A STUDY ON FINANCIAL INCLUSION AND THE ROLE OF BUSINESS CORRESPONDENTS WITH SPECIAL REFERENCE TO MAREDIMILLI MANDAL IN EAST GODAVARI DISTRICT

Irrinki Mohana Krishna
Research Scholar
Department of Management Studies,
Jawaharlal Nehru Technological University Kakinada
Kakinada, A.P India.

Prof. B Kuberudu
Department of Management Studies,
Andhra University P.G Centre, Kakinada A.P India

ABSTRACT

Financial Inclusion enables the access of various financial services to the unbanked. Financial Inclusion matters a lot as it has a long term economic growth which helps in the reduction of poverty and thus leading to monetary and financial stability. At places where banks can’t be established, Business Correspondents are employed to render financial services to the people on behalf of the bank. The present study is to know the status of Financial Inclusion in Maredimilli mandal through the Business Correspondents is being analysed along with the challenges identified during the process of implementation.

Key words: Financial Inclusion, Business Correspondents, Reserve Bank of India, Maredimilli Mandal, Government of India

http://www.iaeme.com/IJM/issues.asp?JType=IJM&VType=7&IType=1
INTRODUCTION
Despite making significant improvements in all the areas of financial activity, there are concerns that the banks have not been able to include the vast segment of population, especially the under privileged sections of the society into the fold of basic banking services on the basis of financial viability, profitability and competitiveness,. Financial Inclusion has the ability to generate positive externalities which leads to increase in savings, investment and thereby, spurs the processes of economic growth. It also provides a platform for inculcating the habit of savings, especially amongst the lower income category that they have been living under the constant shadow of financial duress, mainly because of absence of savings, which makes them vulnerable a lot. Financial inclusion concerns itself with the aspects such as delivering financial services to the unbanked population, for that innovated delivery systems and channels to expand the banking to reach into the unbanked interior areas.

Presence of banking services and products aims to provide a critical tool to inculcate the savings habit. It also creates avenues of formal credit to the unbanked population who are otherwise dependent on informal channels of credit like family, friends and moneylenders. Availability of timely, adequate and transparent credit from the formal banking channels will allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. It will open the doors of formal remittance facilities to the low income and unbanked populace who, presently, are forced to use all kinds of informal and costly ways of remitting money from one place to another. Financial Inclusion has now been viewed as a remedy to plug gaps and leaks in distribution of government benefits and subsidies through direct benefit transfers to the beneficiaries’ bank accounts rather than through subsidizing products and making cash payments. Thus, on the whole, Financial Inclusion has the potential to bring in the unbanked masses into the formal banking system, channelize their savings, stoke their entrepreneurial ambitions by making available credit and thus give a fillip to the economy.

The banking system has become the pivotal point in improving the financial inclusion efforts of the government through which they intend to improve the efficiency and reduce the leakages of the public distribution system. The pension and the National Rural Employment Guarantee benefits offered by the Government are being routed through the banking system. The term Financial Inclusion has gained importance as a result of the findings about financial exclusion and its direct correlation to poverty. RBI has reported that the financial exclusion in India leads to the loss of GDP to the extent of two percent. Financial Inclusion of the poor has a multiplier effect on the economy as a whole. Indirectly, Financial Inclusion improves schooling, health and women’s empowerment. Financial Inclusion and Financial Literacy are considered as twin pillars, where Financial Inclusion acts on the supply side i.e. for creating access and financial literacy acts from the demand side i.e. creating a demand for the financial products and services.

BANKING SECTOR
A bank is a financial institution that provides banking and other financial services to its customers. It is generally understood as an institution which renders basic banking services such as accepting deposits, providing loans and other financial services to its customers. Though the basic services were not changed, there were many other
services which were added to the customer services rendered by a bank from time to time.

Indian Banking system had undergone various phases since the inception of its first bank in the year 1770. During its first century of operations there were many banks which were small in size used to cater the needs of a very small section of the society. After Independence to regulate and monitor the functioning of banks, Government of India had introduced the Banking Regulation Act 1949. Subsequently Reserve Bank of India was nationalised in the year 1949 and vested with the extensive powers to supervise the functioning of the Banking sector. Initially the public had little confidence on the banks. Government of India had taken several steps to improve the confidence of public on the Banking system. They had extended the insurance coverage to the deposits made in the banks.

Thereafter Government of India had nationalised 14 banks in 1969 and later 6 banks in 1980. After the nationalisation of banks, establishment of branches had risen by over 700% and the disbursement of credit by over 9000%. Thus the public had shown immense faith on the stability of these banking institutions.

Economic growth of any country depends on its financial stability. Economic system of any country runs on the underlying philosophy of uplifting the poor. Economic stability and development of the country depends on its strengthened financial system and services, where all the citizens could participate in it. There is substantial evidence that the financial developments, which refers to effective financial intermediation and markets that, provide deep and broad access to formal financial services to its agents and promotes of growth. Further it is proved that the financial growth plays a very crucial role in bringing out the households from poverty indirectly by stimulating growth and directly by providing savings and credit services to the poor. This is the reason that the process of Financial Inclusion which has attained substantial importance now a days.

DEFINITION OF FINANCIAL INCLUSION
Government of India (2008) defines Financial inclusion 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. - C. Rangarajan Committee.

According to the Planning Commission (2009), Financial Inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.

The United Nations defines it as "a financial sector that provides 'access to credit for all "bankable" people and firms and to savings and payments services for everyone. Inclusive Finance does not require that everyone who is eligible use each of the services, but they should be able to choose use them if desired.

BUSINESS CORRESPONDENTS
Challenges to financial inclusion may include a combination of structural economic peculiarities, financial illiteracy and last mile issues including banking bottlenecks like the limited network of the bank branches, lack of relevant products.

Keeping in view of the above mentioned problems, Reserve Bank of India had permitted the banks to appoint Business Correspondents (Business Correspondents) to
increase their outreach. A Business Correspondent is an entity that acts as a teller for the bank and carries out a full range of transactions on behalf of the bank. The Business Correspondent model allows non-financial service providers to provide financial services (savings accounts, money transfer etc.) on a small scale (maximum limits imposed). By using Business Correspondents, banks can reach out to areas that lack formal financial services at a much faster rate with lower cost than the conventional mode of building brick-and-mortar branches. The Business Correspondent model also enables banks to offer financial services to new customers beyond their bank networks which have resulted in innovations to provide inexpensive and efficient technological solutions. Today a vast array of technology, including hand-held mobile devices, Internet, mini-ATMs and kiosks are made available.

Under the 'Business Correspondent' Model, NGOs/ MFIs set up under Societies/ Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, In engaging such intermediaries as Business Correspondents, banks should ensure that they are well established, enjoying good reputation and having the confidence of the local people. Banks may give wide publicity in the locality about the intermediary engaged by them as Business Correspondent and take measures to avoid being misrepresented.

The following are some of the services rendered by Business Correspondents:

- The activities undertaken by the Business Correspondents would be within the normal course of Bank’s banking business, but conducted through and by the entities at places other than the Bank’s premises. The Business Correspondents are linked to a branch called the base branch.
- Creating awareness about savings and other products, education and advice on managing money and debt counselling.
- Identification of potential customers.
- Collection and preliminary processing of various forms for deposits including verification of primary information.
- Follow up of KYC norms
- Filling of Applications / Account opening forms including nomination clause and then submitting the same to the Bank on behalf of the customer.
- Opening of no frill deposit accounts and other products as permitted from time to time.
- Collection and payment of small value deposits and withdrawals of up to a certain limit per transaction.
- Business Correspondent’s are authorized to accept / deliver cash either at his place of work or at any convenient location.
- Furnishing of mini account statements and other account information.
- Cross-selling of other financial products like insurance / mutual fund products / pension products / any other third party product on behalf of the Bank, duly authorized by the appropriate authority.

The use of Business Correspondent model has the potential to change the lives of millions of people in the country side. For poor and vulnerable people, who couldn’t come to the bank, banking has come to them. Increase in the number of bank accounts and the volume of business in the areas that use the Business Correspondent model could indicate and shows that there is an increasing awareness of banking services. Some of the advantages of using the Business Correspondent model are cited below:
A Study on Financial Inclusion and The Role of Business Correspondents with Special Reference to Maredimilli Mandal In East Godavari District

- Through the Business Correspondents, banks are extending financial services to the people in the remote areas that lack formal financial services, at a much faster rate with low cost and relieved the burden to establish the new branches with much higher cost.
- The Business Correspondent model enables banks to offer financial services to new customers beyond their bank networks. Thus the scaling up of the model is possible in a short span of time.
- Through the Business Correspondents, the banks can provide banking services, including loan disbursement and recovery, at a convenient location to the customer or even at door-to-door.
- The Business Correspondents know the customers at a personal level. The personal connection enhances the customers’ accountability to the bank through Business Correspondents, which in turn improves loan performance and repayments.

REDRESSAL OF GRIEVANCES IN REGARD TO SERVICES RENDERED BY BUSINESS FACILITATORS/ CORRESPONDENTS LINKED WITH BANKS

- Banks should constitute Grievance Redressal Machinery within the bank for redressing complaints about services rendered by Business Correspondents and Facilitators and give wide publicity about it through electronic and print media.
- The name and contact number of designated Grievance Redressal Officer of the bank should be made known and widely publicized. The designated officer should ensure that genuine grievances of customers are redressed promptly.
- The grievance redressal procedure of the bank and the time frame fixed for responding to the complaints should be placed on the bank’s website.
- If a complainant does not get satisfactory response from the bank within 60 days from the date of his lodging the compliant, he will have the option to approach the Office of the Banking Ombudsman concerned for redressal of his grievance/s.

ROLE OF BUSINESS CORRESPONDENTS AND FINANCIAL LITERACY STATUS OF PEOPLE IN MAREDIMILLI MANDAL OF EAST GODAVARI DISTRICT

ABOUT MAREDIMILLI
Maredimilli is one of the remote agency Mandal of East Godavari district. It is spread over 2 lakh acres. The total forest area in East Godavari district works out to 29.21 percent of the total geographical area. It is a hilly terrain and the household are located in all possible directions. Maredimilli Mandal has 68 villages with a population of 19,507 and has 4,806 households. Out of the entire population 95% are belonging to Scheduled Tribe Category. The gender ratio is 1000:931. Most of the population are uneducated.

Table: 1 among the people 28.82 percent are cultivators, 67.58 percent are agricultural labourers and 0.92 percent are depending on forestry etc. and the remaining 2.68 percent are engaged in various other occupations.
MAREDIMILLI MANDAL - PEOPLE AND THEIR OCCUPATION

Table 1 Shows Occupation and Percentage of Maredimilli mandal

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultivators</td>
<td>28.82</td>
</tr>
<tr>
<td>Agricultural Labors</td>
<td>67.58</td>
</tr>
<tr>
<td>Forestry</td>
<td>0.92</td>
</tr>
<tr>
<td>Others</td>
<td>2.68</td>
</tr>
</tbody>
</table>

Figure 1 Shows Occupation and Percentage of Maredimilli mandal

Table 2 Shows pertaining to the population follows. Out of the 68 villages 21 are with less than 100 population. 21 villages have population between 101 and 200. 19 villages have population between 201 and 500. 5 villages have population between 501 and 1000. There are two villages with a population of over 1000. The most populated village of the mandal is Maredimilli with over 4000 population.

MAREDIMILLI MANDAL - VILLAGES AND THEIR SIZE OF POPULATION

Table 2 Village – Population and No of Villages

<table>
<thead>
<tr>
<th>POPULATION</th>
<th>NO OF VILLAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 100</td>
<td>21</td>
</tr>
<tr>
<td>101 - 200</td>
<td>21</td>
</tr>
<tr>
<td>201 - 500</td>
<td>19</td>
</tr>
<tr>
<td>501 - 1000</td>
<td>5</td>
</tr>
<tr>
<td>More than 1000</td>
<td>2</td>
</tr>
</tbody>
</table>
The main occupation of the people is ‘Podu’ cultivation. Hunting is prohibited under various forest laws. And hunting is not their profession. Agriculture and collection of forest produce are important sources of their livelihood. The financial position of these households is in a shabby condition and to meet their day-to-day financial requirements, they largely depend on private vendors.

With this less population and distant villages within the mandal, it is very difficult for the banks to establish their branches and serve the people resulting in a vast section of the mandal financially excluded, meaning it does not have access to formal financial institutions. There is a strong correlation between financial exclusion and poverty and inequality and efforts are on to make financial inclusion an integral part for the eradication of poverty.

As per the guidelines of RBI and Government of India, each district is allocated with a lead bank which will oversee the progress of Financial Inclusion program in that particular district. The villages within the district are bifurcated as villages with over 2000 population and the villages with less than 2000 population. These villages are assigned to some bank which takes the responsibility of taking the Financial Inclusion initiatives in that assigned village. The banks can establish branch at that village or appoint Business Correspondents to act on behalf of the bank in that village so that their financial requirements can be met.

Andhra Bank is appointed as the Lead banker for East Godavari district. The mandal which is our study area is allocated to Andhra Bank. All these 67 villages with less than 2000 population are assigned to Andhra Bank to ensure that the financial inclusion initiative programs are carried out properly. The financial inclusion programs for these villages are carried out with the appointment of Business Correspondents as establishing the brick-mortar branch in these places is not that viable at the initial stage. The Business Correspondents are assigned to one base branch Sirigindalapadu located in Rampachodavaram mandal. Sirigindalapadu is also allocated as base branch for 163 villages located in the hilly and tribal mandals of Rampachodavaram, Maredemilli, Y Ramavaram and Gangavaram. Majority of the villages have population of less than 1000.

Only five Business Correspondents are allocated for these 67 villages of Maredimilli mandal. They take the responsibility of implementing the financial inclusion program in these villages. Though there has been good progress in

![Figure 2 Population and No of Villages](image-url)
appointing Business Correspondents in unbanked villages in the above categories. It is observed that the opening of savings accounts to uncovered households is not moving as per the desired plan. It is essential that all the sections to be financially included in order to have financial stability and sustainability of the economic and social order. The Business Correspondent visits these villages once in a week. The customers have to wait till the Business Correspondent visit their villages to avail the services rendered by them.

These Business Correspondents are given proper training about basic banking, insurance and pension products and customer handling and fully equipped with the required infrastructure including the computers and other peripherals like micro ATM, Bio metric scanners and internet connectivity. Business Correspondents need to carry out on-line transactions for which internet connectivity is essential. However as per the present status there are connectivity related issues which are hampering the process in this area and this need to be addressed immediately.

It was observed in the study that neither the Government nor the banks are conducting the Financial Literacy activities in these villages. The major problem in this area is that the villages are having very tiny population and the officials are finding it difficult to have a meeting to combine the villagers of different villages. Due to lack of awareness of the people, they are not in a position to utilize a variety of banking services provided to them. Because of this reality, money lenders and the private financial players taking advantage of the situation to meet their financial requirements. They are also not aware of the social security schemes and insurance and other services extended by the Governments from time to time for the welfare of Scheduled Tribes. This is the major cause for their poverty.

There are problems which are facing by the Business Correspondents regarding the data or personal identity proofs given by the customers/people and they are not tallying because some are wrong entries and they are not properly recorded. The Business Correspondents should have sufficient patience in entering the data again and ensure that they must fully satisfy with the customer regarding his identity. Fulfilling KYC norms is another problem because of the wrong entries in their proofs. So it would be difficult for him to act upon. There are instances, where the customers were informed that their account with the bank was not approved due to the discrepancies of their personal data in their proofs due to prescribed KYC norms. In such a situation, the unaware customer may lose faith in the system and lose interest in availing the financial services rendered by the Business Correspondents and banks.

The Business Correspondent business model of banks is fraught with many complications because of their dependency on Business Correspondents. At the same time Business Correspondents are also joining hands and extending their services to the different organizations which include industries, financial, telecom and payment services, sometimes they may lead to disruptive approaches to emerge. Striking the right balance between partners continues to be an on-going challenge.

There are 4803 households in Maredimilli Mandal as per 2011 census. Out of these households there are approximately 1280 households having accounts in the banks, which reflect the financial exclusion of the people in this area. This indicates the necessity to reinforce the efforts of the Govt and the financial institutions to bring these excluded people into the main stream of the financial services.
FINANCIAL LITERACY PROGRAMMES

- It is important that the banks through the Business Correspondents explain the uses of opening the bank account and the other benefits associated with them. This will make the work of Business Correspondents easy in getting the new accounts opened.
- There should be continuous financial literacy and awareness programmes being conducted by the banking institutions for the customers so that they are made part of financial inclusion.
- The Business Correspondents should completely know about the product which they intend to sell to the customers. There should be focus on training the Business Correspondents regarding the various financial products and services which are at the disposal of the banks.
- The banks should be aware of the expenses incurred by the Business Correspondents and to conduct programmes in educating the customers, so that the banks will be in a position to estimate the total investment that is needed for the proposed program.
- The Business Correspondents should be able to understand the financial requirements of the customer. This will help them in recommending the suitable financial product for the customer. In the absence of an appropriate product that suits the requirement of the client then he can be in a position to explain the banks that there is a need for tailor made products as per the needs and requirements of the customer. This will help both the Business Correspondents and the banks to improve their clientele base.

CHALLENGES OF BUSINESS CORRESPONDENTS IN THIS AREA:

- Adequate compensation to the Business Correspondents should be ensured for enabling them to provide uninterrupted services particularly in such difficult terrains and remote areas.
- The Business Correspondents should be motivated and regular training programs are to be conducted, so that they may in turn educate the customers.
- Transaction costs needs to be reduced which may be useful for both the Business Correspondents and the customers.
- There are instances, where the Business Correspondents are not available to the customers at their time of need to meet their financial requirements; these customers may approach the private players.
- Business Correspondents should be allowed to increase their transaction limit in these areas.
- Technology should be upgraded as it is vital for the success of financial inclusion. There are connectivity problems in these areas which need to be addressed. Only the public service provider BSNL has the network connectivity in this area.
- To increase the reach and penetration of Business Correspondents, they should be equipped with Deposit Taking Machines; ATM Hand held Devices, Kiosk, and Internet Banking etc.

SUGGESTIONS

The basic idea of Financial Inclusion is a significant one to extend a variety of financial services which emphasise on getting the unbanked into the banking fold. This would give positive ripples if implemented effectively, particularly in respect of poverty improvement as well as Rural people and especially Scheduled Tribe Areas.
The banks should increase the reserve limits of the Business Correspondents and individual customer payments and receipts.

The customers should be clearly informed that the bank is responsible to the customers for the acts of omissions and commissions of Business Correspondents.

The Banks should identify qualified Business Correspondents and train them to reach the unbanked locations of the mandal.

Banks need to make effective utilisation of technology to provide banking services in remote areas through the Business Correspondent model.

To ensure increased banking penetration and monitoring of operations of Business Correspondents, more Brick and Mortar branches are needed.

Handling of large amounts of cash is risky job particularly in the hilly regions due to higher security risks, difficult terrain and poor connectivity.

Business Correspondent model should be customer centric and customer friendly, in which it must address customer needs, deliver high quality demand-driven services and invest in customer awareness.

CONCLUSION

Financial Inclusion is the process of bringing the unbanked into the banking fold. This is a very difficult process but if it is properly implemented, it will create unmatched benefits to the society. All the financial institutions have identified the need of expanding their service base which in turn to increase their business activity. Financial Literacy and Financial Inclusion are two sides of the same coin and are of vital importance in the process of eradicating poverty. These are the two elements of an integral strategy where Financial Inclusion provides access to financial services and Financial Literacy provides awareness of the available financial services.

The financial institutions have to strive hard to bring all the unbanked into the banking fold. The banks have to start new branches in the unbanked areas but it may be a costly affair for the banks. In order to bridge this gap, the banks could employ the Business Correspondents to act on their behalf and render the financial services which are needed for the people. Business Correspondents can provide the needed financial services to the customers as per their needs and requirements. The banks should also inform to the customers that it is their responsibility for the acts done by the Business Correspondents. Banks should also ensure the quality of service to the customers through the Business Correspondents then only the objectives of financial inclusion will be achieved.

REFERENCES


A Study on Financial Inclusion and The Role of Business Correspondents with Special Reference to Maredimilli Mandal In East Godavari District

[9] www.rbi.org.in
[10] www.andhrabank.co.in