification of sample BCs according to their age.

TABLE 4.1: AGE-GROUP-WISE DISTRIBUTION OF SAMPLE BCs

Age Group (Years)	No. of respondents	% of respondents
18-30	6	27.3
31-40	12	54.5
41-50	4	18.2
51 and above	0	0.0
TOTAL	22	100.0

- ◆ It is good that 82% of the BCs were below 40 years. As the younger generation is tech-savvy and interested in taking up this as an employment, it augurs well for the Financial Inclusion movement.

Education

Table 4.2 presents the distribution of the sample BCs according to their educational qualifications.

TABLE 4.2: EDUCATIONAL QUALIFICATION-WISE DISTRIBUTION OF SAMPLE BCs

Qualification	No. of respondents	% of respondents
Class X	3	13.6
Class XII	12	54.5
Graduate	6	27.4
Others (Diploma, etc.)	1	4.5
TOTAL	22	100.0

- ◆ In respect of education levels, 82% of the BCs employed are above Class XII (54.5% - Class XII and 27.4% - Graduates) which is an encouraging sign.

The other attributes of the sample BCs were as under:

- All the BCs were staying in the same village where their CSP was working. In many cases, the CSP was part of their house only, with a special room allotted for that.
- All the BCs were appointed in November 2010 and all had started their CSPs. However, it was observed that 4 CSPs were not active due to some personal reasons.
- Board indicating the identification of the CSP with the Bank had been displayed in all the CSPs except 3.
- Bank's ID card indicating the person as the representative of the Bank in the form of CSP was available with all the BCs except 1.
- All the BCs (except one - on personal grounds) had attended the introductory training programme conducted by the Bank covering the aspects of Kiosk Banking technology and information on banking products. All the BCs confirmed that they were comfortable with the technology adopted (Kiosk Banking). One BC, however, pointed out that there was a need to reduce the number of finger prints to be taken (six) at the time of account opening which may be reduced to cut down the time required for opening the account. In regard to

product knowledge, five BCs opined that the training was not sufficient. Overall, seven BCs opined that there was a need for one more training on product knowledge.

- f. None of the BCs had passed the course conducted by IIBF for recovery agents.
- g. Except five, all others had some experience in various marketing activities. While 11 of them had less than five years of experience, the other 6 had more than five years of experience in their respective activities.
- h. Sixteen BCs had an area of 1 - 4 villages and others had more than four villages to cover. However, one BC, who was not much active, had no idea as to which villages were to be covered by him.
- i. The population to be covered by these BCs varied from 3,000 to 15,000 (average being 5,000). According to the BCs, almost half of the population had no bank accounts, thus creating the potential to have a CSP there.
- j. All these places where CSPs were located had no bank branches; however, Post Offices existed in almost all those places.
- k. Agriculture constituted the predominant activity in all the villages.

- l. Most of the CSPs were available to customers throughout the day, mainly between 8 AM and 8 PM (with lunch break, etc.). A couple of BCs were functioning either in the morning or in the evening.
- m. The number of hours (dedicated) spent by the BCs for banking in a day ranged from 1 hour to 12 hours, with the average being 5.63 hours/day.
- n. There were no specific peak business days in a month. However, normally the first week of a month and Sundays had more transactions, as observed by the BCs.
- o. Other activities carried out by the BCs: 3 BCs were solely dependent on CSP. Eight BCs were dependent on agriculture and the remaining on different activities. Majority of them were dependent on these activities only and the income earned from CSP was only supplementary in nature.
- p. None of the BCs reported that they were involved in forcible cross-selling of their products along with banking products. This was cross-checked with the sample customers and was found to be true.

Banking Business Activities

The list below gives the details of various activities that can be conducted by CSP and the activities being carried out by the sample CSPs.

TABLE 4.3: BANKING BUSINESS ACTIVITIES BY BCs

Activity	No. of responses	
	Yes	No
Collection and preliminary processing of account opening forms for deposits including verification of primary information/data	21	1
Collection and preliminary processing of loan applications including verification of primary information/data	2	20
Filling up applications and submission to the Bank	15	7
Cross-selling of other products like insurance/mutual fund products	2	20
Assisting in post-sanction monitoring and follow-up for recovery	3	19
Promoting and nurturing Self Help Groups/Joint Liability Groups	4*	18
Creating awareness about savings and other products and education and advice on managing money and debt counselling	17	5
Sourcing of Term Deposits	5	17
Opening of no-frill deposit accounts under smart card/any other technology	19	3
Collection and payment of small value deposits and withdrawals	14	8

Activity	No. of responses	
	Yes	No
Payment of disbursed small value loans and obtaining prescribed documents	0	22
Receipt and delivery of small value remittances/other payment instruments	8	14
Payment/Receipt in respect of e-governance activity	1	21
Furnishing of mini account statements and other account information	13	9
Recovery of principal/collection of interest in respect of borrower accounts	1	21
Railway ticketing	0	22

*Incidentally, out of these 4 BCs, 2 were SHG bookkeepers for a long time.

A BC is a BF and also does additional activities in the form of account opening using technology, receipt and payment of money and others. However, it can be observed from the above table that all those activities were not being carried out by the sample CSPs.

Highlights:

Most of the time, BCs were taking up only deposit-related activities, say,

- i.* Collection and processing of deposit account opening form: 95%
(The exception of 5% was because one BC was not active.)
- ii.* Filling-up applications and submission to the Bank: 68%
- iii.* Creating awareness about savings and other products and education and advice on managing money and debt counselling: 77%
- iv.* Opening of no-frill deposit accounts under smart card/any other technology: 86%
(The exception was because some BCs were not active now.)
- v.* Collection and payment of small-value deposits and withdrawals: 64%
(The exception was because some customers were not doing transactions for the fear of payment of service charges - the details of which will be discussed in later pages)
- vi.* Furnishing of mini account statements and other account information: 59%

However, when it came to loans and other activities which were to be processed at the branch level, the situation was different. For example,

- i.* Collection and preliminary processing of **loan** applications including verification of primary information/data: 9%
- ii.* Assisting in post-sanction monitoring and follow-up for recovery: 14%
(The specific reason for this was that none of the BCs had passed the Recovery Agent course prescribed by the IIBF)
- iii.* Payment of disbursed small-value loans and obtaining prescribed documents: 0%
- iv.* Recovery of principal/collection of interest in respect of borrower accounts: 4%
- v.* Promoting and nurturing SHGs/JLGs: 18%
- vi.* Cross-selling of other products like insurance/mutual fund products: 9%
- vii.* Sourcing of Term Deposits : 23%

(Only a few of them understood that this activity could fetch good commission. The remaining BCs felt that they were unable to move with those customers to the branches and hence they were not sourcing Term Deposits.)

The following activities, which could have been taken up, were also not considered by many of them.

- i.* Receipt and delivery of small value remittances/other payment instruments: 36%
- ii.* Payment/Receipt in respect of e-governance activity: 4%
- iii.* Railway Ticketing: 0%

Thus, it was found that the BCs were not taking up all activities and without that their income levels would not go up and break-even point would not be reached.

Branch Support:

- ◆ Sixty-four per cent of the BCs opined that they had received adequate support from the link branch. Another 14% of the respondents received partial support and the remaining respondents remarked that they had not received any support from the link branch.
- ◆ In almost all the cases, the customers brought in by the BCs were treated at par with the Bank's regular customers at the branch.
- ◆ Commission was paid by the Bank promptly. However, due to the service charges being collected now by the Bank from the customers, the BCs were unable to open new accounts and hence, were not receiving commission in most of the cases.
- ◆ Seventy-seven per cent of the BCs responded that they received adequate support from the CMFs, while the remaining said that partial support was received. In regard to meetings, CMFs had visited CSPs at least once from the date of launch (i.e., November 2010). Otherwise, most of the times, the interaction was through telephone only.
- ◆ In all the cases, there were no complaints from the customers on the functioning of the BCs. BCs were able to comply with the Bank's systems and procedures like KYC norms to the full extent.

Technology

- ◆ In all the CSPs, BCs were using the Kiosk Banking technology which worked through Computer/Laptop with a printer, biometric sensor and internet connectivity. The technology is simple and hassle-free, but the BCs were facing problems in respect of internet connectivity in remote villages. Most of the telecom companies were unable to provide good internet connectivity. Due to this, the account opening was taking longer time in remote villages. However, in places nearer to towns, the connectivity was good and the CSPs were able to open large number of accounts in shortest time. Customer satisfaction level was also "good" (73% of respondents) and "adequate" (23% of respondents). In the remaining cases, CSP could not open accounts due to no connectivity and hence no feedback could be collected. Connectivity details are presented below:

TABLE 4.4: CONNECTIVITY DETAILS

Quality of Connectivity	No. of Respondents
Good connectivity	8
Occurring of connectivity problem per day, 1 out of 10 times	3
Occurring of connectivity problem per day, 2 out of 10 times	1
Occurring of connectivity problem per day, 4 out of 10 times	3
Occurring of connectivity problem per day, 5 out of 10 times	3
Occurring of connectivity problem per day, more than 5 out of 10 times	4

The alternate technology called Smart Card technology with mobile phone connectivity may be used by the banks in remote villages.

Cash Requirement

- ◆ As the number of transactions was comparatively low and of small value, BCs had not faced any cash requirement problems so far. The Bank has given the discretion to the BCs to insure the cash, cash-in-transit as per their requirement/will. However, the Bank may think of covering the insurance of BCs along with the insurance of the link branch.

Investment

- ◆ All the BCs had invested money in the form of security deposit as well as purchase of computers and peripherals. The security deposit was uniformly Rs.50,000 each and the investment for computers and others varied between Rs.40,000 and Rs.1,30,000, depending on the type of computer and other furniture. The average investment worked out to Rs.54,772 per sample BC. Seventeen BCs had utilized a loan of Rs.30,000 each from the Bank towards investment in computers and others.
- ◆ Expectation as to the time that would take to recover the investment varied among the BCs. Twelve BCs (55% of the respondents) had no idea on the time that would take to recover the investment and eight BCs (36% of the respondents) expected that they would be able to recover the investment in two years' time. The

remaining sample BCs were expecting that it might take 1 - 3 years' time. However, the expectation was on the premise that they would get regular income from the CSP activity. The number of transactions and accounts hitherto opened did not give any indication that the net income generated from the BC activity would take care of the investment. The average income earned per sample BC worked out to Rs.1,152 per month, which was not adequate to meet expenses on room rent, internet connectivity charges and electricity charges. This indicated that there was a strong need to upscale the different activities and its numbers to generate income to sustain the CSP activity.

- ◆ For most of them, the income was regarded as only a supplementary income and the main income to sustain their family came from activities like agriculture and petty businesses.

Business Sourcing

- ◆ The main business sourced was through opening of 'no-frills' Savings Bank accounts. The other activities like giving advances and cross-selling were miniscule. As none of them had passed the IIBF course for recovery agents, no recovery activity could be undertaken by them.
- ◆ Under opening of savings bank accounts, the performance was as under:
 - The number of accounts opened by the CSPs during November 2010 (month of starting) to middle of March 2011 (month of our data collection) ranged from 11 to 350, with the average being 118 accounts per CSP. On an average, it worked out to 33 accounts per CSP per month. Three BCs had not opened any accounts so far due to different reasons. As doubts persisted in the minds of BCs as well as customers about the application of service charges for account opening, withdrawal, maintenance, etc., the transactions were not taking place on the required scale. This resulted in almost nil balances in the accounts opened so far.

Section 4.2: Analysis of BFs

There were 25 BFs, employed by the SBI, in Anantapur District and 39 BFs in Nashik district. All of them had been given Code numbers to incorporate the same in

all the documents, systems so that the capturing of the data could be done at the Server level by the Bank.

Age

Table 4.5 provides the classification of sample BFs according to their age.

TABLE 4.5: AGE-GROUP-WISE DISTRIBUTION OF SAMPLE BFs

Age Group (Years)	Anantapur		Nashik	
	No.	%	No.	%
18 - 30	5	20.0	12	30.8
31 - 40	10	40.0	15	38.5
41 - 50	8	32.0	10	25.6
51 - 60	1	4.0	2	5.1
60 and above	1	4.0	0	0.0
TOTAL	25	100.0	39	100.0

Highlights:

- ◆ It is to be noted that 60% of the BFs in Anantapur and almost 70% of BFs in Nashik were below 40 years, implying that the scheme of BFs had the advantage of "demographic dividend" as in the case of our whole country. BFs in this age-group could run around to procure business for the Bank.

Education

Table 4.6 presents the distribution of the sample BFs according to their educational qualifications.

TABLE 4.6: EDUCATIONAL QUALIFICATION-WISE DISTRIBUTION OF SAMPLE BFs

Qualification	Anantapur		Nashik	
	No.	%	No.	%
Below Class X	0	0.0	0	0.0
Class X	9	36.0	1	2.6
Class XII	5	20.0	5	12.8
Graduate	9	36.0	22*	56.4
Post Graduate & above	2	8.0	10*	25.6
Diploma	0	0.0	1	2.6
TOTAL	25	100.0	39	100.0

*with additional qualifications.

Highlights:

- ◆ As far as Educational qualification is concerned, a significant chunk of the sample BFs were quite

well educated vis-à-vis the job they were required to do. In Nashik, some of the respondents had additional qualifications in areas like tax laws.

The other attributes of the sample were as under:

- (a) Most of the BFs in Anantapur district were staying in the same village where their activities were being taken up. However, at some point of the day, they would be visiting the link branch with their customers. In respect of Nashik district, most of the BFs were staying in the nearby as also far-off towns.

- (b) Experience as BF:

Table 4.7 presents the distribution of the sample BFs according to their experience.

TABLE 4.7: EXPERIENCE-WISE DISTRIBUTION OF SAMPLE BFs

Years of Experience	Anantapur		Nashik	
	No.	%	No.	%
More than 3	1	4.0	3	7.7
2 - 3	8	32.0	29	74.4
1 - 2	9	36.0	6	15.4
Less than 1	7	28.0	1	2.5
TOTAL	25	100.0	39	100.0

Most of the BFs interviewed in both the sample districts had gathered 1 - 3 years of experience as BFs: Anantapur (68%) and Nashik (89.8%).

- (c) Bank's ID card indicating the person as the representative of the Bank in the form of BF was available with all except 2 members in Anantapur district. In Nashik, 11 (28.2%) respondents did not have the Bank's ID card.

- (d) **Training :**

Anantapur district: 13 BFs (52% of respondents) had attended the introductory training programme conducted by the Bank covering the aspects of information on banking products. Four BFs who had experience of more than 2 years, had not yet completed their training. It was also observed that majority of those BFs who had not undergone training were those who were/had been working as insurance agents. However, there was a necessity to train all the BFs in the aspects of banking products to make them more effective.

Nashik district: In Nashik, 32 (82.1%) BFs had attended the introductory training. Duration of the training varied between one and three days, which was considered "inadequate" by several respondents and their view was corroborated by many BFs interviewed by us.

- (e) In Anantapur district, none of the BFs had passed the course conducted by IIBF for recovery agents. However, during the period of field visit, most of the BFs were undergoing the training course and were expected to attend the recovery agent examination. In Nashik also, none of the respondents had passed the recovery agent examination conducted by IIBF nor did they have any intention to go through the Course. In fact, they were ignorant of the existence of such a course.

- (f) Experience in marketing :

Anantapur district: Except one, all others had some experience in various marketing activities. Most of them had experience as insurance agents. Duration of experience varied between 2 and 20 years, with almost 64% having up to 10 years of prior experience. Only one BF was not having any prior experience. At the time of field investigation, 3 BFs were solely dependent on BF activity. Five BFs were dependent on Agriculture, 9 BFs on insurance agency and remaining on different activities. Majority of them were dependent on these activities only and the income earned from the BF activity was only supplementary in nature.

Nashik district: All the respondents reported having experience in a variety of activities, the predominant among which being insurance agency, collection agent for co-op banks, computer professionals and tax consultancy. Almost three-fourth of the respondents continued their original activities along with the BF activity entrusted to them by the Bank. Duration of experience varied between 2 and 28 years, with almost 60% having up to 10 years of prior experience.

- (g) Area of operation :

In Anantapur district, 8 BFs had an area of 1-9 villages and 11 BFs had more than 10 villages to cover. It is ironical to note that 6 BFs had no idea as to which villages were to be covered by them.

In Nashik district, most of the BFs reported to have been allotted 10 - 15 villages each. However,

what was more important to note that the villages allotted to BFs were not based on 'contiguous area principle'; rather they were dispersed in all possible directions of the Nashik district. Although only 6 (15.4%) of them admitted that they were unaware of the number of villages allotted to them, it was discerned at the time of interview that quite a few of them were not confident about the exact number of villages allotted to them (*read guesstimates*). To expect positive outcome from such a group sounds far-fetched.

- (h) In both the sample districts, the responses with regard to population of the villages allotted to BFs, percentage of population not having bank accounts, number of bank branches and post offices did not appear to be correct. However, it was observed that Post Offices were available in almost all those places. In Nashik, again, there were many small tribal and drought-prone villages which were very remote and inaccessible, indicating potential for financial inclusion.
- (i) In Anantapur, 64% of respondents indicated that pre-dominant activity in these villages was agriculture. In Nashik, almost all the sample BFs reported agriculture as the principal occupation of the villagers.
- (j) In both the sample districts, most of the BFs were available to customers (including the potential ones) in their place of work and/or branches throughout the day.

- (k) All the respondents had complied with the Bank's systems and procedures as also KYC norms while sourcing the applications. Each of them had paid a security deposit of Rs.25,000 in the form of fixed deposit to the Bank, as required under the scheme.
- (l) In Anantapur, except payment of security deposit, the BFs had not invested any other amount for this activity. In Nashik, 25 respondents (64.1%) reported having invested in creating infrastructure (e.g., computer, furniture, etc.) at their place of work. The average investment for the 25 respondents worked out to Rs.93,080 with a range of Rs.15,000 to Rs.2,50,000. However, while assessing this aspect, it may be remembered that the place of work was used for both their main and subsidiary activities.
- (m) In Anantapur, 22 respondents (88%) reported having earned income from BF activities ranging from Rs.2,000/- to Rs.20,000/- per month, the average for which worked out to Rs.7,363 per month. In Nashik, 32 respondents (82.1%) reported having earned income from BF activity, the average for which worked out to Rs.11,741 per month with a range of Rs.1,000 to Rs.25,000.

Banking Business Activities

The list below gives the details of various activities that could be taken up by the BFs and the activities actually being carried out by the sample BFs.

TABLE 4.8: BANKING ACTIVITIES TAKEN UP BY BFs

Activity	Respondents saying 'Yes'			
	Anantapur		Nashik	
	No.	%	No.	%
1. Collection and preliminary processing of account opening forms for deposits including verification of primary information/data	24	96.0	37	94.9
2. Collection and preliminary processing of loan applications including verification of primary information/data	14	56.0	37	94.9
3. Filling up applications and submission to the Bank	21	84.0	39	100.0
4. Cross-selling of other products like insurance/mutual fund products	7	28.0	18	46.2
5. Assisting in post-sanction monitoring and follow-up for recovery	11	44.0	17	43.6
6. Promoting and nurturing Self Help Groups/Joint Liability Groups	2	8.0	5	12.8
7. Creating awareness about savings and other products and education and advice on managing money and debt counselling	24	96.0	33	84.6

Activity	Respondents saying 'Yes'			
	Anantapur		Nashik	
	No.	%	No.	%
8. Sourcing of Term Deposits	24	96.0	32	82.1

Note: % is out of 25 respondents in Anantapur and 39 respondents in Nashik against each activity.

A BF could do many activities, but it can be observed from the above table that all those activities were not being carried out, to a significant extent, by the sample BFs.

In both the sample districts, most of the respondents performed the basic banking activities as shown against serial Nos. 1 to 3 and 7 to 8. However, the respondents were relatively less active in the activities shown against 4 to 6. The most important reason for this phenomenon was the lack of knowledge to carry out these lines of banking businesses, which again could be an outcome of no training.

Branch Support

The table below provides at a glance branch support available to BFs.

TABLE 4.9: BRANCH SUPPORT TO BFs

Type of support	Respondents saying 'Yes'			
	Anantapur		Nashik	
	No.	%	No.	%
1. Adequate support is available from the link branch	25	100	35	89.7
2. Customers brought in by BF are treated at par with bank's regular customers	24	96	29	74.4
3. Commission is paid promptly by the Bank	24	96	31	79.5
4. Adequate support is available from the Channel Manager/ Channel Management Facilitator	25	100	36	92.3

With regard to meetings, the CMFs visited the BFs occasionally, otherwise most of the times, the interaction was through telephone only.

In all the cases, there were no complaints from the customers on the functioning of the BFs.

Business Sourcing

Deposits

- ◆ In Anantapur as well as Nashik, deposits were sourced through opening of Savings Bank and Fixed Deposit accounts. Many BFs in Nashik also opened "No-Frills" accounts.
- ◆ In Anantapur, the average deposit amount mobilized per BF per month worked out to Rs.10.8 lakh (Range: Rs.5 thousand to Rs.30 lakh) with about 94 customers (Range: 2 to 470 customers) per BF. In Nashik, the average deposit amount mobilized per BF per month worked out to a little over Rs.3 lakh (Range: Rs.10 thousand to Rs.15 lakh) with about 9 customers (Range: 2 to 50 customers) per BF. This implied that relatively small depositors dominated Nashik compared to Anantapur.

Advances

- ◆ In advances segment, while in Anantapur, 16 BFs (64%) had sourced advances like Gold Loans, Tractor Loans and Housing Loans, in Nashik, the BFs were more after loans (rather large loans) than deposits. In the loan portfolio, car loan, housing loan, educational loan and agricultural loan including tractor and other farm mechanization loans dominated.
- ◆ In Anantapur, the average loan amount sourced per BF per month worked out to about Rs.7.56 lakh (Range: Rs.1.5 lakh to Rs.20 lakh) with about 21 customers (Range: 1 to 200 customers) per BF. In Nashik, the average loan amount sourced per BF per month worked out to a little over Rs.26 lakh (Range: Rs.80 thousand to Rs.1.25 crore) with about 17 customers (Range: 1 to 120 customers) per BF. This implied that relatively large borrowers dominated Nashik compared to Anantapur.

Cross-selling

- ◆ In Anantapur, cross-selling was miniscule, as the existing SBI Life Agents who were working as

BFs with the Bank were preferring to sell insurance policies on their own (as they would get sizeable commission) instead of cross-selling through branch channel. In Nashik, however, cross-selling of SBI Life Policy “Dhanaraksha” dominated, which they sold to housing loan borrowers of the Bank. A handful of BFs reported sale of mutual funds products.

- ◆ In Anantapur, as none of the BFs had passed the IIBF course for recovery agents, they did not take up any recovery activity. In Nashik, some sample BFs reported to have assisted the Bank functionaries and/or facilitated the recovery function. It may be recalled here that many sample BFs had earlier worked and/or were still working as collection agents for co-operative banks.

SUCCESS STORY OF CHILAMATHUR BRANCH

Madugiripalle is a small hamlet far off from Chilamattur where SBI had a branch. The villagers of Madugiripalle were not served by any bank in particular. The distance from Chilamattur is nearly 8 - 10 kms. The study team visited the village by a jeep and walking for nearly 2 kilometres, as there was no proper road laid down to Madugiripalle. (It appears that a road project is being taken up shortly, but it is yet to be implemented). The BF for the village, Shri Chowdi Reddy, got some information that the lands in the area were being paid huge compensation as they were being taken up for the purpose of establishing a Special Economic Zone (SEZ). He contacted the villagers many times and with sheer grit of marketing, he could bring deposits to the tune of Rs.1 crore. He took an extra step by helping the customers in getting their income-tax PAN numbers and other relevant papers to take care of tax exemptions, etc., wherever required. He took so much special care that the relatives of some customers who were staying in places like Bangalore also got interested to deposit their money in the small branch of SBI, Chilamattur. This is really a prominent case of serving the banking needs of unbanked villagers.

Analysis of Feedback Received from Sample Customers

Section 5.1: Customers of BCs

Feedback was collected from 127 customers of BCs in 22 villages of Anantapur district. The customer profile is as under:

Age

Table 5.1 presents age-group-wise profile of sample BC customers.

**TABLE 5.1: AGE-GROUP-WISE DISTRIBUTION
OF SAMPLE BC CUSTOMERS**

Age group (Years)	No. of respondents	% of respondents
18-30	40	31.5
31-40	41	32.3
41-50	28	22.1
51-60	12	9.4
60 and above	6	4.7
Total	127	100.0

Highlights

- ◆ It is important to note that the people in the peak working age (less than 40 years) constituted 63% of the sample. The reason for less number of respondents in the age of above 60 was non-processing of any social security benefits (old age pensions, widow pensions, etc.) through the BCs in the district.

Education

Educational qualifications of the customers are tabulated as under:

**TABLE 5.2: EDUCATIONAL QUALIFICATION-
WISE DISTRIBUTION OF
SAMPLE BC CUSTOMERS**

Education	No. of respondents	% of respondents
Illiterate	39	30.7
Literate, but below Class V	20	15.7
Literate, but below Class X	33	26.0
Class X and above	31	24.4
Graduate and above	4	3.2
Total	127	100.0

Highlights

- ◆ It is interesting to observe that 46.4% of the respondents fell below the education level of Class V (Illiterate - 30.7% and Literate, but below Class V - 15.7%) and more important they were inclined to save for their better living. At the same time, all the villages covered in the sample were having elementary schools.

Occupation

Occupation-wise distribution of sample BC customers is presented in Table 5.3.

**TABLE 5.3: OCCUPATION-WISE DISTRIBUTION
OF SAMPLE BC CUSTOMERS**

Occupation	No. of respondents	% of respondents
Agriculture	62	48.8
Labourer	26	20.5
Petty Business	12	9.4
Others	27	21.3
Total	127	100.0

Highlights

- ◆ Majority of customers of BCs were farmers and farm labourers. This way of opening accounts for them might help in providing necessary agriculture finance in the days to come.

Distance

The distance of the nearest branch for the sample customers varied from 4 km to 20 km with the average distance of any bank branch coming to 9.41 km.

Income Levels

The income levels of the customers were as under:

**TABLE 5.4: INCOME GROUP-WISE DISTRIBUTION
OF SAMPLE BC CUSTOMERS**

Annual Income	No. of respondents	% of respondents
Less than Rs. 10,000	16	12.6
Rs. 10,000 to Rs. 50,000	80	63.0

Annual Income	No. of respondents	% of respondents
Rs. 50,000 to Rs. 1 lakh	13	10.2
Above Rs. 1 lakh	18	14.2
Total	127	100.0

Highlights

- ◆ Considering the target group of Financial Inclusion, the BCs were serving the right kind of customers, as 75.6% of the respondents belonged to the annual income level of less than Rs.50,000/-.
- ◆ Ninety-one per cent of the customers came to know about the existence of BCs as the BCs contacted them personally. 8.7% of the customers know about BC through a meeting wherein the BM introduced the BC. This indicates that proper awareness campaigns were not conducted to introduce the BCs.

Activities conducted by BCs according to the customers are presented in Table 5.5.

TABLE 5.5: ACTIVITIES CONDUCTED BY BCs: CUSTOMERS' VIEWS

Activity	Respondents saying 'Yes'	
	No.	%
Creating awareness about savings and other products	121	95.3
Education and advice on managing money and debt counselling	66	52.0
Supporting in filling up of loan applications/ account opening forms for deposits	126	99.2
Allowing deposit/ withdrawal of cash from accounts as per the customer's convenience	127	100.0
Providing proof of transaction for each and every transaction	127	100.0

Highlights

- ◆ Except financial education and advice on managing money and debt counselling, BCs were rendering all other banking facilities entrusted to them.

Service Related Activities

TABLE 5.6: SERVICE-RELATED ACTIVITIES CONDUCTED BY BCs: CUSTOMERS' VIEWS

Activity	Respondents saying 'Yes'	
	No.	%
BC is available at the convenient timings	127	100.0
Confident on the integrity of BC	127	100.0
BC is charging small amounts from the customers, in addition to bank charges	0	0.0
BC is selling his own products in order to avail banking services by us	0	0.0

Highlights

- ◆ As far as the service related activities were concerned, BCs were doing their jobs to the fullest satisfaction of their customers.
- ◆ For the query on whether the customers were demanding proof of transaction, the reply was 'yes' in respect of 123 (97%) respondents, which is a very good sign.

The following Table presents data on number of transactions done by sample customers in a month.

TABLE 5.7: NO. OF TRANSACTIONS IN A MONTH BY A CUSTOMER

No. of transactions	No. of customers	% of customers
One	27	21.3
Two	34	26.8
Three	15	11.8
Four - Ten	12	9.4
No transactions	39	30.7
Total	127	100.0

Highlights

- ◆ Almost 60% of the customers transacted business from 1 to 3 times a month.
- ◆ Average time taken for a transaction worked out to 24 minutes, which was on a higher side. The main reason for this was poor connectivity.
- ◆ All the respondents opened SB accounts with the BCs. Fifteen customers were also having KCC accounts with banks, but had opened SB accounts for the first time with the BCs.

- ◆ One hundred twenty-two respondents (96%) expressed satisfaction that the services of the BCs were 'highly useful'. The remaining responded that the services were 'useful'.

Table 5.8 presents the savings pattern of the sample BC customers before and after availing of their services.

TABLE 5.8: SAVINGS PATTERN: BEFORE AND AFTER

Keeping the	Before BC Facility		After BC facility	
	No.	%	No.	%
saved money in				
Home	97	76.4	1	0.8
Bank account	14	11.0	125	98.4
Post Office	3	2.4	0	0.0
No savings	13	10.2	1	0.8
Total	127	100.0	127	100.0

Highlights

- ◆ It was interesting to note that before availing of services of BCs, 76.4% of the respondents were keeping their saved money at their homes and after availing services of BCs, the number came down to 0.8%.
- ◆ The opening of 'no-frills' accounts with BCs required simplified KYC norms. In the sample, 45.6% of the customers opened their accounts by providing Voter ID card, 39.4% of the customers opened their accounts by providing Ration Card, while the remaining customers opened their accounts by providing both Voter ID card and Ration Card.

Section 5.2: Customers of BFs

Feedback was collected from 106 customers of BFs in Anantapur district and 149 customers of BFs in Nashik district. The customer profile is as under:

Age

Table 5.9 presents the age-group-wise distribution of sample BF customers.

TABLE 5.9: AGE COMPOSITION OF SAMPLE BF CUSTOMERS

Age Group (Years)	Anantapur		Nashik	
	No.	%	No.	%
18 - 30	15	14.2	29	19.5
31 - 40	41	38.7	58	38.9

Age Group (Years)	Anantapur		Nashik	
	No.	%	No.	%
41 - 50	23	21.7	46	30.9
51 - 60	15	14.1	14	9.4
60 and above	12	11.3	2	1.3
TOTAL	106	100.0	149	100.0

Highlights:

- ◆ More than half of the sample customers of BFs in both Anantapur and Nashik belonged to the peak working age of less than 40 years.
- ◆ Almost one-fourth of the sample customers in Anantapur and almost one-tenth of those in Nashik were beyond 50 years of age.
- ◆ These two facts imply that either relatively younger people were interested in BFs' activities or BFs were mostly interested in relatively younger people.

Education

Educational qualifications of the customers are tabulated as under:

TABLE 5.10: DISTRIBUTION OF SAMPLE BF CUSTOMERS AS PER EDUCATION

Qualification	Anantapur		Nashik	
	No.	%	No.	%
Illiterate	14	13.2	2	1.4
Literate, but below Class V	9	8.5	4	2.7
Literate, but below Class X	17	16.0	24	16.1
Class X and above	36	34.0	23	15.4
Graduate and above	30	28.3	96	64.4
Total	106	100.0	149	100.0

Highlights:

- ◆ A substantial chunk of the sample customers in both Anantapur (62.3%) and Nashik (79.8%) were educated up to class X and above.
- ◆ It may generally be concluded from the table that education led to more awareness about BFs and their services.

Occupation

Table 5.11 presents occupation-wise classification of sample BF customers.

TABLE 5.11: OCCUPATION-WISE CLASSIFICATION OF SAMPLE BF CUSTOMERS

Occupation	Anantapur		Nashik	
	No.	%	No.	%
Agriculture	50	47.2	26	17.4
Labourer	3	2.8	0	0
Petty Business	4	3.8	34	22.8
Others	49	46.2	89	59.8
Total	106	100.0	149	100.0

Highlights

- ◆ There was a distinct dichotomy observed between Anantapur and Nashik so far as the occupation of the sample BF customers was concerned. While farming was the occupation of most of the sample customers in Anantapur (47.2%), in Nashik it was the least at 17.4%. Petty business and other occupations like textiles business constituted the occupation of half of the sample customers in Anantapur and more than four-fifth of the sample customers in Nashik.

Distance of the Nearest Bank Branch from Customers' Habitations

- ◆ In Anantapur, the distance of the nearest branch of any bank from habitations of sample customers varied between 1 km and 25 km with the average distance being 3.89 km. The mode was 1 km.
- ◆ In Nashik, the distance of the nearest branch of any bank from habitations of sample customers varied between 1 km and 25 km with the average distance of any bank branch coming to 2.70 km. The mode for the distance was 1 km.
- ◆ From the above facts it can be inferred that a large chunk of the BFs were concentrating on villages nearer to the bank branches instead of tapping the business potential available in unbanked or under-banked villages.

Income Levels

The income levels of the customers are presented in Table 5.12.

TABLE 5.12: INCOME GROUP-WISE DISTRIBUTION OF SAMPLE BF CUSTOMERS

Annual Income	Anantapur		Nashik	
	No.	%	No.	%
Less than Rs.10,000	1	0.9	1	0.7
Rs.10,000 to Rs.50,000	34	32.1	2	1.3
Rs.50,000 to Rs.1 lakh	17	16.0	6	4.0
Above Rs.1 lakh	54	51.0	140	94.0
Total	106	100.0	149	100.0

Highlights

- ◆ Considering the target group of Financial Inclusion, i.e., poorest of the poor, the BFs in both Anantapur and Nashik districts were not serving the right kind of customers. It can be observed from the table that while in the former 51% of the respondents reported an annual income of above Rs.1 lakh, in the latter it was as high as 94%.
- ◆ In both Anantapur and Nashik districts, most of the sample customers came to know about the BFs and the facilities provided by them through BFs contacting them.
- ◆ In both the sample districts, the two other sources which could have been important sources of information, i.e., BMs introducing the BFs in a meeting and through publicity by way of posters/pamphlets were almost non-existent.
- ◆ This indicates that proper awareness campaigns were not conducted to introduce the BFs.

Activities conducted by BFs according to the customers

Table 5.13 presents information as to the activities carried out by sample BF customers.

TABLE 5.13: ACTIVITIES CARRIED OUT BY BFs: CUSTOMERS' PERSPECTIVES

Activity	Respondents saying 'Yes'			
	Anantapur Distt.		Nashik Distt.	
	No.	%	No.	%
Creating awareness about savings and other products	105	99.1	149	100.0

Activity	Respondents saying 'Yes'			
	Anantapur Distt.		Nashik Distt.	
	No.	%	No.	%
Education and advice on managing money and debt counselling	61	57.5	143	96.0
Supporting in filling up of loan applications/ account opening forms for deposits	103	97.2	149	100.0

Highlights:

- ◆ In Anantapur, the BFs were able to create awareness about savings products and support the customers in filling up forms to a great extent; whereas the same was not true in respect of customer education and debt counselling. This suggests that there was a need to train the BFs suitably in this regard.
- ◆ In contrast to the situation obtained in Anantapur, in Nashik BFs were doing all the three activities with equal rigour.

Opinion of the BF Customers about BFs

Bank related:

Table 5.14 presents BF customer opinions as to Bank-related activities.

TABLE 5.14: BANK-RELATED ACTIVITIES: CUSTOMERS' OPINION

Activity	Respondents saying 'Yes'			
	Anantapur Distt.		Nashik Distt.	
	No.	%	No.	%
Bank is treating the BF customers at par with regular customers	106	100.0	144	96.6
BF is useful in transacting with the bank for the first time	106	100.0	148	99.3
Help from BF is required in the subsequent transactions also	71	67.0	146	98.0

Highlights:

- ◆ In Anantapur, all the customers and in Nashik, 96.6% of the customers of BFs were of the opinion that they were being treated at par with the Bank's regular customers. This is a good feature.
- ◆ Similarly, BFs were useful for the first time transactions to all the sample customers.
- ◆ While in Anantapur 67% of the respondents were dependent on BFs for subsequent transactions also, in Nashik, this was much higher with almost all the sample customers reporting so.

Service Related:

Table 5.15 presents BF customer opinions as to Bank-related activities.

TABLE 5.15: SERVICE-RELATED ACTIVITIES: CUSTOMERS' OPINION

Activity	Respondents saying 'Yes'			
	Anantapur Distt.		Nashik Distt.	
	No.	%	No.	%
BF is available at the convenient timings	106	100.0	149	100.0
Confident on the integrity of BF	106	100.0	149	100.0
BF is charging small amounts from the customers, in addition to bank charges	0	0.0	0	0.0
BF is selling his own products in order to render banking services to us	0	0.0	0	0.0

Highlights:

- ◆ The most redeeming feature of the survey of the BFs' customers in both the sample districts was that all the BFs were available at convenient timings and the customers were confident about their integrity. No BF asked for any extra money from their customers for rendering banking services. Similarly, no BF put any condition before their customers to buy their products if the latter wanted to avail of banking services from them.

No. of Transactions in a month by a Customer

Table 5.16 presents data on number of transactions by a customer in a month.

TABLE 5.16: NO. OF TRANSACTIONS

No. of transactions	Anantapur Distt.		Nashik Distt.	
	No.	%	No.	%
One	33	31.1	12	8.1
Two	28	26.4	37	24.8
Three	9	8.5	21	14.1
Four - Ten	30	28.3	50	33.5
More than Ten	6	5.7	8	5.4
NA	0	0.0	21	14.1
Total	106	100.0	149	100.0

Highlights:

- ◆ Number of transactions by a customer in a month was concentrated in one to three transactions.

Satisfaction with BFs

- ◆ Majority of the customers reported that BFs were highly useful - 86.8% in Anantapur and 85.2% in Nashik. The remaining responded that the services were 'useful'.

Savings Composition Before and After Availing of Services of BFs

Table 5.17 presents data on savings composition of the customers.

TABLE 5.17: SAVINGS COMPOSITION: BEFORE AND AFTER

Keeping the saved money at	Anantapur Distt.				Nashik Distt.			
	Before BF Facility		After BF facility		Before BF Facility		After BF facility	
	No.	%	No.	%	No.	%	No.	%
Home	68	64.2	1	0.9	18	12.1	0	0.0
Bank	32 (in other Bank)	30.2	105 (Bank of the BF)	99.1	131	87.9	149	100.0
Post Office	1	0.9	0	0	0	0.0	0	0.0
No. savings	5	4.7	0	0	0	0.0	0	0.0
Total	106	100.0	106	100.0	149	100.0	149	100.0

Highlights

- ◆ It was gratifying to observe that in Anantapur, before availing the services of BFs, 64.2% of the respondents were keeping their savings at their homes and after availing of services of BFs, the

percentage came down to a nominal 0.9%. Almost all the respondents switched over to banks.

- ◆ A similar situation was observed in Nashik where a meagre 12.1% of the respondents were keeping their savings at home prior to availing of the services of BFs. After BFs' services were made available, all of them kept their savings in banks.
- ◆ It may, therefore, be concluded that BFs were instrumental in nurturing saving habits in general and banking habits in particular among the sample customers.

Analysis of Feedback Received from Sample Non-Customers of Banks

Feedback was collected from 104 non-customers in Anantapur district and 108 non-customers in Nashik district. The non-customers' profile is as under:

Age

Table 6.1 presents the distribution of sample non-customers according to their age.

**TABLE 6.1: AGE-GROUP-WISE COMPOSITION
OF SAMPLE NON-CUSTOMERS**

Age Group (Years)	Anantapur		Nashik	
	No.	%	No.	%
18 - 30	42	40.4	68	63.0
31 - 40	29	27.9	25	23.1
41 - 50	21	20.2	8	7.4
51 - 60	8	7.7	4	3.7
60 and above	4	3.8	3	2.8
TOTAL	104	100.0	108	100.0

Highlights

- ◆ It is important to note that the people in the peak working age (less than 40 years) constituted 68.3% of the sample non-customers in Anantapur district. The same in Nashik district stood at 86.1%.
- ◆ This indicates that large potential to provide banking services to these people does exist in the two sample districts.

Education

Table 6.2 presents the composition of sample non-customers as per their educational qualification.

**TABLE 6.2: EDUCATIONAL QUALIFICATION
OF SAMPLE NON-CUSTOMERS**

Qualification	Anantapur		Nashik	
	No.	%	No.	%
Illiterate	40	38.5	24	22.2
Literate, but below Class V	18	17.3	9	8.3

Qualification	Anantapur		Nashik	
	No.	%	No.	%
Literate, but below Class X	29	27.9	41	38.0
Class X and above	14	13.5	23	21.3
Graduate and above	3	2.8	11	10.2
Total	104	100.0	108	100.0

Highlights

- ◆ Incidence of illiteracy was modest in both the sample districts. There is a case for covering the poor-literates by banking services.

Occupation

Table 6.3 gives the distribution of sample non-customers according to their occupation.

**TABLE 6.3: OCCUPATION-WISE DISTRIBUTION
OF SAMPLE NON-CUSTOMERS**

Occupation	Anantapur		Nashik	
	No.	%	No.	%
Agriculture	47	45.2	16	14.8
Labourer	30	28.8	41	38.0
Petty Business	3	2.9	22	20.4
Others	24	23.1	29	26.8
Total	104	100.0	108	100.0

Highlights

- ◆ Seventy-four per cent of the respondents in Anantapur district and 52.8% of those in Nashik were engaged in agriculture and labour work. The aim of Financial Inclusion is to cover this disadvantaged section of the society.

Distance of the Nearest Bank Branch

- ◆ In Anantapur, the distance of the nearest branch of any bank from the habitation of the non-customers varied from 1 km to 20 km with the average being 9.89 kms. In Nashik, the distance varied between 1 km. and 40 km., with the average working out to 3.98 kms.

Income-group

Table 6.4 presents data on income-group-wise distribution of sample non-customers.

TABLE 6.4: INCOME LEVELS OF SAMPLE NON-CUSTOMERS

Annual Income	Anantapur		Nashik	
	No.	%	No.	%
Less than Rs.10,000	26	25.0	19	17.6
Rs.10,000 to Rs.50,000	55	52.9	52	48.2
Rs.50,000 to Rs.1 lakh	15	14.4	20	18.5
Above Rs.1 lakh	8	7.7	17	15.7
Total	104	100.0	108	100.0

Highlights:

- ◆ A major chunk of sample non-customers in both the sample districts - 77.9% in Anantapur and 65.8% in Nashik - were having annual income of below Rs.50,000. Banks are required to cover this section of the poorest of the poor on a priority basis.

Other Information

- ◆ Fifty-seven respondents (54.8%) had public transport facility to the nearest bank branch in Anantapur. In Nashik, however, except four respondents, others, i.e., 104 respondents reported having public transport service to the nearest bank branch.
- ◆ Ninety-eight per cent of the respondents in Anantapur wanted to open a bank account. The remaining ones who did not want to open accounts cited that their income was too low to sustain a bank account. In Nashik, except one respondent all others wanted to open a bank account. This speaks for the potential for financial inclusion.
- ◆ In Anantapur, 98 respondents (94.2%) were aware that the Bank had appointed BCs/BFs in their villages, and 90 of such respondents knew this as the BCs/BFs had contacted them personally. In Nashik, 42 respondents (38.9%) reported having knowledge about the appointment of BCs/BFs in their villages. Out of these, the BFs themselves were the source of information in respect of 35 respondents. This indicates that proper awareness

campaigns were not conducted to introduce the BCs/BFs.

- ◆ In Anantapur, out of the respondents who were aware of the appointment of BCs/BFs in their villages, 94% said they had confidence in their integrity. In Nashik, this was cent per cent.

Analysis of Feedback from Branch Managers

Feedback was gathered from 18 BMs in Anantapur district in respect of both BCs and BFs and 24 BMs in Nashik district in respect of BFs only.

Feedback on the performance of BCs in Anantapur

- ◆ As per the BMs' feedback, the BCs could be given other activities like Recurring Deposits, KCC, SHG, cross-selling, technology products, remittances also as at present the BCs are handling only Savings Bank accounts.
- ◆ Feedback on quality of business brought in by BCs:

Table 7.1 presents information on quality of bank business brought in by BCs.

TABLE 7.1: QUALITY OF BUSINESS BROUGHT IN BY BCs

Usefulness	No. of BCs*
Very useful	7
Useful	5
Not much useful	3
No idea	1

*These 16 BCs are attached to 10 branches.

Highlights

- ◆ The opinions were so varied that it showed the heterogeneity in the functioning of the BCs. At the same time, many BMs felt that they had no proper communication structure with the BCs to understand their performance.
- ◆ Compared to the branch business levels, the business brought in by BCs was insignificant.
- ◆ According to sample BMs, capability of BCs to bring new customers is as under:

TABLE 7.2: CAPABILITY OF BCs IN BRINGING NEW CUSTOMERS

Capability	No. of respondents (where the services of BCs were available)
Very Much Capable	4
Capable	2
Not Much Capable	3
No Idea	1

Highlights

- ◆ Six out of 10 branches found that BCs were capable of bringing in new customers.

Other Aspects

- ◆ Seven sample BMs opined that the training provided at RBO to BCs was sufficient.
- ◆ Half of the sample BMs said that the BCs attached to their branch were covering the unbanked and under-banked areas, whereas the remaining had a diametrically opposite opinion.
- ◆ There were no complaints against any of the BCs in the last one year.

Feedback on the performance of BFs (Anantapur & Nashik districts):

- ◆ As per BMs' feedback in Anantapur, BFs could be given other activities like KCC, cross-selling and loan recovery also, as BFs were handling only SB accounts and Fixed deposits. As in Anantapur, in Nashik, BMs opined that they could be given other activities; however, they had generally reservations against BFs' capability to handle cross-selling and high-value Commercial and Institutional (C&I) advances.

Rating of the BFs

- ◆ Most of the BFs in both the districts were rated "useful" to "very useful" by the BMs surveyed. This was true for both quantity and quality of business brought in by BFs to the branches.
- ◆ As for BFs' capability to bring in new businesses, most of them were rated "capable" to "very much capable" in both Anantapur and Nashik.

Business brought in

- ◆ Anantapur district: During 2010-11, the business brought in by BFs ranged from Rs.13 lakh to Rs.3.5 crore, with a share of 3% to 40% of the concerned branch business growth during the year. Commission paid was also sizeable, starting with Rs.2,000 per annum to one BF and going up to Rs.1.5 lakh per annum for another BF.

- ◆ Nashik district: During 2010-11, the business brought in by BFs ranged from “negligible” to Rs.14 crore. Ignoring the “negligible” values, it varied between Rs.1.28 lakh and Rs.14 crore. The share of business brought in by BFs during the year in total new business of the branch stood between 2% and 60%. Commission paid was also sizeable, starting with Rs.10,000 per annum (excluding the “negligible” and “not yet claimed or paid” cases) to one BF and going up to Rs.14 lakh for another BF.
- ◆ Eleven out of 15 sample BMs (73.3%) opined that the training provided by RBO, Anantapur to BFs was sufficient. However, in Nashik, five of the sample BMs were ignorant of any training having been provided to BFs. Out of the remaining 19 sample BMs, 11 (57.9%) said that the training provided to BFs at RBO, Nashik as also Pune was inadequate not only in terms of duration but also in terms of content.
- ◆ In Anantapur district, two-third of the BM respondents reported that the BFs attached to their branches were covering the unbanked and under-banked areas, whereas the remaining had an opposite opinion. In Nashik district, out of 20 BM respondents who replied to this question, 11 (55.0%) said that BFs were not covering un-banked and under-banked areas contrary to what they were supposed to do. This corroborates our finding in Chapter 4 that BFs were operating in local areas within a radius of 1 km from their place of stay.
- ◆ There were no complaints against any of the BFs in last one year. This applied to both the sample districts.

Highlights

- ◆ Most of the BM respondents assessed the services of CMFs as “useful” to “very useful” - 50.0% in Anantapur and 79.2% in Nashik. The incidence of “not much useful” CMFs was more in Anantapur (38.9%) compared to 4.1% in Nashik.
- ◆ Very few BM respondents had assessed the business potential in the un-banked/under-banked areas near their branch; however, they had no ready data to share. Moreover, in both the sample districts, business potential surveys, whatever little done, was not based on any scientific methodology.

TABLE 7.3: FEEDBACK ON SERVICES OF CMFs

Usefulness	Anantapur		Nashik	
	No.	%	No.	%
Very useful	2	11.1	4	16.7
Useful	7	38.9	15	62.5
Not much useful	7	38.9	1	4.1
Not at all useful	0	0.0	0	0.0
No idea	2	11.1	4	16.7
Total	18	100.0	24	100.0

CHAPTER-8

Viability Analysis of BCs/BFs

An attempt was made to assess the viability of an **Individual BC doing Kiosk Banking** and it was also attempted to see whether it was profitable/useful to the Bank by engaging his services.

The viability of an Individual BC with Kiosk Banking:

TABLE 8.1: EXPENDITURE

(Amt. in Rs.)

Expenditure details	1st Month	2nd Month	3rd Month	4th Month	5th Month	6th Month	7th Month	8th Month	9th Month	10th Month	11th Month	12th Month	Total
FIXED COST													
Cost of computer and peripherals Rs.50,000/- with expected life of 6 years and depreciation straight line method : (50000/6)/12	694	694	694	694	694	694	694	694	694	694	694	694	8328
Cost of furniture, room decoration, etc. Rs.50,000 with expected life of 10 years and depreciation straight line method @10% : (50000x 10%)/12	417	417	417	417	417	417	417	417	417	417	417	417	5004
Opportunity cost @3% ¹ on Security deposit of Rs.50,000/-	125	125	125	125	125	125	125	125	125	125	125	125	1500
Interest on other investment of Rs.1,00,000 {Cost of computers Rs.50,000/- + Cost of furniture Rs.50,000/-} @ 12% p.a. (Opportunity cost)	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	12000
Insurance (@3% on investment of Rs.1,00,000)	250	250	250	250	250	250	250	250	250	250	250	250	3000
Room Rent (pro-rata) ²	300	300	300	300	300	300	300	300	300	300	300	300	3600
Salary to BC ³ (based on the time spent on this business)	2500	2500	2500	5000	5000	2500	2500	2500	2500	5000	5000	2500	40000
TOTAL FIXED COST	5286	5286	5286	7786	7786	5286	5286	5286	5286	7786	7786	5286	73432
VARIABLE COST													
Electricity charges	400	400	400	800	800	500	500	500	500	800	800	500	6900
Internet Broadband connection	800	800	800	900	900	800	800	800	800	900	900	800	10000
Room maintenance	300	300	300	500	500	400	400	400	300	500	500	400	4800

1. Int. on borrowed capital 12% - Interest on fixed deposit in the bank 9%
2. Normally, a part of the house is used for BC outlet. As such, taking a House for rent @Rs.1000 p.m. wherein 50% used for residence, 20% for other activities and 30% used for BC outlet.
3. Expected income Rs.200/- per working day (of 6 hours) for 25 days in a month. Expected time spent specifically on BC activities in a day - 3 hours in non-peak months and 6 hours in peak months. People in rural areas are mainly dependent on agriculture. Months 4,5,10 and 11 are taken as income months when the sale proceeds of agriculture produce will be received, hence more number of transactions. Other months will be relatively slack months. For example: During slack month, for 3 hours of working the BC will get Rs.100/- per day and for 25 working days, he will get Rs.2500/-

Expenditure details	1st Month	2nd Month	3rd Month	4th Month	5th Month	6th Month	7th Month	8th Month	9th Month	10th Month	11th Month	12th Month	Total
Computer consumables	300	300	300	600	600	300	300	300	300	600	600	300	4800
Stationery	200	200	200	400	500	500	400	300	300	500	500	300	4300
Transport expenses (to link branch, marketing, etc.)	500	500	500	200	200	400	400	400	400	200	200	400	4300
TOTAL VARIABLE COST⁴	2500	2500	2500	3400	3500	2900	2800	2700	2600	3500	3500	2700	35100
TOTAL EXPENSES	7786	7786	7786	11186	11286	8186	8086	7986	7886	11286	11286	7986	108532

TABLE 8.2: INCOME EXPECTED

(Amt. in Rs.)

Income details	1st Month	2nd Month	3rd Month	4th Month	5th Month	6th Month	7th Month	8th Month	9th Month	10th Month	11th Month	12th Month	Total
Comm. for opening an account (SB accounts opened during the month in brackets)	600 (30)	600 (30)	600 (30)	1400 (70)	1600 (80)	800 (40)	800 (40)	800 (40)	800 (40)	1600 (80)	1600 (80)	800 (40)	12000
Comm. for issue of ID cards for accounts opened during the month	300	300	300	700	800	400	400	400	400	800	800	400	6000
Account maintenance charges*	15	30	45	80	120	140	160	180	200	240	280	300	1790
Withdrawal charges* (min. one withdrawal expected per account)	150	300	450	800	1200	1400	1600	1800	2000	2400	2800	3000	17900
Remittance charges (min 5 per day in peak months, 2 per day in slack months) (Month assumed as 25 days)	250	250	250	625	625	250	250	250	250	625	625	250	4500
Other Activities as BF													
Commission on sourcing of Fixed Deposits (Avg. per month Rs.10 lacs in peak months & Rs.2.50 lacs in slack months)	1250	1250	1250	5000	5000	1250	1250	1250	1250	5000	5000	1250	30000
Commission on sourcing of loan applications (Avg. per month Rs.5 lacs in two months after peak months & Rs.2 lacs in other months)	3750	1500	1500	1500	1500	3750	3750	1500	1500	1500	1500	3750	27000
Recovery of bad loans (Avg. Recovery Rs.2.50 lacs in peak months & Rs.0.25 lacs in other months)	125	125	125	1250	1250	125	125	125	125	1250	1250	125	6000
Cross-selling (estimate)	200	200	200	1000	1000	200	200	200	200	1000	1000	200	5600
TOTAL INCOME	6640	4555	4720	12355	13095	8315	8535	6505	6725	14415	14855	10075	110790

*It will increase as every month new accounts will be opened.

4. The expenses under variable cost change with the number of transactions being carried out at the BC outlet during the month. In peak seasons, the cost will be more and in slack season, it will be less.

Note:

1. It is assumed that the BC outlet was opened in a village having more than 2000 population. Taking an average population of 3000, of which nearly 33% belong to either minors or senior citizens above 70 years who are fully dependent on others. Of the remaining, it is assumed that 60% are not having accounts with any bank. Of this 1200 unbanked population, may be 600 accounts will be opened in the first year where one person from one household may open the account.
 2. Over a period, the new accounts may come down as all the households will be covered, but the reduction of income on account of that will be compensated by more income on account maintenance, withdrawal charges, etc.
 3. Commission structure taken into account :
 - a. Comm. for opening an account is Rs.20
 - b. Comm. for issue of ID Card per account is Rs.10
 - c. Account maintenance charges - per account Rs.0.50
 - d. Withdrawal Charges range from Rs.1 to Rs.12 - Avg. taken as Rs.5
 - e. Remittance Charges range from Rs.2.5 to Rs.12.5 - Avg. taken as Rs.5
 - f. Commission for sourcing fixed deposits is @0.50% of the amount sourced
 - g. Commission for sourcing of loans @ 0.75% on sanction & 0.25% after one year, if the account is standard. For calculation, only 0.75% taken into account, as the remaining commission will come after one year
 - h. Commission on recovery is 0.5% of recovered amount.
- (Charges are as per the existing structure of State Bank of India.)
4. People in rural areas are mainly dependent on agriculture. Months 4,5,10 and 11 are taken as income months when the sale proceeds of agri produce will be received, hence more number of transactions. Other months will be relatively slack months.
 5. The levels of sourcing of deposits & advances are more in sample districts than taken in this exercise.

TABLE 8.3: NET INCOME

	1st Month	2nd Month	3rd Month	4th Month	5th Month	6th Month	7th Month	8th Month	9th Month	10th Month	11th Month	12th Month	Total
NET INCOME	-1146	-3231	-3066	1169	1809	129	449	-1481	-1161	3129	3569	2089	2258

From the above figures, it becomes clear that with proper planning, guidance by CMFs and hard work by BCs, the business can generate a decent income of Rs.2,500 to Rs.5,000 per month for BC, with a total salary income of Rs.40,000 during the year and breaks even by 11 months onwards. By end of year, it can start generating more incomes which will be increasing afterwards.

Initial Losses:

However, it is to be noted that the months 1, 2, 3, 8 and 9 will be generating negative returns if he takes salary as a fixed cost, which will be a demotivating factor for the BC. The reasons for initial losses basically depend on the following factors:

- a. Initial business levels do not match the fixed cost incurred for the same.

- b. In this business, while fixed cost is more, the component of variable cost is comparatively less.
- c. Based on the increase in volumes of business, the fixed cost can be recovered over a period of time.
- d. Initially, the BC has to concentrate more on publicity, create awareness about his services and educate the prospective customers for banking. As such, the volumes will be low.
- e. In addition, in the example, the months 1, 2 and 3 were taken as lean months.

At this stage, the following points are to be considered

- i. On account of doing BC activities, the footprints of the villagers will be more to the BC outlet. As such, the BC can improve the existing business sales, if any, with the new customers coming for

banking transactions. This improvement in sales may result in not less than 20% growth in his regular income, which will be added to the net income. For example, on a regular other business income of Rs.5000/-, if there is a growth of 20%, this may come to additional income of Rs.1,000/- which is on account of the new customers brought in by the BC business.

- ii. It is a normal practice among many companies that the franchisees/dealers will be offered with certain benefits/dole outs in the form of share of expenditure for good ambience/signage, etc. in the initial months to create/improve the brand image and encourage the franchisee/dealer to take up this business with enthusiasm. Similarly, Banks may dole out the 15% of the expenses incurred for cost of furniture, decoration, etc. (15% of Rs.50,000/- i.e., Rs.7,500/-) in three instalments of Rs.2500/- each in the first three months. So, it can enthuse the BC to take up the operations initially. By better support from the branches, the BC may overcome the nominal losses in the months of 8th & 9th, as more and more activities are expected to be introduced by the Banks in future.

Break-even analysis

Break-even point denotes the stage at which the outlet shows a profit, which depends on the volume of business reached, the time spent to run the activity, number of services rendered through the outlet, etc. In the present case, at the end of 11th month, the BC outlet shows a cumulative profit of Rs.169/-.

At this stage, the volume of business is as under:

(Note: All are cumulative figures up to the end of 11th month)

- ◆ 560 SB accounts
- ◆ At least one withdrawal per account per month
- ◆ Minimum 2 remittances in slack months and 5 in peak months
- ◆ Sourcing of Rs.57.50 lakh as fixed deposits
- ◆ Sourcing of Rs.31 lakh worth of loans
- ◆ Recovery of Rs.11.75 lakh worth of bad loans
- ◆ Sourcing of cross-selling business worth Rs.3 lakh (premium amount)

With these business levels, the income earned will match the expenditure incurred.

Thus, we can understand that running of a BC outlet will be profitable through proper implementation.

Now, there is a need to understand whether this model is profitable to the Bank. In the following pages, the cost implications and the benefits accrued are worked out from the Bank's point of view.

As discussed in the earlier tables, it is assumed that the BC can open 600 accounts in one year, sources fixed deposits business of Rs.60 lakh and advances business of Rs.36 lakh in one year. Accordingly, the income and expenses are calculated for the bank.

TABLE 8.4: INCOME & EXPENSES FOR BANK

Details of expenses	Expenses (Rs.)
Amount paid to Channel Management Facilitator who will be guiding nearly 15 BCs or BFs (Rs.12000 per month) (12000 x 12/15)	9600
Salary paid to in-charge of Financial Inclusion Centre (at the Region level who will be covering the activities of nearly 30 BCs) (Salary Rs.6 lacs per annum) (600000/30)	20000
Salary paid to one official at the link branch who has handled the business of fixed deposits and loans @ 2 hours per day - May be calculated at 1/4 th of the salary paid in one year - which comes to 600000/4	150000
Stationery expenses	5000
COMMISSION PAID	
Account opening charges* (for one year)	12000
ID card charges* (for one year)	6000

Details of expenses	Expenses (Rs.)
Maintenance charges *(for one year)	1790
Withdrawal charges* (for one year)	17900
Remittance charges* (for one year)	4500
Sourcing of fixed deposits * (for one year)	30000
Sourcing of loan proposals* (for one year)	27000
Sourcing of loan proposals	
(Additional 0.25% commission to be paid after one year)	9000
Commission paid for loan recovery	6000
Commission paid for cross-selling	5600
Net Interest cost on fixed deposits of Rs.60,00,000 @ 7% (average rate expected as the deposits will grow over a period of one year)	420000
TOTAL EXPENSES	724390

*As per the table of income expected for BC in the previous pages

Details of income	Income (Rs.)
Charges recovered from customers	
Account opening charges (for one year) (600 accounts x Rs.25)	15000
ID card charges (for one year) (600 accounts x Rs.15)	9000
Withdrawal charges* (for one year)	17900
Remittance charges* (for one year)	4500
Cross-selling income from Alliances (10% of the commission received from the Alliances will be paid to BCs, which is Rs.5600/-)	56000
Net Interest income on loans of Rs.36,00,000 @ 8% (average rate expected as the advances will grow over a period of one year)	288000
Expected income on investments (Deposits Rs.60,00,000 - Advances Rs.36,00,000 = Net surplus on hand Rs.24,00,000) in Govt. securities etc. @4% (average rate expected over a period of one year)	96000
TOTAL INCOME	486400

TOTAL INCOME - TOTAL EXPENSES FROM BC OPERATIONS (Rs.) = 486400 - 724390 = -237990

Thus, there is a loss of Rs.2,37,990 through the BC operations.

Incidentally, proportionate expenses with regard to the Personnel employed with this model across the Bank will also add up to the loss.

This is a de-motivating factor to the Bank to expand BC model to other needy areas. This has to be compensated by the RBI/Government of India by way of cost to be borne by them or tax exemptions, etc. At the same time, similar to the advances granted to SHGs which are treated as Agriculture Credit, the advances handled through BCs should also be treated as Agriculture Priority Advances, which may encourage banks to take up BC model on a higher scale.

Let us compare the position with a rural branch opened by a commercial bank (data taken from an actual branch - name withheld) with one year of operations.

Branch Business: Deposits: Rs.5.16 crore

Advances: Rs.5.97 crore

TABLE 8.5: EARNINGS & EXPENSES

Particulars	Actual figures for the branch Rs. in lacs	If the branch garners the same business as done by BC in the first year (Dep. Rs.60 lacs and Adv. Rs. 36 lacs) - on pro-rata basis Rs. in lacs
Interest/Discount on Advances	35.24	2.12
Other income	12.84	12.84*
Total Income	48.08	14.96
Interest paid on deposits	16.84	1.96
Salary & Allowances to staff	9.60	9.60
Overheads (incl. depreciation)	14.61	14.61
Total expenses	41.05	26.17
Operating Result	7.03	-11.21
Interest payable to Central Office on funds borrowed (for lending advances) under Transfer Price Mechanism	28.25	1.70
Interest receivable from Central Office on funds lent (by collecting deposits) under Transfer Price Mechanism	33.97	3.96
Net Result (Operating Result - Interest Payable + Interest Receivable)	12.75	-8.95

*Kept at the same level

From the above data, it can be inferred that while conducting the BC operations (with the support of a link branch), the branch incurs a loss of Rs.2,37,990 and at the same time, if the same business is done through a regular branch the loss will go up to Rs.8,95,000.

Here, it is interesting to note the RBI instructions on loss-making branches, which are furnished below.

RBI Master Circular No.RBI/2010-11/58 : DBOD.No. BL.BC. 8/22.01.001/2010-11 dated July 1, 2010 on “**Section 23 of Banking Regulation Act, 1949 - Master Circular on Branch Authorisation**” states as under :

Quote

13.3 Rural branches

13.3.1 Within the block

As a matter of policy, shifting of sole rural branch outside the centre/village is not permitted, as such shifting would render the centre unbanked.

.....

.....

13.3.2 Outside the Block

Requests for shifting of branches from centres, which are served by more than one commercial bank branch (excluding Regional Rural Bank branch) outside the block should be included in the annual branch expansion plan and the same will be considered based on the following parameters:

(i) Branches being shifted are in existence for five years or more and are incurring losses consecutively for the last three years;

.....

.....

Unquote

In view of these guidelines, it is calculated that the Branch (instead of BC outlet at that place) if continued with a business growth of 20% every year (average business growth of many bank branches), the branch will break even in the sixth year, as under :

Particulars	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year
Interest/Discount on Advances	2.12	2.54	3.05	3.66	4.40	5.28
Other income	12.84	15.41	18.49	22.19	26.63	31.95
Total Income	14.96	17.95	21.54	25.85	31.02	37.23
Interest paid on deposits	1.96	2.35	2.82	3.39	4.06	4.88
Salary & Allowances to staff	9.6	9.89	10.18	10.49	10.80	11.13
Overheads (incl. depreciation)	14.61	16.07	17.68	19.45	21.39	23.53
Total expenses	26.17	28.31	30.69	33.32	36.26	39.54
Operating Result	-11.21	-10.36	-9.14	-7.47	-5.24	-2.31
Interest payable to Central Office on funds borrowed (for lending advances) under Transfer Price Mechanism	1.7	2.04	2.45	2.94	3.53	4.23
Interest receivable from Central Office on funds lent (by collecting deposits) under Transfer Price Mechanism	3.96	4.75	5.70	6.84	8.21	9.85
Net Result (Operating Result - Interest Payable + Interest Receivable)	-8.95	-7.65	-5.89	-3.57	-0.55	3.31

Note : It is assumed that :

- The business will grow at 20% every year (both deposits and advances)
- The other income will also grow at 20% every year (as this is a full-fledged branch providing all types of services)
- Salary & Allowances will grow at 3% every year
- Overheads will increase at 10% every year

Summary & Conclusions

As the banks are mandated to open a banking outlet in all the villages having population of more than 2000 by March, 2012, opening of a BC outlet may be a best option compared to opening a bank branch, as outlined above. However, if the branch is established in a village providing all the facilities from day-one (unlike the restricted services offered by a BC), the village economy will grow at a rapid pace, which will compensate the losses incurred by the branch over a period. From the angle of Corporate Social Responsibility, as the initial losses will help the economic growth of the village, the banks may have to accept this situation with interest. At the same time, the Government may think of incentivising the banks by allowing 'Double the amount of Loss' as tax exemption, as a special case, under Financial Inclusion activities. So, it is to be decided by the Bank Managements whether to go for a BC outlet or a branch. Based on the expected potential in the village, the banks may think of providing regular branch

services, if the branch is expected to break even in 5th year as discussed in the above example. Otherwise, at the cost of repetition, it is feasible to have a BC outlet at the beginning and over a period of 10 years or so, the bank can think of migrating these accounts to a newly opened full-fledged branch in the village. In such case, the BC outlet has to be moved to next unbanked village after opening of a full-fledged branch at the present BC outlet.

However, where the population is more than 5000, the options may work out in favour of opening a bank branch (as shown above with a total business of Rs.11.13 crore in first year at a rural branch), which has to be considered by the individual banks according to the business potential available at the centre.

Viability Analysis of BFs

Business Facilitator is basically an agent of the Bank to source business. He is akin to an insurance agent or a deposit collector employed by some banks. Depending

on the time spent by BF and the success factor of the BF in sourcing the business (as all the visits made by a BF may not result in sourcing of business), the commission will accrue. As such, it may be difficult to assess the viability of BF activity. However, an attempt has been made to find out the viability of an **Individual BF** and also whether it is profitable/useful to the Bank by engaging his services.

The viability of an Individual BF

TABLE 8.6: EXPENDITURE

(Amt. in Rs.)

Expenditure details	1st Month	2nd Month	3rd Month	4th Month	5th Month	6th Month	7th Month	8th Month	9th Month	10th Month	11th Month	12th Month	Total
FIXED COST													
Opportunity cost @3% ¹ on Security deposit of Rs.25,000/-	62	62	62	62	62	62	62	62	62	62	62	62	744
Salary to BF ² (based on the time spent on this business)	2500	2500	2500	5000	5000	2500	2500	2500	2500	5000	5000	2500	40000
TOTAL FIXED COST	2562	2562	2562	5062	5062	2562	2562	2562	2562	5062	5062	2562	40744
VARIABLE COST													
Transport expenses (to link branch, marketing, etc.)	1000	1000	1000	1500	1500	1500	1000	1000	1000	1500	1500	1000	14500
TOTAL VARIABLE COST³	1000	1000	1000	1500	1500	1500	1000	1000	1000	1500	1500	1000	14500
TOTAL EXPENSES	3562	3562	3562	6562	6562	4062	3562	3562	3562	6562	6562	3562	55244

1. Int. on borrowed capital 12% - Interest on fixed deposit in the bank 9%
2. Expected income Rs.200/- per working day (of 6 hours) for 25 days in a month. Expected time spent specifically on BF activities in a day - 3 hours in non-peak months and 6 hours in peak months. People in rural areas are mainly dependent on agriculture. Months 4, 5, 10 and 11 are taken as income months when the sale proceeds of agriculture produce will be received, hence more number of transactions. Other months will be relatively slack months. For example: During slack month, for 3 hours of working the BF will get Rs.100/- per day and for 25 working days, he will get Rs.2500/-
3. The expenses under variable cost change with the number of visits made by the BF to source the business during the month. In peak seasons, the cost will be more and in slack season, it will be less.

TABLE 8.7: INCOME EXPECTED

(Amt. in Rs.)

Income details	1st Month	2nd Month	3rd Month	4th Month	5th Month	6th Month	7th Month	8th Month	9th Month	10th Month	11th Month	12th Month	Total
Comm. for opening an account (SB accounts opened during the month in brackets)	600 (30)	600 (30)	600 (30)	1400 (70)	1600 (80)	800 (40)	800 (40)	800 (40)	800 (40)	1600 (80)	1600 (80)	800 (40)	12000
Other Activities as BF													
Commission on sourcing of Fixed Deposits (Avg. per month Rs.10 lacs in peak months & Rs.2.50 lacs in slack months)	1250	1250	1250	5000	5000	1250	1250	1250	1250	5000	5000	1250	30000
Commission on sourcing of loan applications (Avg. per month Rs.5 lacs in two months after peak months & Rs.2 lacs in other months)	3750	1500	1500	1500	1500	3750	3750	1500	1500	1500	1500	3750	27000

Income details	1st Month	2nd Month	3rd Month	4th Month	5th Month	6th Month	7th Month	8th Month	9th Month	10th Month	11th Month	12th Month	Total
Recovery of bad loans (Avg. Recovery Rs.2.50 lacs in peak months & Rs.0.25 lacs in other months)	125	125	125	1250	1250	125	125	125	125	1250	1250	125	6000
Cross-selling (estimate)	200	200	200	1000	1000	200	200	200	200	1000	1000	200	5600
TOTAL INCOME	5925	3675	3675	10150	10350	6125	6125	3875	3875	10350	10350	6125	80600

Note:

1. It is assumed that the BF is working in those villages whose total population is around 5000. Taking an estimate that nearly 3000 people may require banking services, of which nearly 33% belong to either minors or senior citizens above 70 years who are fully dependent on others. Of the remaining, it is assumed that 60% are not having accounts with any bank. Of this 1200 unbanked population, may be 600 accounts will be opened in the first year where one person from one household may open the account.
2. Commission structure taken into account :
 - a. Comm. for opening an account is Rs.20
 - b. Commission for sourcing fixed deposits is @0.50% of the amount sourced
 - c. Commission for sourcing of loans @ 0.75% on sanction & 0.25% after one year, if the account is standard. For calculation, only 0.75% taken into account, as the remaining commission will come after one year
 - d. Commission on recovery is 0.5% of recovered amount.

(Charges are as per the existing structure of State Bank of India.)

4. People in rural areas are mainly dependent on agriculture. Months 4, 5, 10 and 11 are taken as income months when the sale proceeds of agri produce will be received, hence more sourcing of business. Other months will be relatively slack months.
5. The levels of sourcing of deposits & advances are more in sample districts than taken in this exercise.

	1st Month	2nd Month	3rd Month	4th Month	5th Month	6th Month	7th Month	8th Month	9th Month	10th Month	11th Month	12th Month	Total
NET INCOME	2363	113	113	3588	3788	2063	2563	313	313	3788	3788	2563	25356

From the above figures, it becomes clear that with proper planning, guidance by CMFs and hard work by BFs, the business can generate a decent income of Rs.2,500 to Rs.5,000 per month for BF, with a total salary income of Rs.40,000 during the year. In addition, the additional income generated after meeting the salary and variable expenses, will be more than the security deposit of Rs.25,000/- with the bank. With proper guidance, the break-even can be reached in the first month itself. Additionally, on account of BF activities, the footprints of the villagers will be more to the Bank. As such, the BF can improve the existing business sales, if any,

with the new customers coming for banking transactions.

Now, there is a need to understand whether this model is profitable to the Bank. In the following pages, the cost implications and the benefits accrued are worked out from the Bank's point of view.

As discussed in the earlier tables, it is assumed that the BF can open 600 accounts in one year, sources fixed deposits business of Rs.60 lakh and advances business of Rs.36 lakh in one year. Accordingly, the income and expenses are calculated for the bank.

TABLE 8.8: VIABILITY FROM BANK'S VIEWPOINT

Details of expenses	Expenses (Rs.)
Amount paid to Channel Management Facilitator who will be guiding nearly 15 BCs or BFs (Rs.12000 per month) (12000 × 12/15)	9600
Salary paid to one official at the link branch who has handled the business of fixed deposits and loans @ 2 hours per day - May be calculated at 1/4 th of the salary paid in one year - which comes to 600000/4	150000
Stationery expenses	5000
COMMISSION PAID	
Account opening charges* (for one year)	12000
Sourcing of fixed deposits * (for one year)	30000
Sourcing of loan proposals* (for one year)	27000
Sourcing of loan proposals	9000
(Additional 0.25% commission to be paid after one year)	
Commission paid for loan recovery	6000
Commission paid for cross-selling	5600
Net Interest cost on fixed deposits of Rs.60,00,000 @ 7% (average rate expected as the deposits will grow over a period of one year)	420000
TOTAL EXPENSES	674200

*As per the table of income expected for BF in the previous pages

Details of income	Income (Rs.)
Cross-selling income from Alliances (10% of the commission received from the Alliances will be paid to BCs, which is Rs.5600/-)	56000
Net Interest income on loans of Rs.36,00,000 @ 8% (average rate expected as the advances will grow over a period of one year)	288000
Expected income on investments (Deposits Rs.60,00,000 - Advances Rs.36,00,000 = Net surplus on hand Rs.24,00,000) in Govt. securities etc. @4% (average rate expected over a period of one year)	96000
TOTAL INCOME	440000

TOTAL INCOME - TOTAL EXPENSES FROM BF OPERATIONS (Rs.) = 440000 - 674200 = -234200

Thus, there is a loss of Rs.2,34,200 through the BF operations.

Incidentally, proportionate expenses with regard to the Personnel employed with this model across the Bank will also add up to the loss.

This is a demotivating factor to the Bank to expand BF model to other needy areas. This has to be compensated by the Reserve Bank of India/Government of India by way of cost to be borne by them or tax exemptions, etc. At the same time, similar to the advances granted to SHGs which are treated as Agriculture Credit, the advances handled through BFs should also be treated

as Agriculture Priority Advances, which may encourage the Banks to take up BF model on a higher scale.

Let us compare the position with a specialist marketing officer recruited by commercial banks on contract basis.

Available details from a Public Sector Bank are as under :

Cost-to-Company on the officer: Rs.2,50,000/- per year

Targets given, based on which the total package will be paid (otherwise only 70% of the package will be paid to them), are:

Sourcing of Advances : Rs.3.75 crore

Sourcing of Deposits : Rs.0.50 crore

Cross-selling business : Rs.0.15 crore

NPA Recovery : Rs.0.30 crore

From the above data, it is very clear that it is better to use the services of a specialist marketing officer instead of using the services of BF, as the cost on Average Business per Officer is much less than the cost on Average Business per BF.

Summary & Conclusions

The Banks may think on the desirability of utilising the services of BF instead of a regular/contract officer where the productivity will be more coupled with more business to the Bank.

Reliability Test

Reliability test was carried out by calculating Cronbach's alpha and it was found that our results are reliable (Results annexed).

ANNEXURE 8.1: RELIABILITY TEST FOR VIABILITY OF BC/BF

Reliability Test for Viability Analysis of BCs			
Item Name	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	Result
Total Fixed Cost and Total Variable Cost	0.742	0.978	Acceptable
Total Expenses and Total Income	0.813	0.957	Good
Total Income and Net Income	0.922	0.978	Excellent

Reliability Test for Viability Analysis of BFs			
Item Name	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	Result
Total Fixed Cost and Total Variable Cost	0.502	0.911	Poor
Total Expenses and Total Income	0.870	0.972	Good
Total Income and Net Income	0.917	0.964	Excellent

Summary of Study Findings and Recommendations

Section 9.1: Summary of Study Findings

BC Model

- ◆ BC model for financial inclusion was studied in Anantapur district where the technology used was Kiosk Banking.
- ◆ Younger and educated people had adopted the BC model.
- ◆ The BCs were comfortable with the technology but the poor internet connectivity in some places was creating problems for the BCs to scale up their operations.
- ◆ The business brought in by the BCs so far was insignificant.
- ◆ As the income levels at present were low, the BCs were dependent mostly on other activities like agriculture, insurance business, etc.
- ◆ BCs were mainly taking up deposit related activities, while the cross-selling and loan sourcing were comparatively miniscule.
- ◆ BCs were receiving required support from the branches and CMFs, but the communication structure between these parties needed to be improved further.
- ◆ BCs wanted more publicity for their activities from the branch officials.
- ◆ Customers were reluctant to pay charges for their transactions.

BF Model

- ◆ BF model was studied in two districts, viz., Anantapur in Andhra Pradesh and Nashik in Maharashtra.
- ◆ Younger, educated lot had taken up this activity which augurs well for procurement of business.
- ◆ Majority of the BFs had prior experience of 1-3 years in marketing.
- ◆ It was observed that the training given to the BFs was not sufficient to handle more variety of banking products.

- ◆ None of the BFs had passed Recovery Agents certification of the IIBF, which allows them to take up loan recovery.
- ◆ Clarity in respect of area of operations was missing in the case of most of the BFs.
- ◆ Preliminary survey of the area of operation was not done by any of the BFs, but the visits by the researchers indicated that there was a lot of potential available in the areas allotted to the BFs.
- ◆ The average income for BFs worked out to Rs. 7,363 per month in Anantapur district and Rs.11,741 in Nashik district.
- ◆ The average deposits sourced by BFs worked out to Rs.10.8 lakh per BF per month in Anantapur and the same was Rs. 3 lakh in Nashik.
- ◆ The average advances sourced by BFs worked out to Rs.7.56 lakh per BF per month in Anantapur and the same was Rs. 26 lakh in Nashik.
- ◆ BFs expected more response from the branches for their business.
- ◆ The branch staff, in most of the cases, was not very comfortable with the business shown by BFs, as they felt that the walk-in customers of the branches were being shown as their customers by BFs and they were booking the business in their names. At the same time, the BFs argued that they were in fact trying to bring in those existing customers who were about to leave back to the branch books.
- ◆ The BFs were appointed to serve the needs of unbanked villagers and their bringing in business from the existing customers might not serve the purpose of financial inclusion. This needs to be thought of by all concerned.

Customers of BCs

- ◆ The average distance of the nearest branch for the customers of BC was 9.41 kms which indicated that the selection of BC was properly done by the officials.

- ◆ The BCs were serving the right kind of customers, as 75.6% of the respondents belonged to the annual income group of less than Rs. 50,000.
- ◆ In more than 90% of the cases, the BCs introduced themselves to the prospective customers. This suggested that proper publicity from the Bank branch was lacking.
- ◆ The number of transactions was slowly picking up, but the grand shift in saving the money at home to saving the money with the Bank via BCs was quite noticeable.
- ◆ Customers were happy that they were being provided with banking services at their places of stay through BCs and they expressed satisfaction on the services rendered by the BCs.
- ◆ The customers were reluctant to pay charges to the Bank for their transactions.

Customers of BFs

- ◆ Majority of the BFs were concentrating in and around their Bank branches and were not going to the unbanked or under-banked villages as they should.
- ◆ The BFs in Anantapur as also Nashik district were not serving the right kind of customers in terms of the income levels.
- ◆ In general, the BFs introduced themselves to the prospective customers. This implied that proper publicity from the Bank branch was lacking.
- ◆ All the customers of BFs in both the districts were of the opinion that they were being treated at par with the Bank's regular customers.
- ◆ Customers were happy that they were being provided help in handling banking services through BFs and they expressed satisfaction on the services rendered by the BFs.
- ◆ The shift in saving the money at home to saving the money at Banks after implementing the BF model was quite noticeable in both the sample districts.

Non-customers

- ◆ Majority of the respondents were aware that the Bank had appointed BCs/BFs in their villages.
- ◆ More than 90% of the respondents were interested to open accounts with the help of BCs/BFs, which

showed the vast potential available in those unbanked or under-banked villages.

Branch Managers

- ◆ Many of the BMs were happy about the BC/BF model, but the experiences from the BCs were quite varied and therefore, they were unable to judge their performance in an objective manner.
- ◆ In respect of BFs, the performance was quite visible, and hence, the BMs were able to judge and guide the BFs suitably in getting business.
- ◆ The performance of CMFs was also too varied and a concrete opinion on their performance could not be evolved.

Viability Analysis of BCs

- ◆ An attempt was made to assess the viability of an Individual BC doing Kiosk Banking and also it was attempted whether it was profitable/useful to the Bank by engaging his services.
- ◆ From the assumptions and actual field level information, it became clear that with proper planning, guidance by CMFs and hard work by BCs, the business can generate an income of Rs. 2,500 to Rs. 5,000 per month for BC, with a total salary income of Rs. 40,000 during the year and breaks even by 11 months onwards. By end of the year, it can start generating more incomes which will be increasing afterwards. However, it is to be noted that the months 1, 2, 3, 8 and 9 will be generating negative returns if he takes salary as a fixed cost, which will be a de-motivating factor for the BC. However, the other useful returns from the improvement in the existing business and support from the Bank in the initial cost incurred by way of promotion exercise will help in mitigating this stage.
- ◆ On an analysis of the model from the Bank's point of view, there comes a loss of Rs. 2,37,990 through the BC operations in the first year. Incidentally, proportionate expenses with regard to the personnel employed with this model across the Bank will also add up to the loss. This is a de-motivating factor for the Bank to expand BC model to other needy areas. This has to be compensated by the RBI/Government of India by way of cost to be born by them or tax exemptions, etc. At the same time, similar to the advances

granted to SHGs which are treated as Agriculture Credit, the advances handled through BCs should also be treated as Agriculture Priority Advances, which may encourage the banks to take up BC model on a higher scale.

- ◆ Similarly, it is calculated that the branch opened at a place (instead of BC point at that place) if continued with a business growth of 20% every year (average business growth of many bank branches), the branch will break even in the sixth year.
- ◆ As the banks are mandated to open a banking outlet in all the villages having population of more than 2,000 by March, 2012, opening of a BC outlet may be the best option compared to opening a bank branch, as outlined above. However, if the branch is established in a village providing all the facilities from day 1 (unlike the restricted services offered by a BC), the village economy will grow at a rapid pace, which will compensate the losses incurred by the branch over a period. So, it is to be decided by the Bank Managements whether to go for a BC outlet or a branch. If it is feasible to have a BC outlet at the beginning and over a period of 10 years or so, the Bank can think of migrating these accounts to a newly opened full-fledged branch in the village. In such case, the BC outlet has to be moved to next unbanked village after opening of a full-fledged branch at the present BC outlet.

Viability Analysis of BFs

- ◆ From the assumptions and actual field level information, it became clear that with proper planning, guidance by CMFs and hard work by BFs, the business can generate an income of Rs. 2,500 to Rs. 5,000 per month for BF, with a total salary income of Rs. 40,000 during the year. In addition, the additional income generated after meeting the salary and variable expenses will be more than the security deposit of Rs. 25,000 with the Bank. With proper guidance, the break-even can be reached in the first month itself.
- ◆ However, the banks may think on the desirability of utilising the services of BF instead of a regular/contract officer where the productivity will be more coupled with more business to the Bank.

Section 9.2 Recommendations

The recommendations mentioned below are in consonance with the objectives of the study as enumerated in Chapter 1.

SELECTION:

- ◆ Selection of the BCs/BFs should be from either the same village in which they stay or from the nearby villages so that villagers can trust them. Thus, the trust deficit that was observed between villagers and BCs/BFs could be minimized and financially excluded villagers would come forward to be enrolled as the Bank's customers.

ALLOTMENT OF VILLAGES:

- ◆ Allotment of villages to the BCs/BFs should be done with utmost care. The number of villages to be allotted to a BC/BF should not exceed three to four and these villages should be contiguous. This would streamline the operations of BCs/BFs and will be beneficial to the Bank. The appointment letter to BCs/BFs itself should contain the list of allotted villages.

TRAINING:

- ◆ The IIBF's certification exam for BCs/BFs should be made mandatory for them. It is important to note that with sound knowledge on products and processes one can convince the customers and ably guide them in money matters. The marketing skills will also improve further. Just like the requirement of certification for doing insurance business, mutual fund business, debt recovery, the same should be made applicable in respect of this IIBF certification. In order to make it easier for the BCs/BFs the exam may be conducted in regional languages also.
- ◆ Banks can also impart training to the BCs/BFs in the beginning about their banks, systems and procedures which should be both intensive and extensive. Training on product knowledge should be the prime focus.
- ◆ Continuous updation of the knowledge base either through direct classroom training or through distance learning is very much required.

TARGET SETTING:

- ◆ Targets should be set for BCs/BFs. To begin with, the targets should include: number of accounts, amount and number of transactions.

- ◆ Targets should be regularly monitored; otherwise targets lose their relevance. While evaluating the performance vis-à-vis targets, special weight needs to be accorded to the extent the BCs/BFs have touched unbanked and under-banked villages.

COMMISSION:

- ◆ Suitable commission structure is to be evolved to ensure viability of the BC/BF activity.

PUBLICITY:

- ◆ Banks have to provide adequate publicity about the placement of the BCs/BFs in the villages. The cost of such publicity should be borne by the Bank as the commission received by the BCs/BFs may not be sufficient to cover this cost. In rural areas, a number of tools are available like small films, puppet dance and village folk songs/dances which can be displayed in the evening at Gram Panchayat office or important locations in the villages. The films/acts, which are in local language, should focus on how savings will help in improving the life of an individual. At the end, the conclusions like benefits, opportunities gained are to be explained by the local bankers. Then, they should introduce the newly placed BCs/BFs to the villagers. They should also distribute various pamphlets which will provide the details of the products offered through BCs/BFs. Thus, the information will reach the grass root level. As these villages are unbanked for years together, the culture of banking is to be created in the villagers slowly but steadily. At the same time, banks should plan for bulk account openings, which will bring better business to the BCs and enable them to break even faster. The presence of bankers will improve the confidence levels of the villagers and also increase the trust on the bank as well as BCs/BFs. Proper and planned publicity will result in a win-win situation for bankers and BCs/BFs as well as the villagers.
- ◆ The NABARD-initiated Farmers' Clubs may also be effectively used for publicizing the information among villagers/farmers.

LINK BRANCH:

- ◆ The concept of BC/BF is new to the villagers and therefore, it has to get the initial momentum. Hence, proper publicity by the Bank branch

becomes important. As the business brought in by the BCs/BFs is reflected in the branch books, branches should take necessary steps to create awareness among the villagers about the BCs/BFs posted in their villages. Frequent visits and campaigns initially by the branch staff would create the needed awareness.

- ◆ In the Gram Sabhas/Awareness meetings, bulk account opening may be envisaged, which will ultimately improve the performance of the model in the long run.
- ◆ In the meetings, it is also necessary to educate the customers about the importance to insist for 'system generated receipt' for each and every transaction. This is an important customer protection measure.
- ◆ The recent 'SWABHIMAAN' campaign jointly launched by the Indian Banks' Association and Ministry of Finance should be utilized fruitfully to improve the awareness among the prospective customers about the availability of banking services at their doorstep.
- ◆ The services of local elementary school teachers, who are generally trusted by villagers, may be hired by the Bank to educate the villagers about the benefits of savings and the need to use banking services through BC/BF channel.

BANK CONTROLLERS:

- ◆ The involvement of the operating staff at the ground level is crucial for the success of any grass root level programmes. Therefore, the Controllers of the branches should involve the local branch-level functionaries, *ab initio*, in the selection of the BCs/BFs till they are attached to their allotted branches. This will, in addition, help in owning the model by the branch staff.
- ◆ The communication gap between BCs/BFs and branches should be minimized to the extent possible to ensure that both the parties work in harmony for the overall benefit of the Bank. Towards this end, monthly/bi-monthly meetings may be conducted at the district level by the Controllers with all the stakeholders of the models.
- ◆ More activities should be allowed to the BCs to handle at their customer points. This will have three benefits (a) reduce congestion at the branches, (b) make possible for the branch staff

to attend to more important customers/businesses and (c) improve the viability of the BC model.

- ◆ The activities to be allowed may be: Accounts of SHGs, Pension accounts, Scholarship accounts and Social security benefits. Besides, the loan repayments of accounts held in the Core Banking of the branches may also be allowed, which will again reduce the burden of the villagers to go to the towns to deposit their money for loan repayment.
- ◆ Bank controllers, along with the government functionaries at the district level, should create an environment in which the educated (and disguisedly unemployed) youth of the villages feel incentivised to take up the BC/BF activity and work in their own areas. This will result in suitable employment to the youth on one hand and better business opportunities for the Bank on the other.
- ◆ Necessary Customer Grievance Redressal mechanism should be put in place to make the customer comfortable with new model of banking. This will improve the trust/confidence levels on the BC/BF model.
- ◆ KYC verification, at the time of account opening, is an important aspect in the BC/BF model. As such, the Bank should give utmost importance in this regard. The 'Financial Inclusion Centre' concept rolled out by the SBI may be used by all banks for effective supervision of BC/BF activities which takes care of KYC verification as well.
- ◆ From the beginning, the BC should be encouraged to take up the BF activities as well, because a BC can also act as BF as he is 'BF+'.
- ◆ Regarding the technology to be used, the Controllers have to take the decision as per the local eco-system. Technologies like internet based Kiosk banking, smart card based mobile banking, GPRS system based technologies, etc., to be attempted according to the need and adaptability at the local level.
- ◆ The insurance of cash, cash-in-transit of the BC outlets may be covered by the link branches along with their cash insurance.

BUSINESS CORRESPONDENTS:

- ◆ BCs have to survey their areas of operation and improve their stock of knowledge about potential customers and businesses.

- ◆ Conducting village meetings is extremely important. BCs, with the help of link branch functionaries, should create awareness among the villagers about the importance of savings and guide them towards the customer points to open accounts with them.
- ◆ At the same time, they can identify the potential for advances, cross-selling and can source this business to the branch books which will help in improving their commission income.
- ◆ They should place all the necessary display boards indicating the Bank's name, customer point details, available banking services, service charges, do's and don'ts, etc., prominently.
- ◆ They should not charge from customers any amount more than what is prescribed by the bank.
- ◆ They should follow all systems and procedures, as stipulated by the concerned bank. They should maintain all the requisite registers like cash book, visit book, etc.
- ◆ All the BCs have to be encouraged to carry out the BF activities for earning higher income and early break-even.

BUSINESS FACILITATORS:

- ◆ Like BCs, BFs should acquire knowledge about the potential customers and businesses in their areas of operations.
- ◆ They should maintain cordial relations with all the government functionaries of the villages where they are working, to tap the potential whenever available.
- ◆ They should guide the prospective customers correctly. For this, they should always be thorough and up-to-date with knowledge in banking products and services.

RECOVERY AGENT EXAM BY IIBF:

- ◆ All the BCs and BFs have to be advised to pass the "Recovery Agents test of the IIBF" so that they can undertake Recovery of NPAs in the villages and get attractive commission on the recoveries they made.

BRANCH MANAGERS:

- ◆ There is a need to change the mindsets of the Bank functionaries. They should internalize the fact that BC/BF model is workable as also fruitful both to the Bank and the villagers. Hence, they

should pay attention to this model in a much more serious way.

- ◆ The branches should utilize the services of the BCs/BFs for the purpose they are appointed, instead of asking them to do miscellaneous work in the Branch.
- ◆ The branches should also constantly monitor the performance of BCs/BFs and guide them wherever and whenever required.

REWARD & RECOGNITION:

- ◆ Every Bank may come out with a scheme for reward & recognition of the highly-performing BCs/BFs. This will create a spirit of competition and enthusiasm among them which will help in large-scale spirited implementation of the Financial Inclusion initiatives.

SEPARATE SUBSIDIARY FOR BC/BF ACTIVITIES:

- ◆ GoI/RBI may permit the banks to float a separate subsidiary for carrying out BC/BF activities. This will also help in allowing concessions in direct taxes or releasing funds/subsidies for implementing these initiatives.

Anantapur District - A Profile

Anantapur is the biggest district in the State of Andhra Pradesh with geographical area of 19130 Sq. Km, spread over three revenue divisions, 63 mandals and 929 villages. The district has a population of 36.40 lakhs, of which 75% live in rural areas and those below poverty line stood at 5.61 lakhs. The net sown area during 2008-09 was 11.13 lakh ha. and gross cropped area was 11.87 lakh ha. with a cropping intensity of 116%. The district is the second most drought affected in the country with an average rainfall of 552 mm and classified by the GoI as semi-arid and desert-prone. It has also the lowest net irrigated area accounting for 11% of total cultivated area, bulk of which (around 80%) is under wells and tube wells, which is not an assured source of irrigation.

Workers profile

Cultivators	4,88,000
Of the above, Small/Marginal farmers	3,92,000
Agricultural Labourers	4,62,000
Workers engaged in Household industries	5,21,000
Workers engaged in Allied Agro-activities	46,000
Other workers	2,60,000

Households

Total Households	7,79,052
Rural Households	4,96,566
BPL Households	5,61,639

Village level infrastructure

Villages Electrified	929
Village having Post Offices	906
Villages having Banking Facilities (Bank network)	379
Villages having Primary Schools	929
Villages having Primary Health Centres	68

(Source : Potential Linked Credit Plan, Anantapur district of NABARD, 2010-11)

The district is having 185 Commercial Bank branches, 86 RRB branches of Andhra Pragathi Grameena Bank and 19 branches of Anantapur District Cooperative

Central Bank Ltd., with 98 PACS and one branch of A. P. State Financial Corporation.

Providing Banking services in every village having population over 2000

In Anantapur district, there are 507 villages having population over 2000. Out of which, banking services are available in 113 villages through branch network of various banks. As per the guidelines, banking services are to be provided in the remaining 394 villages. The existing Service Area Approach will be the basis for allotting of villages to the banks. Each village will be allotted to the bank which is the present Service Area Bank of that village.

Accordingly, the villages were mapped as under :

Name of the Bank	No. of villages allotted
Andhra Pragathi Grameena Bank	182
State Bank of India	72
Syndicate Bank (Lead Bank of the district)	62
Andhra Bank	34
Canara Bank	15
ING Vysya Bank	11
Corporation Bank	7
Karnataka Bank	5
Union Bank of India	3
Karur Vysya Bank	1
Vijaya Bank	1
State Bank of Mysore	1

(Source : Annual Credit Plan 2010-11 of Anantapur district by the Lead District Office, Syndicate Bank, Anantapur)

Nashik District : A Profile

Nashik district is located in north-west part of Maharashtra state, at 565 meters above mean sea level. Total area of the district is 15530 sq kms and it is divided into 15 blocks. It is a part of the Western Plateau & Hills Zone. The city of Nashik is situated on the banks of the river Godavari. Nashik today is one of the fastest growing cities of India and has even been identified as a Tier-2 metro.

Climate

The climate type of the district is semi-arid. Average rainfall of the district is approx. 1050 mm, though there is wide variation in the rainfall received in various blocks. Most of the rainfall is received from June to September. The temperature varies from more than 4 degree centigrade in summer to less than 5.0 degree centigrade in winters. Relative humidity ranges from 43% to 62%. In recent years it has been noticed that the temperature is increasing and the rainfall is decreasing due to industrialization and fast deforestation.

Transport

Nashik district is connected with roads, railways and air. Nashik is located at the railway route of Mumbai-Delhi main broad gauge route. Another broad gauge route is Manmad-Pune. Two national highways running through the Nashik District are Mumbai-Agra Highway (National Highway No. 3) and Nashik-Pune Highway (National Highway No. 50).

Demography

The population of the district is approximately 50 lakhs. Tribal population comprises nearly 24% of the population. About 25% of the population is below poverty line. Sixty per cent of population is rural while 40% is urban. The district has been identified as tribal by the State Government. Profession-wise, a vast majority is employed in the agricultural sector. Nashik has an average literacy rate of 74%, higher than the national average.

Forest

The forest area is mainly located in the western, northern and southwestern regions of the district and covers about 20% of the total geographical area. Teak is the main species, other species are *Sadala*, *Hed*, *Haldu*, *Sisum*, *Khair*, *Tiwas*, *Bibla*, and *Dhavada Bamboos*.

Agriculture

Agriculture in Nashik district is mainly dependent upon monsoon. The soil here is primarily black which is favourable to agriculture. Crops like wheat, paddy and other cereals are grown in various parts of the district but Bajra & Maize are the major crops. Paddy is mainly grown in tribal belt. Traditionally, vegetables and onion were main cash crops. After establishment of sugar factories, sugarcane has acquired important position in the agriculture economy of the district. Since last few years grape has acquired dominance on the agricultural economy of the district. Due to water shortage in Kalwan, Deola, Baglan and Malegaon blocks the farmers have shifted to pomegranate from sugarcane and grape. Some progressive farmers are cultivating flowers in green houses. Climate in the district is also suitable for allied activities such as dairy, poultry and sheep & goat rearing. Dairy has been identified as key activity under S.G.S.Y. in almost all the blocks. Allied activities have also very good scope, as the gigantic market of Mumbai is at the doorstep of the district.

Other Enterprises

Economic development in the rural area with speed started only after establishment of sugar factories. Nashik district is having 7 sugar factories out of which 5 sugar factories are run on co-operative basis.

There are 174 medium and large industrial units employing 75,834 people. Many reputed and large companies like Mahindra & Mahindra, MICO, Siemens, Crompton Greaves, Kirloskar, Raymond Steel, Jindal, Brook Bond, L & T, Ceat, VIP, Carbon Everflow, Garware, Jyoti Structures, Samsonite, Datar Switch Gears, Glaxo India, etc., have established their units in the District. Prestigious project IDEM of Mahindra & Mahindra was established in Nashik recently. Some of the important public sector establishments like India Security Press, Hindustan Aeronautics Ltd., Currency Note Press and Thermal Power Station etc. are also located in the District. These industries have brought the district on the National & International map. In addition to these industries the district also has national level institutes like (i) Dr. Babasaheb Ambedkar Institute of Rural Technology & Training run by KVIC and (ii)

Indian Institute of Numismatic Studies & Research at Trimbakeshwar.

In remote areas like Surgana Block, many tribals are engaged in carpet weaving. Export quality carpets are prepared in and around Umbarthan (Tal. Surgana). Nashik has also witnessed electronic development in the recent times. A software Technology Park is established in Nashik. The district has been identified for the purpose of establishment of Wine Park and Food Park.

Banking Profile

Along with 35 plus banks with more than 500 branches, more than 1000 agricultural societies are functioning in the district. The lead bank is Bank of Maharashtra. According to NABARD, 90% of the households are covered under financial inclusion. Bank of Maharashtra has started Financial Literacy cum Credit Counselling Centres in the district.

