

Advancing Digital Financial Inclusion by Leveraging Business Correspondent Model

Policies and Strategies

Naveen Kumar | M. Manickaraj | Sunil Kulkarni

12.1. Introduction

In the long run inclusive development of nations alone can be sustained. Therefore, every nation is in pursuit of achieving inclusive and distributed economic development. Enabling access, affordability and quality of financial services to underprivileged and marginalized communities stands as the most pivotal aspect in fostering inclusive development. While banking and other financial services are being offered by formal institutions like commercial banks, Development Financial Institutions (DFIs), insurance companies and so on their reach is limited to centres with concentration of population and business. Poor households and rural masses are generally deprived of access and use of formal financial services.

While several steps have been taken by the government, regulators, banks, financial institutions, community organisations and others, still the penetration of financial services among the poor and rural population remains very low. The major reason for this is the high cost of delivering the services and low availability of the services within affordable reach across the country. Other factors are lack of education and lack of awareness about financial services among the unbanked and underbanked population. Yet another factor is the high cost of availing the services because of the need for providing documentary proof for identity, address, income, etc. by the customers and longer time involved in the process. To overcome these limitations on the part of the service providers (supply side) and the customers (demand side),

agency banking model has been used in many countries.

The agents were widely used by banks for facilitating banking transactions even three decades ago. Financial inclusion initiative in Medak district of the erstwhile undivided Andhra Pradesh was a collaborative effort between FINO, ICICI Bank, and State Bank of India (SBI). FINO acted as the service provider, while ICICI Bank and SBI were the partner banks. This was the first major experiment of agent banking for financial inclusion in India. The objective of the initiative was to provide access to basic financial services to the unbanked and underbanked population in the district. Under this initiative, FINO set up mobile banking units in the district, which provided a range of services such as account opening, cash deposits and withdrawals, and remittance services. Customers were also provided with smart cards, which served as their account number and identity proof. The initiative was implemented with the support of local NGOs and self-help groups, which helped in mobilizing customers and creating awareness about the benefits of formal banking services. The initiative proved to be successful, with a large number of previously unbanked individuals opening bank accounts and availing of financial services. It also helped in promoting financial literacy and created a savings culture among the population. The triumph of the endeavour paved the way for its emulation in various other regions of the nation, serving as a significant catalyst in advancing the cause of financial inclusion in India.

Admittedly, wider policy directions on agent banking could be seen after 2005. January 2006, the Reserve Bank of India (RBI) issued guidelines for banks that authorized them to enlist Business Correspondents (BCs) for dispensing financial and banking services, a notable milestone in elevating the accessibility of banking services in India. The regulatory framework for the BC model has since been continuously improved to ensure that consumer protection is not compromised while expanding the reach of banking services. This has been achieved through a gradual process of honing the regulatory framework, which has facilitated the adoption of BCs as a channel for delivering financial services to previously unbanked and underbanked sections of the population. As a result, the BC model has emerged as an important tool for promoting financial inclusion in the country.

Later, the agents were provided with information and communication technology (ICT) devices – “micro banking technology” to deliver the services which led to substantial enhancement in access to services and reduction in the cost of services. In India, the agents used by banks are called Business Correspondents (BCs). The business correspondents are of different kinds like individuals, Non-Government Organisations (NGOs), Micro Finance Institutions (MFIs), Community Organisations, etc. Corporate BCs (for profit institutions, like Non-Banking Finance Companies (NBFCs) too are engaged in delivering financial services. Of late, digital technology is being used extensively for delivery of financial and non-financial services to the poor and those living in villages and in remote locations.

Nonetheless, there is a need for doing lot more to broaden and deepen financial inclusion. Given this backdrop this chapter makes an attempt to review the lacunae in the existing models, recent technological developments and global best practices with an intention to suggest policy measures and strategies to achieve greater financial inclusion.

The remaining part of the chapter is organised into nine sections. The second section examines the challenges that hinder the achievement of financial inclusion. The third section

focuses on advances in digital technology and how it has become a crucial enabler for reaching the unbanked and underbanked populations. The forth section discusses the BC Banking Model and its successful implementation in various countries worldwide. The fifth section looks at the policy and operational models adopted in India, which has helped to promote financial inclusion in the country. The sixth section assesses the progress and impact of the BC Banking Model in India. The seventh section examines the current challenges that the BC Banking Model faces and the need to address them to further promote financial inclusion. The eighth section highlights strategies to leverage the BC Banking Model for financial inclusion. Finally, the chapter concludes with a summary of the key findings and recommendations for future action.

12.2. Challenges in Achieving Financial Inclusion

The often repeated issues that hindered delivery of financial and other services to the poor and the people living in rural areas were:

- Last mile connectivity: Transportation network and communication network were not available or not sufficient in villages and remote locations apart from not having branches of banks and financial institutions.
- Lack of education: People not having basic literacy and particularly not having knowledge of English too were impediments for delivering/availing financial services offered by financial institutions.
- Lack of awareness: Financial institutions offered a gamut of financial services that could greatly benefit the underprivileged masses, but the lack of awareness regarding these services meant that a significant portion of the population remained oblivious to their potential advantages.
- High cost of delivery: Due to the smaller volume of transactions the cost of delivering services was very high and the business with the poor was not viable for the financial institutions.

- High cost of availing the services: Cost of financial transactions for the poor was very high due to the fact that they had to travel and another major cost was foregone wages.
- Lack of convenience: Business hours of formal financial institutions coincide with the work hours of people and hence are not convenient for the poor to do banking transactions using the traditional channels. Moreover, the need for filling up application forms for availing the services made it difficult for them to avail the services.

12.3. Advances in Digital Technologies – The Enabler

Alternative model that would help overcome the abovementioned challenges must be less expensive and convenient to use, close to the clients and should be trusted by the users. Digitalization of products, services and processes provide the most effective alternative that remove the constraints of both the service providers and the clients. India, has come a long way in this direction and the various initiatives of the government and other organisations are:

- 2009 : The Unique Identification Authority of India (UIDAI), established by the Indian Government, came into existence with the aim of providing unique identification numbers to all residents of the country.
- Telecom companies introduced 3G technology that enabled use of smart phones.
- 2010 : First Aadhar card with unique identification number was issued by the UIDAI.
- 2011: National Payments Corporation of India (NPCI) launched Aadhar Payments Bridge and Aadhar enabled Payment Services (AePS) to enable direct benefit transfer (DBT). This transformed the delivery of government incentives and subsidies to the poor. It enabled delivery of services to the target beneficiaries efficiently and also it helped remove pilferages and frauds. It also made the people

realise the need to have a bank account.

- Android based Smart Phones and App gain popularity with increase in smart phone users.
- 2012: eKYC launched by UIDAI, Airtel launched India's first 4G Telecom network that efficiently uses voice and wireless broadband data through mobile phones.
- 2015: Controller of Certifying Authorities (CCA) launched eSign allowing Aadhar card holders to digitally sign documents.
- In the same year, Ministry of Electronics and Information Technology (MeitY) launched Digi Locker¹.
- India Stack: Another major digital infrastructure that acts as the foundation for digital ecosystem and has enabled adoption of digital technology for delivering financial services. The three pillars of India Stack are:
 - Identity – India's national identity programme centred on Aadhar. More than 1.31 billion Indians (95 percent) possess Aadhar Card.
 - Interoperability – Store and transfer money with or without a bank account. Unified Payment Interface (UPI) enables for retail payments across customers and institutions.
 - Data Governance – Data Empowerment and Protection Architecture (DEPA)². Secure consent based data

1. Under the aegis of the Digital India campaign, the Ministry of Electronics and Information Technology (MeitY), Government of India, launched DigiLocker, an online service aimed at digitizing essential documents and certificates such as academic mark sheets, driving licenses, and vehicle registration, which can be accessed in a secure digital format from the original issuers of the said certificates, by every Aadhaar holder via a cloud-based account. (Source: <https://en.wikipedia.org/wiki/DigiLocker>).

2. The Data Empowerment and Protection Architecture (DEPA) is a pioneering framework for data-sharing, based on user consent that seeks to empower individuals and promote greater privacy and security of their data. (for more details: <https://thedigitalfifth.com/how-is-data-empowerment-and-protection-architecture-transforming-indias-financial-landscape/>).

sharing network – Account Aggregators³ (AAs)

- Open Networks: Yet another recent development is the creation of Open Credit Enablement Network (OCEN) which will level the business of lending banks and other lending institutions and will enable customers to avail credit at competitive terms.
- 2016: The Unified Payments Interface (UPI) was introduced by the National Payments Corporation of India (NPCI) as an innovative payment system, which facilitated seamless and instant transactions between different bank accounts, using a single mobile application.
- 2021: Reserve Bank of India (RBI) launched Account Aggregator (AA) framework. This will enable fetching information about customers that are available with multiple institutions like banks, insurance companies, credit information bureaus, income tax department, pension funds and so on such that loan decisions can be made quickly, seamlessly and at minimal cost.
- 2021-22: Account Aggregator (AA) framework and licenses awarded which will make digital lending significantly streamlined and bring down the cost of paperwork, thereby leading to reduction in loan ticket size that are viable for banks and NBFCs.
- 2022: Open Network for Digital Commerce (ONDC) launched as pilot. This will extend commerce to hyper-local merchants with direct connect to consumers through “Buyer Apps” and merchants will also have direct connect with customers through “Seller App” with entire eco-system integrated through Open API.

3. With its ability to enable individuals to safely and seamlessly share financial information across multiple regulated institutions in the network, the Account Aggregator (AA) system has the potential to revolutionize the way people access and manage their financial data, expand the customer base for lenders and fintech companies, and empower millions of consumers with greater control and ownership of their financial records.

- Airtel & Jio launched 5G Telecom networks with rapid expansion in over 300 cities. WhatsApp crosses 500 million monthly active users, an indicator of number of active smart phones with mobile data enabled.
- Central Bank Digital Currency (CBDC) pilot launched in select geographies by the RBI.

Table 12.1 provides statistics on digital payments in India during December 2022.

12.4. BC Banking Model: Global Experience

Siedek (2008) has studied the correspondent banking model in Brazil and has reported that retail vendors, lottery outlets and post offices were used by banks as agents for delivering variety of services including payments, deposits, withdrawals, and money transfers. Equipped with a range of tools including PoS card readers, barcode scanners, and personal computers, these agents were able to efficiently facilitate transactions and provide a seamless experience to their customers. The agents processed an estimated \$1 billion worth of transactions in 2005 and opened 12 million current accounts in three years.

Experience of the Democratic Republic of Congo (DRC): DRC is one of the least banked countries in the world. In 2017, just around 17 percent of the adults in the country had bank accounts compared to the average of 54 percent in developing countries. Cull, et al (2017) have studied the agent banking model of FINCA Congo⁴. FINCA Congo launched its agent banking in 2012 and as of 2017 around 65 percent of its transactions were through the agents. The agents are small business owners who are provided with a PoS device and necessary training. The paper reports that population density, commercial development, and education of the agents are three major factors that determine volume of transactions. Another factor that enables higher volume of transactions is monitoring the agents by the financial institution.

4. FINCA Congo is a subsidiary of FINCA, an international microfinance institution having presence in more than 23 nations.

TABLE 12.1
Transactions of Various NPCI Products During December 2022

<i>NPCI Products</i>	<i>Volume (Million)</i>	<i>Value (Rs Billion)</i>	<i>Average Daily Volume (Million)</i>	<i>Average Daily Value (Rs Billion)</i>
UPI	7828.90	12819.71	252.55	413.54
Immediate Payment Service (IMPS)	485.84	4865.52	15.67	156.95
AePS - Bhim Aadhaar Pay	1.27	4.46	0.04	0.14
AePS - Cash Withdrawal	93.45	254.84	3.01	8.22
AePS - Fund Transfer	0.03	0.21	0.00	0.01
NACH* – ABPS3†	115.77	206.70	3.73	6.67
NACH – Credit	151.58	1574.35	4.89	50.79
NACH – Debit	119.86	1157.37	3.87	37.33
BBPS	99.68	169.10	3.22	5.45

Source: National Payments Corporation of India.

Notes: *: National Automated Clearing House; †: Aadhaar Payments Bridge System.

Kenya: M-Pesa, launched by Safaricom⁵, is a classic example of how mobile phones can be used to deliver financial services, starting with ‘person to person’ (P2P) and ‘person to merchant’ (P2M) payments and gradually expanding to include credit, savings, and overdraft-like facilities, through partnerships with the banking sector. The platform’s innovative offerings, such as M-Shwari, a mobile-operated bank account that provides interest-earning savings and digital credit, and Fuliza, an overdraft facility for completing merchant transactions, have transformed the way Kenyans access and manage their finances, with one-third of mobile owners estimated to have borrowed from their phone (Ceyla, et al, 2020).

Tanzania: In recent years, mobile financial services have gained significant traction in Tanzania, with innovative offerings like M-Pawa, launched in 2014 by Vodacom⁶ in partnership with the Commercial Bank of Africa, providing savings and loans to over 5 million customers, and ACRE Africa’s crop, livestock, and index insurance products catering to the needs of smallholder farmers in Tanzania, Kenya, and Rwanda. As of 2017, the number of customers using its services had surpassed 5 million, with an average of 350,000 micro-loans being issued

each month, marking a significant achievement for the platform. Additionally, FINCA Microfinance Bank Tanzania’s partnership with Halotel⁷ has led to the launch of HaloYako, a mobile savings product, further expanding the range of financial services available to the Tanzanian people (Ceyla, et al, 2020).

Kshetriya Gramin Financial Services (KGFS), India acts as agents of banks, insurance companies, pension funds, and mutual funds and offers wide range of services to its rural clients. The platform provides a diverse range of financial products and services, including but not limited to Money Market Mutual Fund, Remittance, Jewel Loan, Joint Liability Group Loan, Emergency Loan, Enterprise Working Capital Loan, Enterprise Term Loan, Education Loan, Livestock Loan, Housing Loan, Pension, Gold Investment, Personal Accident Insurance, Term Life Insurance, Shopkeeper’s Policy, and Livestock Insurance (Bindu, et al (2012).

12.5. Policy and Operational Models of BC Model in India

Policy Contours of BC Model

In an effort to promote financial inclusion among the underprivileged sections of society, the Government of India and the Reserve Bank of India have implemented various policy

5. A leading telecom company in Kenya

6. A leading telecom and financial services provider in Tanzania

7. A leading telecom company in Tanzania.

measures, including the introduction of Business Correspondents (BCs) by banks to provide banking and financial services.

The first policy direction for the suitability of BC model was initiated by the Ministry of Finance, Government of India during 2005-06 Union Budget (Ministry of Finance, 2005). The government requested the 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 centres, to provide credit support to rural and farm sectors”. Further, the government also requested to examine the role of micro-finance institutions (MFIs) as ‘banking agents’ to “provide the transactional services to low income households and small informal businesses from the commercial banks” (Ministry of Finance, 2005). Accordingly, the RBI constituted an Internal Group in 2005, under the Chairmanship of H R Khan to “Examine Issues Relating to Rural Credit and Microfinance”. The committee proposed a working model for BCs covering scope of activities, types of correspondents, risk management, Standards for Due Diligence, Compensation Package, Monitoring & Capacity Building, Grievance Redressal Mechanism, etc. The committee also prescribed the role and functions of BCs as “Pass Through” Agents for providing financial services including the disbursement of small value credit, recovery of principal and interest, and the sale of various insurance, mutual fund, and pension products.

As per the recommendations of H R Khan Committee (RBI, 2005), RBI issued the notification for the banks on January 25, 2006 on financial inclusion by “extension of banking services - use of Business Facilitators (BF) and Business Correspondents (BCs)”. In this policy direction, RBI has specified the “eligible entities and scope of activities, payment of commission/fees for engagement of BF/BC, other terms and conditions for engagement of business facilitators and correspondents, redressal of grievances in regard to services rendered by BF/BC and compliance with know your customer (KYC) norms”.

To decentralise the Electronic Benefit Transfer (EBT) for the benefit of larger population of the country a framework for government-to-person (G2P) payments through banks and BCs was recommended by the Committee on Suggesting a Framework for Electronic Benefit Transfer (RBI, 2008). The digitization of G2P payments was put through a pilot test by various state administrations. With the EBT project, BC and agent networks were extended to isolated rural areas.

In response to the 2009 working group’s (chairmanship of Vijaya Bhaskar) recommendations, RBI further expanded the scope of BCs and permitted non-bank entities to act as BCs, leading to increased outreach of banking services to previously unbanked areas (RBI, 2009). The committee has recommended the following measures: (i) the bank shall have sufficient understanding and appreciation of BC model for deepening of financial inclusion, (ii) banks shall enable effective cash management for the agents, (iii) financial education and customer protection, (iv) enough care on financial viability of BC model, (v) banks adequately ensure and mitigate various risks emerging through the agent banking (vi) Banks shall give utmost importance for capacity building of BC agents and (vii) bank shall give priority for expansion of BC model in north eastern region.

The “Committee on Comprehensive Financial Services for Small Businesses and Low Income Households”— 2014, (chairman, Nachiket Mor) recommended for (i) allowing the Non-Deposit taking Non-Banking Financial Companies (ND-NBFCs) to act as ‘agent of the banks’, (ii) allowing high quality “White Label BCs” for the optimal utilization of BC infrastructure across banks for deeper geographical reach and (iii) creating the National Banks with Agents – “using the agents for different types of banking business with the objective of greater reach without any capital commitment whose operational cost structures are significantly lower than that of a bank branch”.

The committee chaired by Deepak Mohanty (2015) on “Medium Term Path on Financial Inclusion”, emphasised that the “banks need to

integrate the BC model into their business strategy and with help from technology can develop a low-cost, reliable, last mile delivery channel that could win the trust of the common person". To attain these goals, the committee had made several recommendations to strengthen the BC model – (i) fixed locations for the BC outlets/customer service points (CSP) for gaining the trust and confidence of the customers, (ii) base/link branches of banks shall monitor the BC agents for effective management and to bridge the trust among the users, (iii) skill and knowledge gap of the BC agents are required to be addressed through training and capacity building along with certification of learning. It will enable the credit and related banking services with business viability.

The "National Strategy for Financial Inclusion" (NSFI) – 2019-2024 has deliberated various strategies to sustain the financial inclusion through the BC model and considered it as an integral part of financial inclusion strategy. The report has highlighted various action points to strengthen the BC model through policy interventions in "customer protection, providing suitable products, increasing financial awareness, having a proactive oversight over the activities of the agents and sustainability of the agent/BC network, etc.," (RBI, 2020). Further, the NSFI deliberated on importance of BC registry for tracking the agent's service record and certification to ensure the quality standards for the operation of agent model. To maximise the benefits of agent banking model for providing a "basic bouquet of financial services", NSFI advised the banks to "endeavour for capacity building of their BCs, so that they can be utilised for delivery of a wider range of financial products".

Operational Models of Agent Banking

RBI defines (RBI, 2009) the BC agents as "the retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM⁸. Basically, BCs enable a bank to expand its outreach and offer limited range of banking services at low cost, as setting up a

brick and mortar branch may not be viable in all cases".

The regulatory guideline has defined BC Agent Point as "Banking Outlet" (BO) with the following conditions:

- It is a Fixed Point service delivery unit
- Agent "carries out services of acceptance of deposits, encashment of cheques/ cash-withdrawal or lending of money, that is provided for minimum four hours per day and 5 days in a week", else it is called "Part Time Banking Outlet"
- "It carries uniform signage of bank and has authorisation from it with contact details of controlling authorities i.e. BC Agent and linked branch contacts".
- Has complaint escalation mechanism—typically linked branch contact and/or centralised contact of sponsor bank.

On top of this, Bank needs to have:

- Supervision of BO through off-site/on-site monitoring
- Ensure uninterrupted service at BO
- Timely redressal of customer grievances
- Ensure display of working hours of BO

There are two broad categories of BC operational models in India, (i) Banks directly recruiting/engaging the agents for extending the banking services and (ii) Banks engaging Corporates as BC network managers (BCNM), and further, the corporates engage the agents for delivering banking services. As a corporate BC, RBI has permitted to use the service of NGOs, Self-Help Groups (SHGs), Microfinance Institutions (MFIs), and other civil society organisations to extend the financial inclusion service with the help of agent banking model or multiple Customer Service points (CSPs) or Bank Mitras (the Micro or Nano level entrepreneurs). When providing banking services outside of a bank branch or an ATM, the CSPs serve as the retail banking business units. The BC agents play a crucial role in fostering financial inclusion because they are able to provide a wide range of banking services at an reasonable cost and time.

8. Automated Teller Machine (ATM).

TABLE 12.2

Progress of Pradhan Mantri Jan-Dhan Yojana as on March 2023 (Figures in Crore)

Bank Categories	Number of Beneficiaries at Rural/Semi-Urban Bank Branches	Number of Beneficiaries at Urban Metro Bank Branches	Number of Rural and Urban Female Beneficiaries	Number of Total Beneficiaries	Deposits in Accounts	Number of Rupay Debit Cards issued to Beneficiaries
Public Sector Banks	23.92	14.23	21.04	38.15	152061.00	28.30
Regional Rural Banks	7.77	1.27	5.21	9.03	37938.22	3.44
Private Sector Banks	0.70	0.68	0.74	1.38	5475.32	1.13
Total	32.39	16.18	27.00	48.56	195474.54	32.88

Source: <https://pmjdy.gov.in/account>

12.6. Progress and Impact of BC Banking Model in India

The Reserve Bank of India has introduced the “Financial Inclusion Plans” (FIPs) in 2010 for “banks to adopt a planned and structured approach towards financial inclusion” (RBI, 2021).

The BC model got scaled up as a result of the government’s Pradhan Mantri Jan Dhan Yojana⁹ (PMJDY), 2014. After the launch of PMJDY, the BC agents were called as “Bank Mitra” (bank friend). The licencing of Small Finance Banks (SFBs) and Payment Banks (PBs) in 2014 has given more emphasis for the use of BC agents in their business models and hence, the number of operational BC agents in the country has increased.

Table 12.2 presents major achievements of PMJDY program in India.

During this period, Aadhaar and mobile proliferation brought, what is termed as JAM Jan Dhan, Aadhaar and Mobile) Trinity that revolutionised the way banking looked at Identity (KYC) as well as cash transactions at BC point using Aadhaar Enabled Payment System (AePS). Today bulk of BC Agents use mobile app for BC Banking using API (Application Programming Interface) provided by banks. Many banks today call it “Banking as a Service API. This shifted BC Banking technology development from banks to Fintech who used the API to offer AePs, eKYC,

domestic money transfer (DMT) and other BC Banking services on mobile app.

Table 12.3 presents the progress made by the BC model in India during 2012 to 2022. The number of BC agent increased from 147,027 to 35,13,777 with a CAGR of 37.35 percent. The volume of ICT transaction through BCs has increased from 155.87 million to 2853.3 million and the value of transactions has increased from 97.09 million to 9052.52 billion during 2012 to 2022.

Over the years, the MFIs (NGOs and NBFCs) as BCNM have played significant role in digital financial inclusion. The overall BC loan Portfolio of MFIs was Rs 24,908 crores as of March 2021, an increase of 20 percent over 2020.

Of late, BCs were allowed to deliver credit to the poor and some statistics regarding the volume of credit delivered by the BCs during 2017 to 2021 are presented in Figure 12.1. The amount of credit delivered by the BCs has grown tremendously during these five years period.

12.7. Current Challenges for BC Model

Currently, the BC industry in India is facing following challenges:

- Limited Number of Services:** Not all services are offered by all banks through BCs and while a BC can offer services of one bank only due to exclusivity provision as per regulatory guidelines. Each Sponsor Bank has very different strategic intent of using BC services which are at times at variance to what customers demand in a particular geography.

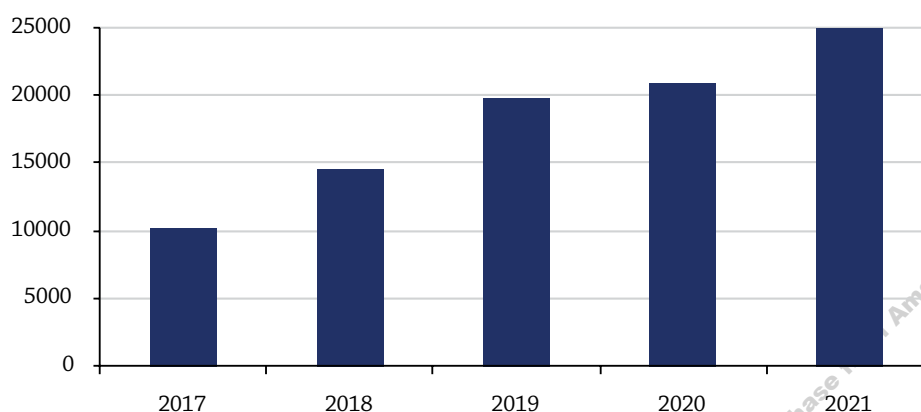
9. The Pradhan Mantri Jan Dhan Yojana (PMJDY) is a government-led initiative aimed at promoting financial inclusion by providing affordable access to banking services such as savings and deposit accounts, remittance, credit, insurance, and pension, with the flexibility of opening an account at any bank branch, BC, or Bank Mitra outlet.

TABLE 12.3
Progress of BC Model in India

Particulars	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Banking Outlets in villages > 2000 – BCs	--	--	--	90877	98958	105402	100802	130687	149106	850406	1892462
Banking Outlets in villages < 2000 – BCs	--	--	--	408713	432271	438070	414515	410442	392069	340019	326008
Total BC Outlets in Villages	141136	221341	337678	504142	531229	543472	515317	541129	541175	1190425	2218470
Total BC Outlets in Urban Areas	5891	27143	60730	96847	102552	102865	142959	447170	635046	426754	1295307
Total BC Outlets	1,47,027	2,48,484	3,98,408	6,00,989	6,33,781	6,46,337	6,58,276	9,88,299	11,76,221	16,17,179	35,13,777
BSBDA- through BCs	57.3	81.27	116.9	187.8	231	280	289	319.5	338.8	379.6	401.5
Value (Rs in Billion)	10.54	18.22	39	74.6	164	285	391	531.95	725.81	876.23	1074.15
ICT A/Cs-BC-Transaction	155.87	/250.46	326.6	477	827	1159	1489	2101.9	3231.8	3055.1	2853.3
Value (Rs in Billion)	97.09	233.88	524.4	859.8	1687	2652	4292	5913.47	8706.43	8497.71	9052.52

Source: RBI, "Report on Trend and Progress of Banking in India" for various years.

FIGURE 12.1
Growth in BC Loan Portfolio



Source: The Bharat Microfinance Report, 2021.

- b. *Banking Infrastructure Availability:* At times the network of banks or connectivity to NPCI faces issues which adversely affects availability of services at BC Agent level, as only one sponsor bank is allowed. Further, there is no back-up or BC sponsor bank permitted yet.
- c. *Liquidity:* BC Agents need daily liquidity for Cash-in/Cash-out/Money Transfer/BBPS transactions. Sponsor banks do not provide liquidity support as the extent regulations do not permit this.
- d. *Cybercrime:* Presently, if a small cyber-crime transaction lands in BC Settlement Account through multiple hops, the law enforcement authority will freeze the entire settlement bank account of Corporate BC leading to bringing the services of all its agents to standstill.
- e. *BC Certification:* Over 75 percent of BC Agents are cash-in/cash-out/money transfer agents (also called “Payments or Transaction BCs”) and have other lines of business. However, due to these BC Agents financial inclusion has spread deep and wide in sub-urban and rural India. It has also led to the success of PMJDY. These agents can be compared to Merchants with PoS/mPoS terminals where payment transactions take place. These BC Agents may not go to certification centres to give BC Certification test as due to their regular/fixed business operations.
- f. *Grievance Redressal:* Currently there is no centralised Grievance Redressal mechanism available except for AePS (Aadhaar Enabled Payments System) transactions for both customers and BC Agents. There are no defined service level agreements (SLAs) for redressal of complaints leading to dissatisfaction and in-turn BC Agents becoming inactive.
- g. *TDS:* This is a serious issue stemming from the fact that section 194(N) of Income Tax Act provides for tax at 2 percent (5 percent in case of BC Agents without IT returns) of cash withdrawal amount and NOT income of BC Agent, once certain threshold of cash withdrawal is reached. The intent of this section was to discourage cash withdrawals. However, due to implementation challenges, this is largely not applied by banks especially in rural areas, where bank branch penetration is very low for many banks and when in most scenarios, a BC Agent (CSP) for Bank-A has to transact with a nearby bank branch of Bank-B for depositing/withdrawal of cash for BC business.
- h. *GST:* This issue is mainly due to two reasons. First, banks do not get 100percent GST credit on fee income and second, only banks are allowed to charge on value of services in the entire value chain, leading to 27percent + effective GST for BC services. BC services, be it urban or rural,

are specifically targeting low income customers and this GST is a huge burden.

12.8. Strategies to Leverage BC Banking for Financial Inclusion

During the last few years the BC agent network has grown very strong especially because of the role played by the corporate BCs. Technology can be used to leverage this network in tandem with the following strategic measures:

For Increasing Access to Financial Services

- a. Promote CBDC as replacement of physical cash in BC channel. This will provide convenience to customers with smart-phones and would reduce the transaction cost.
- b. The introduction of micro ATMs with regional language support is expected to boost digital adoption among customers by fostering trust and transparency. By enabling users to interact with the machines in their local language, the micro ATMs can help overcome language barriers and improve accessibility, making banking services more inclusive. This, in turn, is likely to increase the confidence of customers in digital transactions and enhance their overall banking experience.

For Improving Viability of BC Model

- a. All sponsor banks should offer a minimum mandated bouquet of services to enhance revenue stream of BC agents
- b. Support of ASP (Application Service Provider) model for all main services by connecting Corporate BCs to NPCI directly. This will give relief to banks by reducing the load on their CBS with “Off Us” transactions and improve transaction reliability. This is also called “White Label BC” model.
- c. Credit may be offered to BC Agents to manage liquidity and for scaling up their transactions by the sponsor banks and the same may be treated as “Priority Sec-

tor Lending”. This could be in the form of Overdraft (OD) that can be used to manage daily liquidity issue.

- d. Introducing an Account Aggregator at the BC level for lending to micro-enterprises has the potential to improve the feasibility and durability of the BC channel.
- e. Permit BCs to act as agents of at least two banks so that the BCs can offer wider range of services.
- f. Provide relief from TDS and GST for BC services with appropriate amendments in the taxation laws.
- g. Extend ONDC framework to BC agents for both “Assisted Buyer App” and “Seller App” to push digital commerce to rural and semi-urban centres. BCs would be a good trusted point for assisted digital commerce as well as multi-service outlets can use ONDC for buying and also avail MSME credit. Just like Bharat Bill Payments System is enabled for digital bill payments services, ONDC would leverage BC infrastructure for digital commerce with appropriate checks and balances.

For Financial Literacy and Skill Development

Transaction BCs are very similar to that of PoS/UPI merchants. Therefore, certification of Transaction BCs may be done online through the concerned sponsor bank only, to bring awareness in these BCs about basic banking services and Do’s and Don’ts.

Regulation and Control

- a. Formation of Self-Regulatory Organisation for BCs to bring standardisation of processes and customer grievance redressals.

Customer Protection

Centralised grievance redressal mechanism for both customers and BCs may be set up for SLA based complaint redressal. This will improve confidence and trust on the BC model significantly.

Central registry for black listed BC agents across all services may be established for reduction of fraudulent transactions. This will enable taking targeted action against mischievous BCs and will not affect the business of other agents of corporate BCs.

12.9. Concluding Observations

Financial inclusion is a key driver for inclusive growth and development. Many research studies acknowledge that “access to safe, affordable, and sustainable financial and non-financial services is critical to mitigate the risk and uncertainty (including economic and non-economic shocks) for the poor and vulnerable sections of the society”. The digital disruptions across the sectors, more specifically in the banking and financial sector witnessed a large-scale transformation in business models and customer experiences. The adoption of the agent banking model for digital financial inclusion has changed the perspectives of banking from “brick and mortar” to doorstep banking with the adoption of ICT innovations. More than 400 corporate BCs and 1.6 million agents are working in India to serve 600,000 villages and remote locations.

Making the BC model viable and sustainable remains a critical challenge even after one and half decades of experience. To address this issue banks may offer a ‘minimum mandated bouquet of financial and non-financial services’ through the agents. The government may provide relief from TDS and GST on BC agent transactions. BCs may also be allowed services like insurance, mutual fund, pension etc of institutions other than that of the sponsoring bank. A self-regulatory organisation of BCs may be started. Further, training and capacity building of the BC agents are very critical and it needs to be looked into beyond the “certification” program to ensure sustainable business through the

agents. BC agents may be considered agents of development at the grass-root level and connect the financial sector with real sectors. The government needs to invest (through budgetary allocation) in agent banking infrastructure and capacity building of the agents to leverage the model for the development of the farm sector, micro/informal business, and women empowerment.

To address the gender gaps in financial inclusion and to enable financial literacy among vulnerable sections like, women, female BCAs from self-help group/joint liability groups (SHG/JLG), farmer producer organisations, etc. may be given priority while engaging as “agents”.

The concerted efforts of the government, RBI, banks, various players, and beneficiaries have led to the BC model becoming a stable and integral part of the banking and financial sector in India. Through a step-by-step improvement in the regulatory structure for Business Correspondents, the provision of banking services has been made more accessible, while also ensuring consumer protection is maintained.

The BC agents, who are the face of the banking sector in remote areas, have played a crucial role in ensuring that financial services reach the unbanked and underbanked sections of society. Their efforts have helped promote financial inclusion, enhance financial literacy, and create a more inclusive financial system in the country. Today, the BC model is seen as a success story in India and is being closely studied by other countries looking to replicate its achievements. Nevertheless, a multi-pronged approach wherein the Government, RBI, Banks, and BC Corporates need to work in tandem to make the agent model a profitable and sustainable business for all the stakeholders. Further, addressing the challenges mentioned above would lead to leveraging the model for greater digital financial inclusion.

Reference

- Bharat Microfinance Report. (2021). "Sa-Dhan". Retrieved from <https://sa-dhan.org/bharat-microfinance-report/>
- Bindu Ananth, Gregory Chen, and Stephen Rasmussen (2012). "The Pursuit of Complete Financial Inclusion: The KGFS Model in India", CGAP.
- Ceyla Pazarbasioglu, Alfonso Garcia Mora, Mahesh Uttamchandani, Harish Natarajan, Erik Feyen, and Mathew Saal, (2020). "Digital Financial Services", The World Bank Group.
- CGAP (2013). "Microfinance, E-commerce, Big Data and China: The Alibaba Story". CGAP: Washington DC.
- Cull Robert, Xavier Gine, Sven Harten and Anca Bogdana Rusu (2017). "Agent Banking in a Highly Under-Developed Financial Sector: Evidence from the Democratic Republic of Congo", World Bank Group.
- Emilio Hernandez (2019). "Agent Networks at the Last Mile: A Guide for Digital Finance to Reach Rural Customers", CGAP.
- Emilio Hernandez, Christopher Blackburn, Anand Raman, and Paul Reynolds (2020). *Agent Network Journeys Toward the Last Mile: A Cross-Country Perspective*, Consultative Group to Assist the Poor (CGAP).
- Manali Jain, Vishes Jena, Disha Bhavnani, Akshat Pathak, Shweta Menon, Maansi Sharda and Pramiti Lonkar (2022). "How Digital Payments Drive Financial Inclusion in India, MicroSave Consulting and NPCI", September <https://www.microsave.net/2022/09/22/how-digital-payments-drive-financial-inclusion-in-india-2/KGFS-Model-in-India>.
- Ministry of Finance, (2005). *Government of India: Union Budget & Economic Survey* (<https://www.indiabudget.gov.in>). Ministry of Finance, Government of India. https://www.indiabudget.gov.in/budget_archive/ub2005-06/speech.htm
- RBI (2005). Draft Report of the Internal Group to Examine Issues Relating to Rural Credit and Microfinance, Reserve Bank of India, Mumbai.
- . (2006). Circular DBOD.No.BL.BC.58/22.01.001/2005-06 dated January 25, 2006
- . (2009). Report of the Working Group to Review the Business Correspondent Model. Reserve Bank of India. URL: <https://rbi.org.in/Scripts/PublicationReportDetails.aspx?ID=555>
- . (2015). Report of the Committee on Medium-Term Path on Financial Inclusion, December available at <https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/FFIRA27F4530706A41A0BC394D01CB4892CC.PDF>
- . (2022). Report on Trend and Progress of Banking in India, <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/ORTP20212225730A6FC708454BB270AC1705CCF178.PDF>
- . (2021). *Reserve Bank of India - Publications*. Research Bank of India. <https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=20944>
- Siedek, Hannah (2008). *Extending Financial Services with Banking Agents*, Brief. Washington, D.C.: CGAP.