

BC Model: An effective way to reach financially excluded



Presentation by –

*National Bank for Agriculture and Rural
Development, India*

Need



- **Extending outreach of the banking sector and Ensuring greater financial inclusion by addressing –**
 - ✓ Supply side constraints such as Banker's concern about low recovery and high transaction, coverage, limited staff, mobility and infrastructure;
 - ✓ Demand side issues such as Lack of awareness; High transaction costs at the client level due to expenses such as travel costs, wage losses, incidental expenses, opportunity cost; Documentation issues; Non-availability of customized products to suit the requirements
 - ✓ The need for comprehensive financial services encompassing savings, credit, remittance, insurance and pension products which the formal financial system has not been able to provide effectively in the rural areas.

India's Challenges for outreach



Population	No. of Villages	% of Total Villages	% of Total Population
Less than 200	1,14,267	17.9	1.24
200 – 499	1,55,123	24.3	5.92
500 – 999	1,59,400	25.0	14.18
1,000 – 1,999	1,25,758	19.7	24.69
2,000 – 4,999	69,135	10.8	32.22
5,000 – 9,999	11,618	1.8	13.22
10,000 and above	3,064	0.5	8.53
Total	6,383,65	100	100

Source : Census of India 2001

Genesis of the BC model



- ✓ **Khan Committee** in 2005 recommended the use of BCs and BFs as intermediaries for accelerating the process of linking the large numbers of hitherto unbanked persons with the banking network and considered it a viable policy option
- ✓ **Indian Union Budget 2005-06** for the first time referred to “**banking correspondents**” as intermediaries to provide transactions on behalf of the banks
- ✓ **Dr C Rangarajan Committee on Financial Inclusion in 2008** advocated the use of Business Facilitator/Business Correspondent (BF/BC) models which riding on appropriate technology can extend the outreach of banking sector to financially excluded

Scope of Activities/Services to be provided by BCs



- **To provide all non-financial support / facilitation services of Business Facilitator such as -**
 - ✓ Creating awareness about savings & other products & education & advice on managing money & debt counseling;
 - ✓ Identification of borrowers & fitment of activities;
 - ✓ Collection & preliminary processing of loan applications and submission of applications to banks;
 - ✓ Processing & post-sanction monitoring and Follow-up for recovery
- **To provide Financial Services as "PassThrough" Agents such as -**
 - ✓ Disbursal of small credit, Collection of small deposits & Recovery of principal / collection of interest
 - ✓ Sale of micro insurance/mutual fund products/pension products
 - ✓ Receipt & delivery of small remittances / other payment instruments

Eligible individual/entities as BC or Who can be the Business Correspondent?



- Post Offices; NGOs/ MFIs set up under Societies/ Trust Acts
- Cooperative Societies
- Companies registered under Indian Companies Act, 1956
- Retired bank employees, ex-servicemen and retired govt. employees
- Individual Public Call Office (PCO) operators, agents of small savings schemes of Government of India / Insurance Companies
- Individuals who own petrol pumps /shops / medical / fair price shop owners
- Authorised functionaries of well run Self Help Groups (SHGs) linked to Banks
- Any other individual including those operating Common Service Centres
- Non Banking Finance Companies

BC Model



- **Every BC attached to a branch – designated as base branch**
 - ✓ under the oversight of a specific bank branch
 - ✓ To ensure adequate supervision over operations and activities of BCs
- Distance between place of business of a BC and base branch is defined by regulator
- To ensure that area covered is strictly within their eligible area of operation while engaging BCs
- BCs to conduct banking business at places other than bank premises
- Banks must have a Board approved Policy on BC Model adopted
- Arrangements for Risk Management to be in place

BC Model Contd...



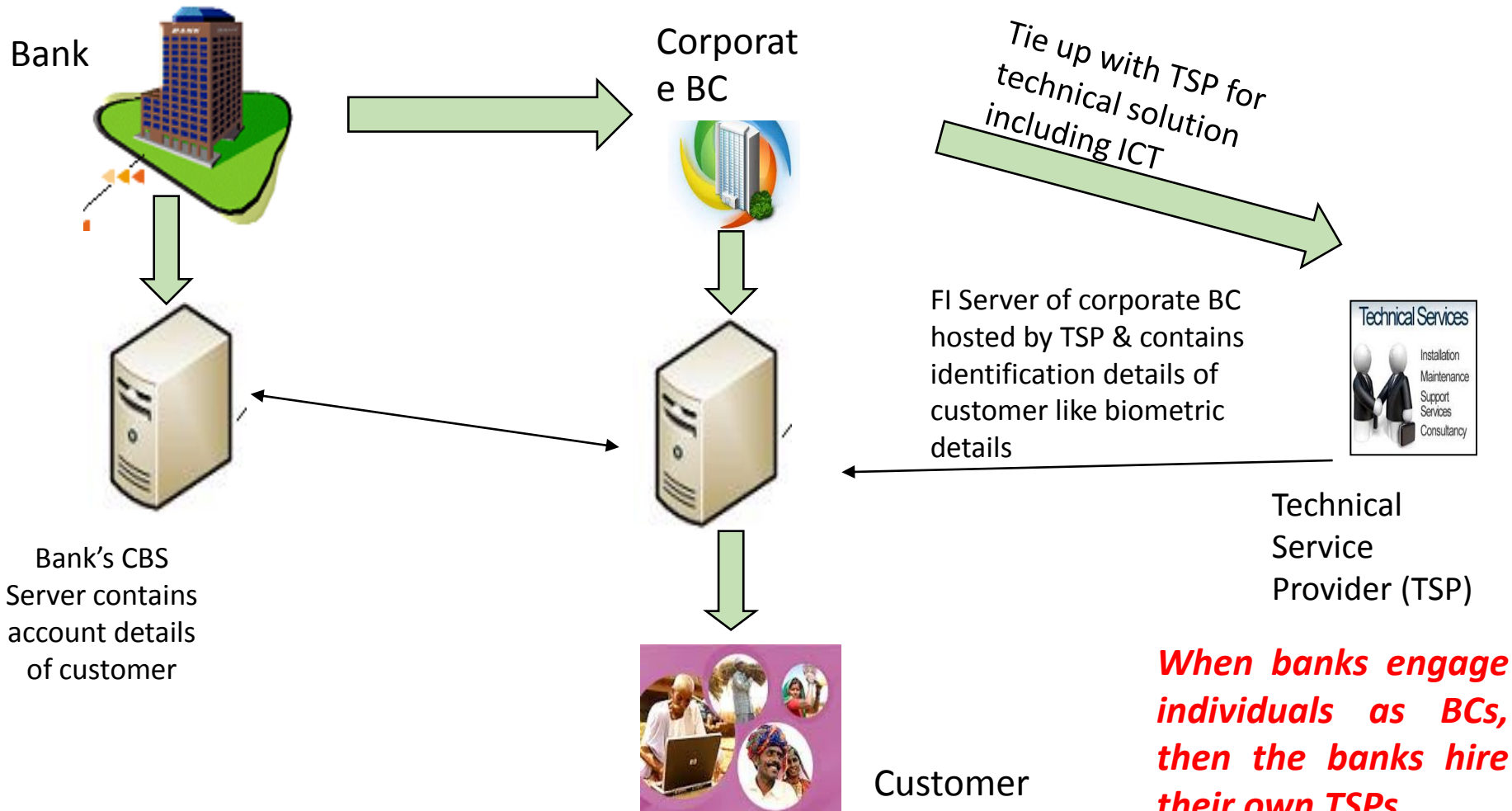
➤ **KYC Norms –**

- ✓ Banks may use the services of BC for preliminary work relating to account opening formalities

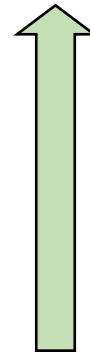
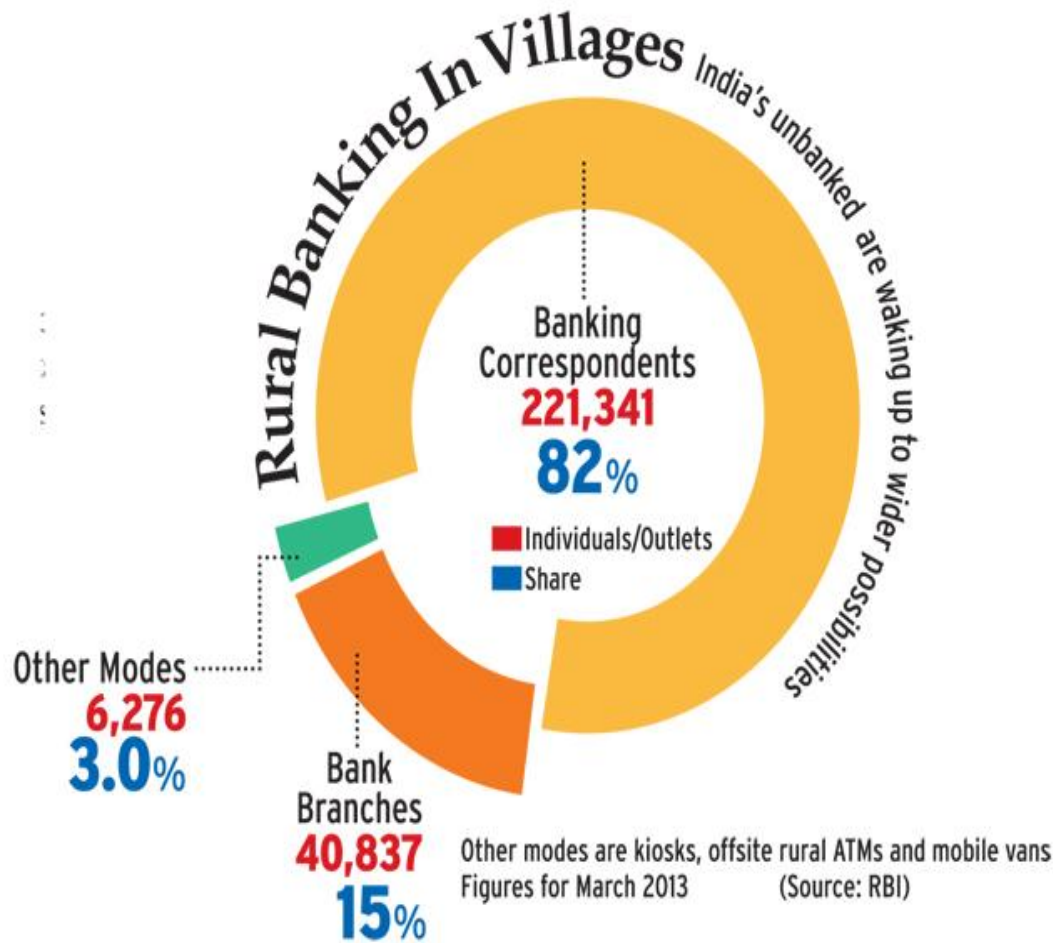
➤ **Payment of commission/fee –**

- ✓ The banks may pay reasonable commission/fee to the BC but the BCs cannot charge any fee to the customers directly
- ✓ The banks (and not BCs) are permitted to collect reasonable service charges from customers in a transparent manner.

BC Model Contd...



Progress and Penetration

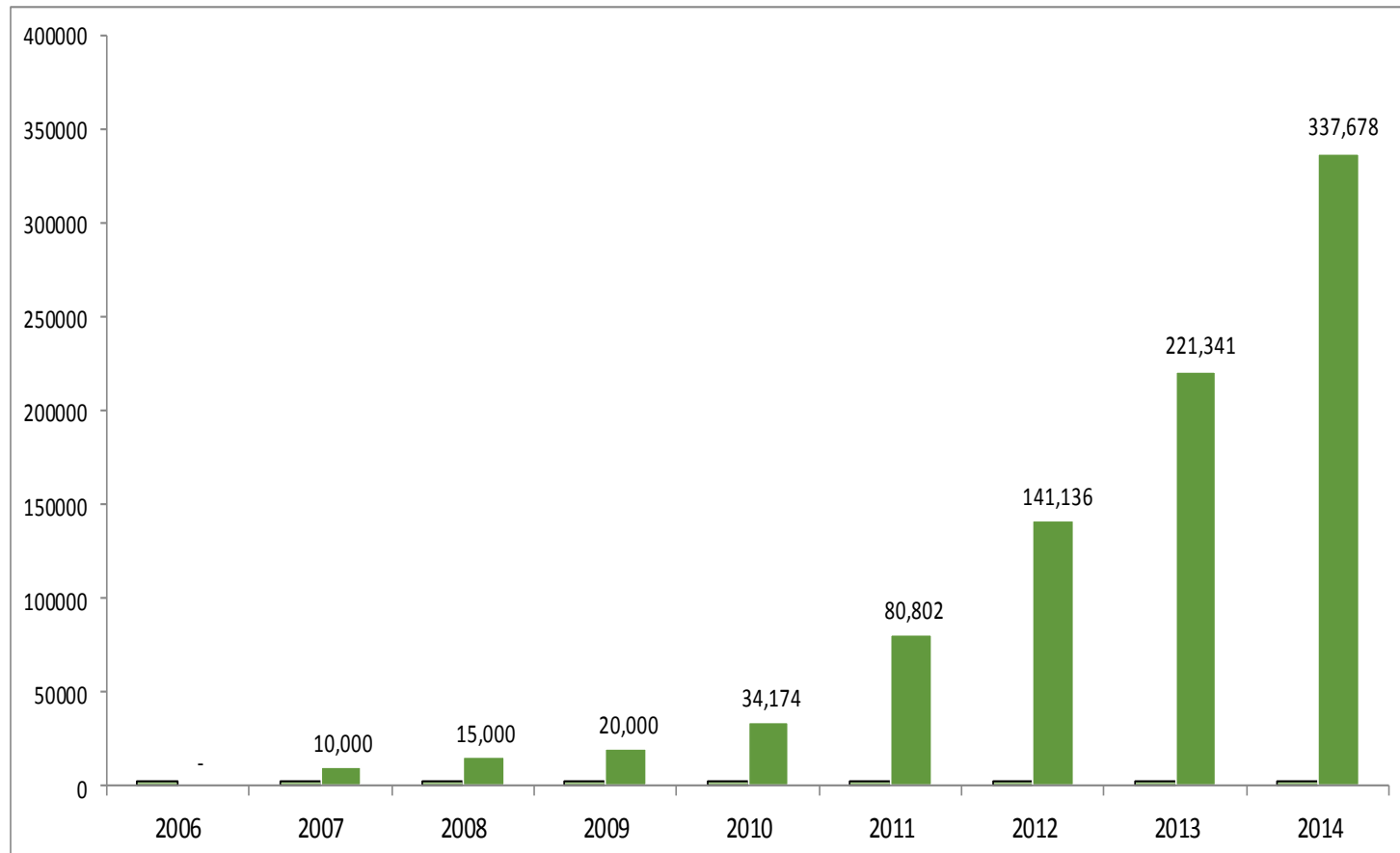


Branchless banking outlets further went up to 337678 (out of which approx. 95% are BC outlets) by March 2014 from 227617 in March 2013

Progress and Penetration Contd...



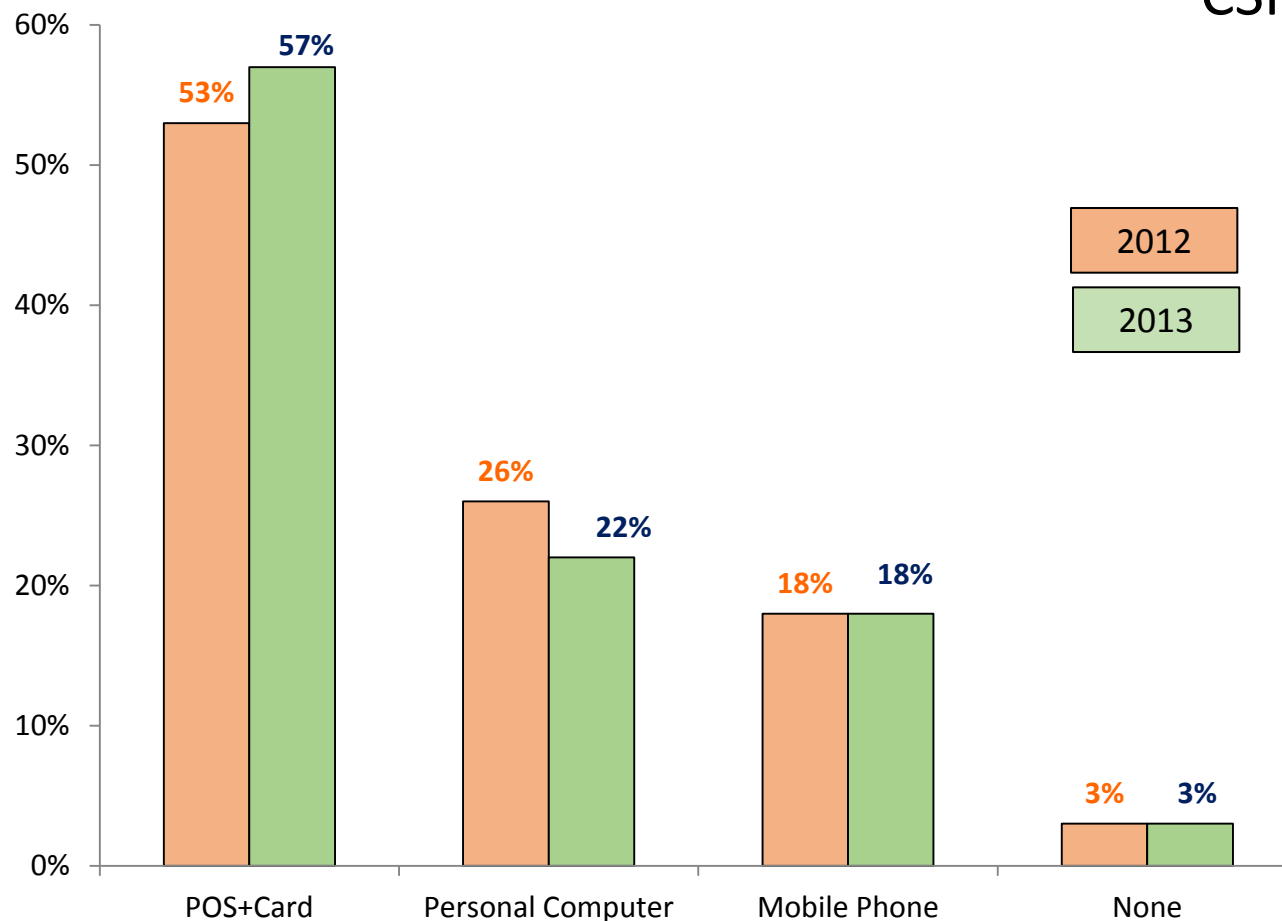
Progress in establishing CSPs (Customer Service Points)



BC Model Contd...



CSP Technology used



Progress and Penetration Contd...



* Savings account details until end March 2013
(Source: RBI)



Number of Account holders increased to 116.93 million by March 2014 from 81.27 million in March 2013

Similarly, the deposits doubled to USD 650 Million by March 2014 from USD 303 million in March 2013

[Progress and Penetration](#)



BC : Changing Lives at grass roots (Success Stories)



Banking outreach extended to last mile



Shahji Tukaram Patil (Seated, Right) says the nearest bank is miles from his village

Dagdu Kisan Sutar (another BC) says that his becoming a business correspondent in Mahavade village makes sense as the village (that stands between thatched huts and traditional village houses with colourful motifs) lies about 10 km from the nearest bank.

Petty transactions made possible for needy one



- **Zohair Mustaq Qureshi (BC)** says many of his customers are students who work part time and save a rupee a day
- **Ramkishore Yadav (BC) from Madhya Pradesh's Hoshangabad district** says most of the people who come to him as customers are labourers looking to withdraw money. Only one in four people deposit money, mostly small amounts between Rs100 to Rs200.
- **Malubai Maruti Takde (Customer)**, a 55-year-old grandmother in a Maharashtra village, as a routine either deposits or withdraws a little cash from Patil for a saree, a gift for her grandchildren or just to go to the local fair.

Making life easier for ultimate beneficiary



- In Fauladpur village, Shanthosh has managed to save Rs 100 this week and is excited to know that her balance has reached Rs 759.

Though the Financial inclusion server with her BC Rakesh Sharma is slow and the machine struggles to recognise the fingerprints of a few ladies at times but Shanthosh is happy she doesn't have to go to the local zamindaar.

"Oon zamindari ke kaam se ye manne bhala laage. Zamindaar bhi paisa dena taal jaayo par Rakesh ko to kabhi bula liyo". (I like this mode of saving money more than lending or depositing with the zamindaar who used to refuse to pay money at times, but we can call Rakesh anytime we need money).

- For Pappi, another local of Fauladpur village, it is the convenience. *"Maare ko door jaana na jachchce"* (I don't like to travel far to visit a branch).

BC Leading to financial literacy: distant dream come true



➤ 40-year-old Ramkishore Yadav (BC) from Madhya Pradesh's Hoshangabad district, was asked –

“Do your clients understand deposits and withdrawals, or tenors and interests?”

Yadav says they were mystified initially, but understood the concepts quickly. People quickly learnt and started using cards to deposit or withdraw cash.

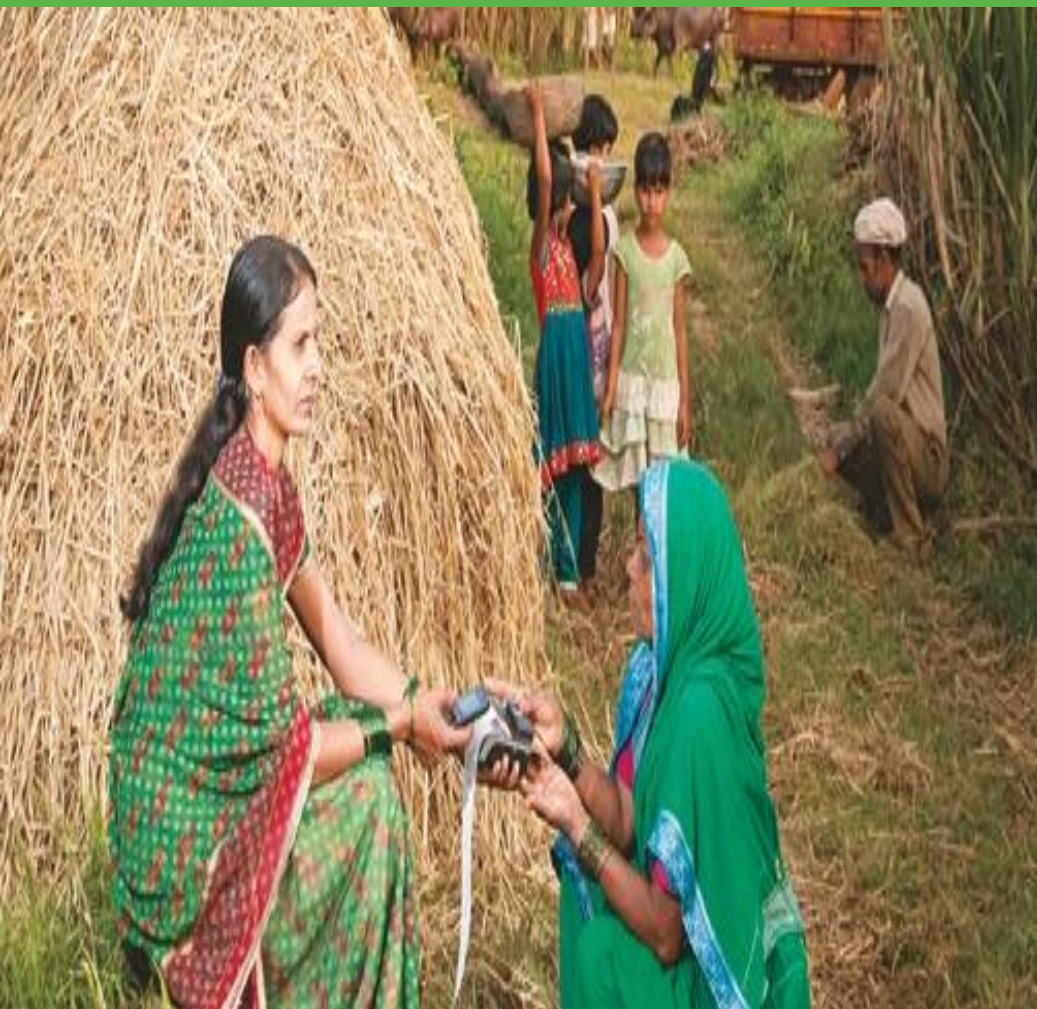
➤ Another business correspondent, Malkhan Singh of Madhya Pradesh's Panna district, says

“it takes at least a year to convince customers about the benefits of banking”.

Malkhan Singh, who comes from a family of farmers, says he visit gram sabhas in every one of Panna's 20 villages and explain the virtues of banking to villagers.

These are among thousands of Business Correspondents, who are taking banking to the doorstep of people in far-flung villages across the country & helping mostly illiterate Indian villagers understand the basics of banking.

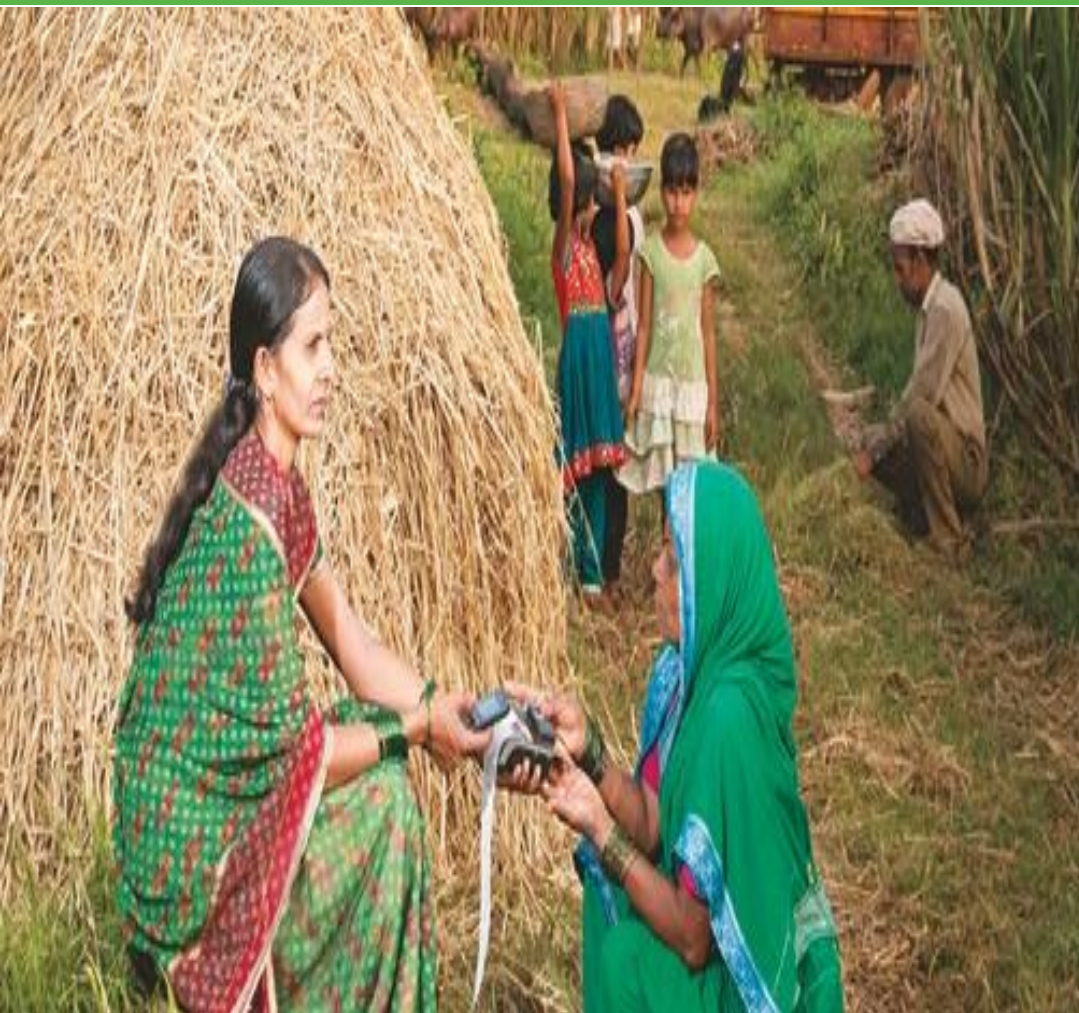
Working as BC : boosting confidence leading to empowerment



➤ Dipali Patil (left), banking correspondent in a Maharashtra village, speaks little English and lives in a traditional house close to a field, far from the hi-tech world of India's cities. But she handles the gizmos in her hand with unusual flair.

➤ *"Bluetooth se connect hota hai (They are connected through Bluetooth)," she says, with the air of a professional. Her tech-savvy manner and professionalism may seem incongruous, but they are not that unusual.*

Working as BC : boosting confidence leading to empowerment



➤ *She adds that the gadgets have helped change her life in many ways: they have given her more confidence and taken her out to meet a lot more people.*

➤ *Similarly Archana Yuvraj Rohile (another BC) says proudly "People call me madam in the village, because I tell them what to do.*

Working as BC is not the only but an additional source of revenue for many



- Patil, who works for Ratnakar Bank, says remuneration is not much. For every transaction, he gets a rupee as commission;
- Similarly, the bank pays Rs 5 to Nandini Devi (another BC); an extra Rs 9 for every transaction of Rs 120; and for every amount over it, they get 50 paise extra.

These are small amounts, but even Rs 500 earned in a village goes a long way for a BC given the fact that they can carry BC business without hampering with their traditional business

- Take Dagdu Kisan Sutar, a 28-year-old carpenter from Mahavade village, for instance - ***Enthusiastically he says “I have about 70 customers whom I help when I am not bent over my carpentry tools in my workshop near my house***

Working as BC is not the only but an additional source of revenue for many



- Similarly, **Archana Yuvraj Rohile (another BC)** was not deterred by the **small size of the transactions.**
- She used to work in Kolhapur, but did not get enough time with her husband and two children.
- Returned to the village where **she now does household work and tends to livestock until late afternoon** when her husband leaves for work at a spinning mill. That's when she finds time to start her job as a village banker. She says “The government has appointed us for our benefit, that's why I do it.”

[CSP with other source of income](#)

BC Model : Make sense for bankers to opt for



Given the fact that reaching the remote places is a mandate (Banks need to meet priority sector lending targets as well) and not an option –

➤ **Much better alternative than opening a branch –**

- ✓ Normally a rural bank branch can serve 3,000 to 4,000 families in 12 to 15 villages within a radius of 15kms
- ✓ A Bank branch may require more than 5 years to breakeven in unbanked areas in India

The BC option potentially enables banks to reach out much faster and at a much lower cost.

BC Model : Make sense for bankers to opt for



- **Better quality of assets** - Target clients are well known to the BC / CSP and enhances quality of assets
- **Corporate-Bank Synergy: Can enhance Brand equity, credibility & Business of the bank –**
 - ✓ People recognize HUL for its strong distribution network taking its product to the remotest possible place in India which has given it unbeatable advantage over its competitors
 - ✓ Maruti India boast of having a service outlet at far off places. Similar is the case for Indian Postal Service Department as well as SBI brick & mortar branches.
 - ✓ Recently a mobile giant have made its network availability at the remotest possible place as its USP

So having presence through BCs at the last mile can definitely enhance the brand equity as well as business of the bank. Serving far flung areas also has a social responsibility angle which enhance the trustworthiness, credibility and hence the business of the bank in long run.

BC Model : Bank perspective



- ✓ Jayanta K. Sinha, Chief general manager (rural business) at SBI, concedes: "***You cannot achieve what you could not in 200 years of branch banking in just six years with BCs. Give it some time.***"
- ✓ Manish Khera, CEO of the Mumbai-based BC outfit, Financial Inclusion Network and Operations (Fino), grants you the point, "**How many no-frill accounts did banks open in the first 60 years of Independence? Look at the figures now. Would they have achieved these numbers without us BCs? And it has been achieved without violating KYC norms.**" But also has reservations that if income from pure BC play were to reduce, it will prove difficult for them to stay invested.
- ✓ "It provides last mile connectivity. But it has increased the cost of delivery and the bank is yet to see any meaningful returns on this investment, however, the increased footfalls at BC locations, an increase in their regular retailing business has been noticed, " **says Ratnakar Bank's Head Gandhi.** He is fine if retailers and FMCG companies were to piggy-back on BCs.

Challenges/Constraints



➤ BC Viability issue-

- ✓ The existing regulations do not allow sufficient flexibility for the BC arrangement to be viable.
- ✓ Due to High cost-low margin model.
- ✓ BCs are not able to meet their costs and are often losing money in the initial years.
- ✓ Majority of the no-frills accounts opened under this model are not operational affecting viability of model.
- ✓ Low remuneration to people working as BCs

Challenges/Constraints Contd..



- **Lack of professional orientation in BC staff leading to –**
 - ✓ Poor maintenance of records
 - ✓ Delay the processing of loans,which subsequently generates a low volume of business for banks
- **Lack of proper financial education of the clientele**
 - ✓ A big barrier to the effective utilization of the banking facility provided to the clients through this model
- Computer based technology is an issue because of lack of standard-training and maintenance.
- Network connectivity issues particularly in hilly and remote areas

Way Ahead



➤ Addressing Viability Issue –

- ✓ **Scale:** Scale and Scale is the essence for sustainability.
 - ✓ **Providing Range of services:** Through a right mix of diversified products
 - ✓ **Viability Gap Funding** – Particularly in the initial years
 - ✓ **3Ps:** Patience, Perseverance and Passion of the team
- The banks need to invest in creating awareness & financial literacy
 - SHGs should be roped in as BC
 - The technology and infrastructure should be robust and cost effective.
 - BCs need to be sufficiently compensated
 - Addressing network connectivity concern at the earliest

Conclusion



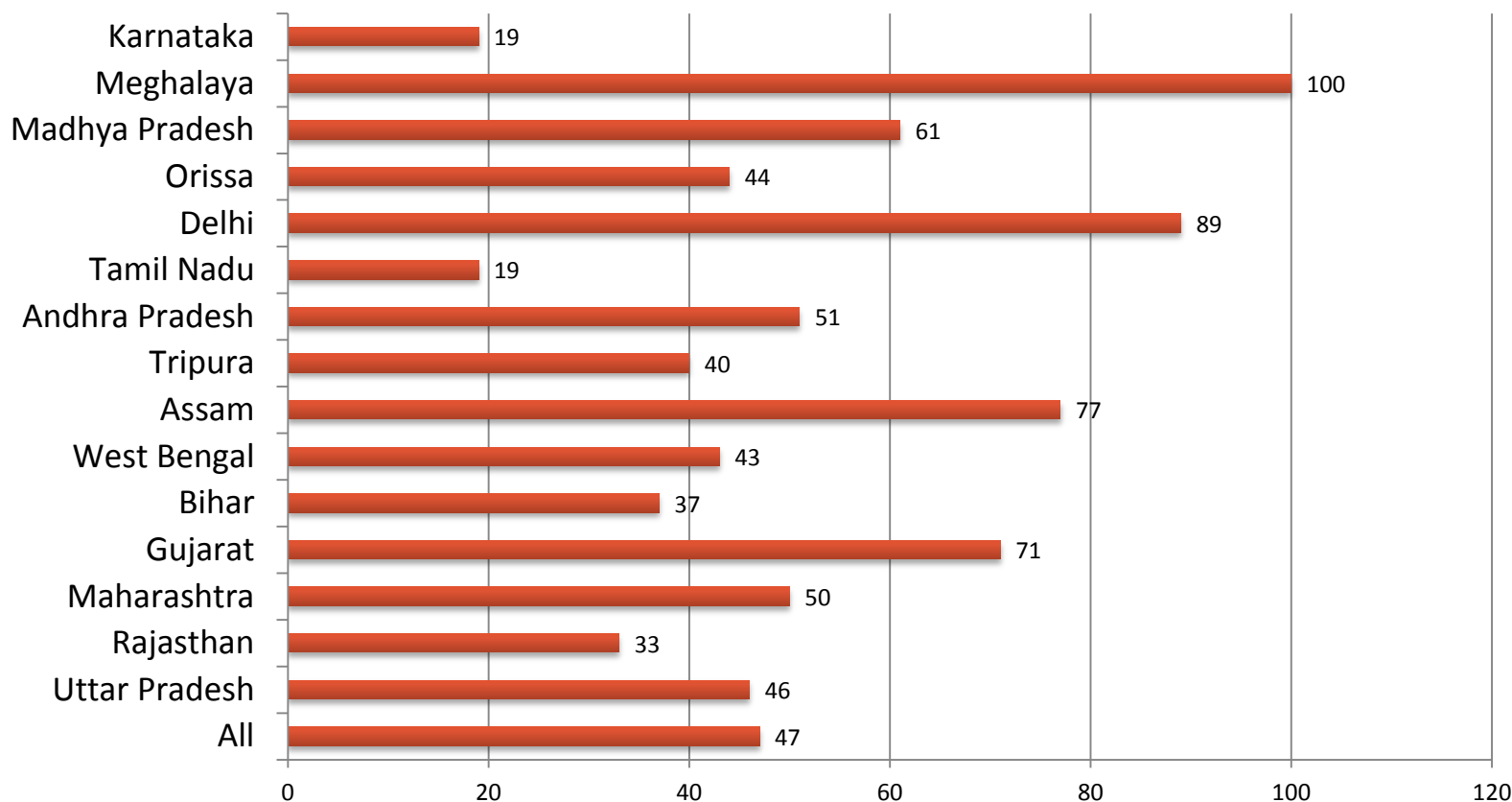
- ✓ *Financial inclusion business with the poor is different from selling usual airtime or small sachet of shampoos or noodles in rural areas. It has a long term horizon and pivots for success are trust of end customers and investors' belief in the business model.*
- ✓ *Bankers need to come out of myopia by looking at the bigger picture because It makes business sense for banks to invest in this model looking at the advantages in terms of increased brand equity, trust, credibility, asset quality ultimately impacting its top and bottom line positively in longer run.*
- ✓ *Given the right impetus by the banks and other financial institutions, the BC banking channel has the great potential to ensure the process of financial inclusion and bring the rural unbanked population within the banking fold*

THANK YOU

CSP with other source of income Success Stories (BC : Changing Lives at grass roots)



CSPs with other business - state wise (%)



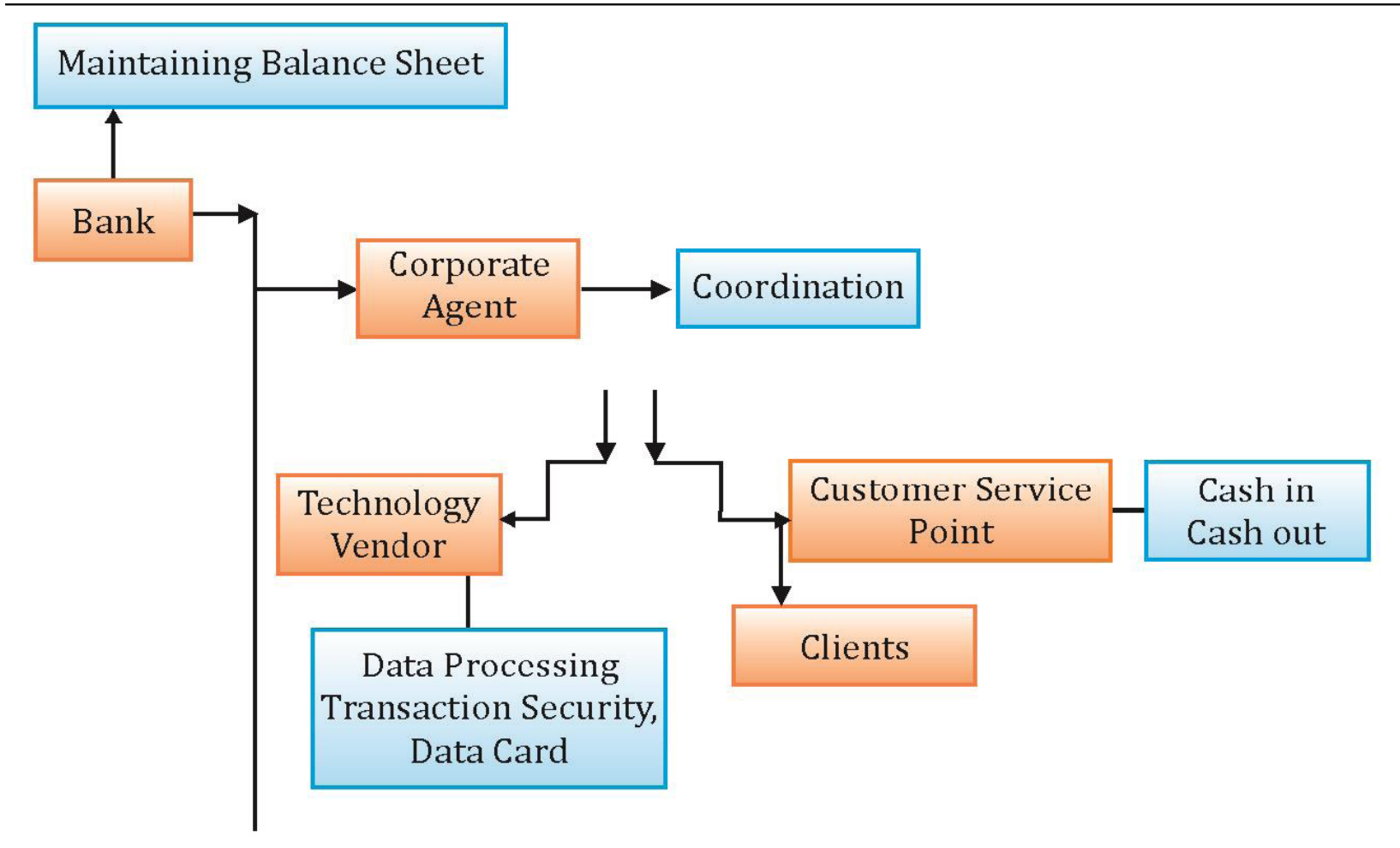
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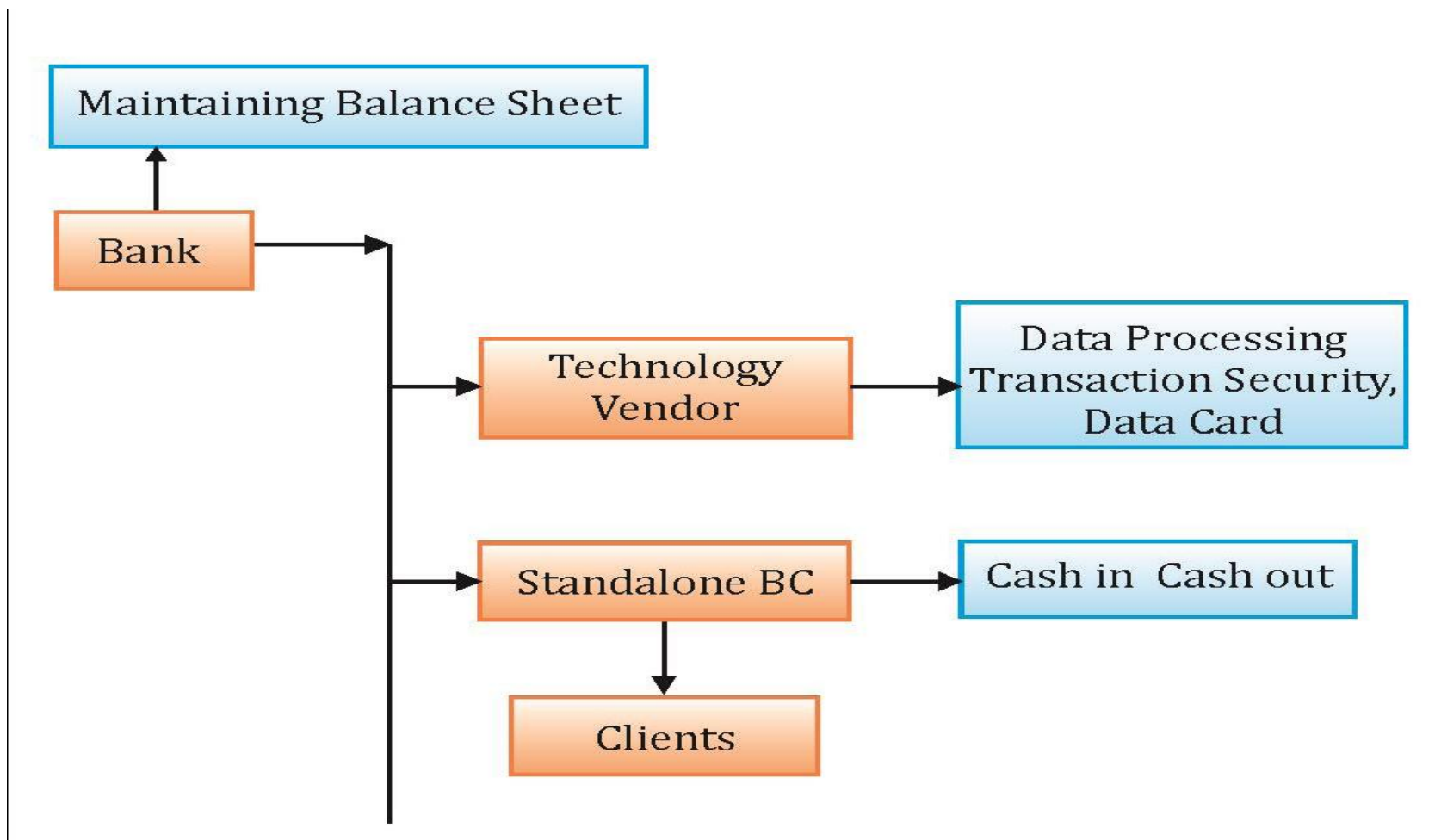
Particulars	Mar 2010	Mar 2013	Mar 2014
BC Outlets in Villages (No.)	34174	221341	337678*
Urban Locations covered through BCs (No.)	447	27143	60730
Basic Saving Basic Deposit A/c through BCs (No. in Rs. millions)	13.27	81.27	116.93
Basic Saving Basic Deposit A/c through BCs (Amount in millions)	10690	18220	38950
ICT A/c – BC Transactions (No. in millions) (During the year)	26.52	250.46	328.57
ICT A/c – BC Transactions (Amount in Rs. millions) (During the year)	6920	233880	524370

*figure indicate total banking outlets in villages in branchless mode out of which BC outlets constitute approx. 95%

Corporate BC Framework



Standalone BC Framework



BC Model – Who does what

