



Reaching the Unreached through Business Correspondents – An Effective Marketing Strategy of RBI

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Abstract

The recent Global Findex Report of 2022 states that the worldwide account ownership has reached 76% by 2021 from 51% in 2011. As regards India the percentage of adults having an account has increased from 71% in 2017 to 78% by 2021. The report clearly points out that 22% of people in India are still not having a Bank Account and in India though the percentage of usage of accounts after the pandemic, for digital payments has grown by 35% more of what was used earlier still there is a great need to make improvements in the usage of accounts as India's share of inactive accounts is very high and there is a need to promote digital payments because still 160 million banked adults continue to pay utility bills in cash (35% of accounts are inactive). There is still a large unfinished agenda of financial inclusion in terms of deepening penetration of banking services and developing a suitable service marketing approach for the banks so that they focus on not only customer acquisition but also customer retention through the BC Model initiated by the RBI in 2006 to create an intensive network of village level touch points. Building out agent networks will be necessary to overcome challenges in reaching excluded populations.

The present paper is taken up to understand the services marketing strategy adopted by RBI which is helping in not only opening the accounts for the poor but also indulging in proactive sales of financial products with the trained personnel approaching customers directly in the name of Business Correspondents who are providing them door to door services for deepening banking penetration and thereby helping in achieving the goal of financial inclusion. This study makes use of secondary data to measure the outreach of the BCs and to suggest the marketing strategy of the banks, that can be followed by the BCs to contribute positively to the ethical cause of attaining inclusive growth.

Key Words: Business Correspondents; Financial Inclusion; Service Marketing Strategy; Customer Acquisition and Retention; Digital Payments.

Introduction

It is a known fact that the Pradhan Mantri Jan Dhan Yojana launched by the P.M. Narendra Modi in August 2014 has helped in opening of more than 32 crore accounts till July 2018. As per the Global Findex report out of the 51.4 crore bank accounts opened globally from 2014-17, around 55 percent were from India. The recent Global Findex report of 2022 states that the worldwide account ownership has reached 76% by 2021 from 51% in 2011. As regards India the percentage of adults having an account has increased from 71% in 2017 to 78% by 2021. The report clearly points out that though the percentage of usage of accounts after the pandemic, for digital payments has grown by 35% more of what was used earlier still there is a great need to make improvements in the usage of accounts as India's share of inactive accounts is very high and there is a need to promote digital payments because still 160 million banked adults continue to pay utility bills in cash (35% of accounts are inactive)

Promoting financial use of account in the sense, using financial services to make payments, save and manage money, and borrow is the growing challenge that has to be taken care of by India because within its peer group of BRICS countries (Brazil, the Russian Federation, India, China and South Africa) India's payments usage rate is less than half that of its peers (the Average is 57%). Besides this there is a significant gender gap of 13% in payment use and also 10% difference in the digital payments done in Urban Areas and Rural areas.

Even today the unbanked adults are 22% and the survey report states that the main reasons for remaining unbanked or for not using the services of formal institutions cited by 70% of the respondents were lack of financial confidence, inability to operate the accounts on their own and 43% of adults in India say banks are too far away it means that another reason for remaining unbanked or having an inactive account is distance to a financial institution and this barrier can be addressed by expanding agent and digital banking. So the most important challenges ahead are to increase account usage and reach those who are still excluded and unreached. There is still a large unfinished agenda of financial inclusion in terms of deepening penetration of banking services and developing a suitable service marketing approach for the banks so that they focus on not only customer acquisition but also customer retention through the BC Model initiated by the RBI in 2006 to create an intensive network of village level touch points. Building out agent networks will be necessary to overcome challenges in reaching excluded populations. Especially for people who are new to formal banking, an accessible cash/digital interface enabled by agents will be important service marketing strategy of the banks to inspire greater account ownership and use. This is visible in the RBI data that clearly portrays that the banking outlets through Business Correspondents have increased from 80,802 in 2011 to 15,54,212 in 2021.

Review of Literature

Dr.Lohith.G (2020)in his study opined that the BCs are playing very important role in mobilizing rural saving, deepening the financial inclusion, participating to bring greater financial stability in banking sector, helping to increase the financial literacy among unbanked people and are playing a vital role in implementing direct benefit transfer scheme (DBT) and building cashless economy. He ended up stating that the major problems faced by BC model in India are low financial literacy among rural customers, difficulty in getting reliable and

skilled BCs, low income profile of the customers, lack of infrastructure, low remuneration /incentives, Security concerns for handling cash at field level and acceptability of ICT based BC model.

Shigufta Hina Uzma, Suwendu Kr,Pratihari (2019) in their study highlighted the need for measures to accelerate the pace of BC Model for Financial Inclusion in India. The Financial analysis of the existing BCs with the existing products and services showed a very diffusive Break Even (more than 7 years) which according to the researchers can be a potential threat to the sustainability of new and struggling entrepreneurs like CSP. They also suggested a model that will reduce this Break Even to 3 years.

Thiruma Valavan A (2016) carried out his study to understand the functioning of the BC Model and to find out the major problems. The researcher opined that the remuneration paid to the BCs, Problems in accessing the Smart Card, Network connectivity issues, improper documents to open an account, absence of trust in BCs, Awareness issues among customers, villagers not using the BCs due to their busy work etc are the challenges that are being faced and suggested that proper understanding of concept of Financial Inclusion, removal of communication gap between the Bank and BCs and making the villagers understand the benefits of holding the account will help in the success of BC model.

Carolina Laureti and Bret Mathews (2009) in their study, analysed three of the many experiences in branchless banking in India and gave general recommendations for making BC models sustainable. They opined that in the long run, the incentives in balance-based models will greatly promote financial inclusion but also stated that these models are significantly more difficult and costly to manage than transaction-based ones. They suggested that an evolutionary transition from a transaction-based approach to an integrated approach will be healthy for Indian

Research Gap:

Most of the studies have covered issues like the role of BCs in Financial Inclusion, Challenges and Problems faced by BCs, and reasons for not using the Bank Accounts. Few have examined the functionality of BCs. No particular study has been taken up with regard to Business Correspondents Model being regarded as the most effective marketing strategy of the banks for provision of services to the rural low income groups of the society and as a means of reaching the unreached and its success in improving the penetration as well as usage of Bank Accounts.

Objective of the Study

The objective of the paper is to analyse the performance of the Business Correspondents as a suitable marketing strategy adopted by RBI for deepening banking penetration by reaching the unreached, in India. The subsidiary objective is to suggest a few measures to improve the performance of Business Correspondents in achieving the goal of rendering better services to the rural masses.

Scope of the Study

The scope of the present study is limited only to the role played by the business correspondents in opening of accounts in the unbanked areas and provision of banking services in the form of basic banking services like depositing money, securing loans and direct transfers etc. to a certain extent this study also covers the suggestions to improve the usage of bank accounts by the rural customers.

Period of Study

The period of study is 11 years i.e. from 2011 to 2021

Methodology

The study is based on the secondary data collected from various sources like Journals, RBI Bulletins and Published Annual Reports of RBI and articles published in internet.

Statistical Tools

The study makes use of simple statistical tools like CAGR and Simple Charts.

Introduction of Business Correspondents by Banks to Reach the Unreached and Deepen Penetration

Right from the beginning (since independence) the Government of India has been pursuing the objective of achieving inclusive growth and has taken a number of financial inclusion initiatives in the form of Economic Planning, Nationalisation of Scheduled Commercial Banks and relaxation of KYC norms to encourage expansion of bank branches in the rural and semi-urban areas, establishment of RRBs in the remote and rural areas etc. Banks operate a number of channels through which they deliver financial services: Bank Branches, ATMs and the Internet Banking are the traditional channels. To support the financial inclusion effort and to leverage the advances in banking technology, two kinds of third party banking agents were created – Business Facilitators, who would primarily be involved in creating awareness, processing and opening of accounts, and Business Correspondents, who could, in addition to the functions of the Business Facilitators, mobilise deposits and disburse credits on behalf of the banks

The BC/BF model has proved to be an effective way, for the banks, to reach the un-reached population at large, customers and intermediaries alike. In this model banks did not have to invest in costly infrastructure of a branch to reach the un-banked areas and at the same time the people who remained excluded so far were assured of easy access to financial products and services. For this to happen a large number of BCs/BFs, who are not bank employees but are outsourced by banks - across the country to function as their agents were needed and were utilised. This has helped to bring the hitherto 'excluded' rural poor in banking threshold and has helped to establish an open, inclusive and egalitarian society in the rural areas and make financial inclusion a reality with in a time frame.

The adoption of BC Model by the banks under the aegis of RBI, lead to increased penetration of banking services to the hitherto neglected remote areas which can be shown from the details of progress made by the Business Correspondents over the years as exhibited in Table 1 below

Table 1 – Banking Penetration and Progress of Business Correspondents

| Particulars | Mar 2011 | Mar 2012 | Mar 2013 | Mar 2014 | Mar 2015 | Mar 2016 | Mar 2017 | Mar 2018 | Mar 2019 | Mar 2020 | Mar 2021 | CAGR % |
|-----------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------------------|---------------------|--------|
| Banking Outlets in Villages | 116208 | 181753 | 268454 | 383804 | 553713 | 583307 | 598093 | 569547 | 597155 | 716101 (1253177) | 993535 (1900523) | 23.94 |

| | | | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------------------|------------------------|-------|
| Banking Outlets in Villages through BCs | 80802 | 141136 | 221341 | 322301 | 504142 | 531229 | 543472 | 515317 | 541129 | 682651 (1194640) | 1554212 (1844732) | 34.40 |
| Urban Locations Covered through BCs | 3771 | 5891 | 27230 | 60730 | 96847 | 102552 | 102865 | 142959 | 447170 | 538565 (324507) | 10,59,397 (1412529) | 75.74 |
| BSBDA Total (in Millions) | 104.76 | 138.50 | 182.1 | 243 | 398.1 | 469 | 533 | 536 | 532 | 364.8 (638.4) | 588.53 (663.1) | 18.84 |
| BSBDA Total Amount (in Billion) | 76.12 | 120.41 | 182.9 | 312.3 | 440 | 638 | 977 | 1121 | 1410 | 1140.02 (1995.03) | 1887.35 (2136.46) | 37.86 |
| BSBDA through BCs (in Millions) | 31.63 | 57.30 | 81.27 | 116.93 | 187.8 | 231 | 280 | 289 | 319.5 | 209.83 (367.2) | 346.39 (391.9) | 27.04 |
| BSBDA through BCs Amount (in Billion) | 18.23 | 10.54 | 18.22 | 39 | 75 | 164 | 285 | 391 | 532 | 447.34 (782.84) | 824.49 (950.21) | 46.40 |
| ICT-BC Total transactions (No. in Millions) | 84.16 | 141.09 | 250.46 | 328.57 | 477 | 827 | 1159 | 1489 | 2102 | 1330.8 (2328.9) | 1914.83 (2109.5) | 36.68 |
| ICT-BC Total transactions (Amount in Billions) | 58 | 97.09 | 233.88 | 524.4 | 859.8 | 1686.9 | 2652 | 4292 | 5913 | 3514.21 (6149.87) | 5845.13 (6622.11) | 58.61 |

Source: RBI Annual Reports – Progress of Financial Inclusion

Note: The figures in the brackets are for the period April 2019 to Dec 2020 as reported by RBI, so they have been adjusted for the present period proportionately i.e. from April 1st 2019 to Mar 2020, similarly figures for 2021 are provisional ones and they are for the period Jan st 2021 to Dec31st 2021 and for calculating CAGR have been taken proportionately.

From the above table it is observed that the number of banking outlets in villages have grown rapidly on account of BCs. The number of banking outlets in villages have increased from 1,16,208 in 2011 to 569547 in 2018 and to 9,93,535 by 2021 registering a CAGR of 23.94% , while the number of banking outlets in villages through BCs have increased from just 80,802 in Mar 2011 to 515317 in Mar 2018 and to 15,54,212 in 2021 registering a CAGR of 34.40% and the CAGR of urban locations covered by BCs is 75.74% indicating that the Business Correspondents have contributed positively to account penetration by deepening banking penetration by setting up banking touch points to provide access to the banking services to the rural masses living in remote areas. here it is also found the Private Sector banks have also started using the BCs to set up banking touch points in the urban locations so the CAGR registered is quite high.

The BCs, apart from facilitating in deepening the outreach are also being engaged in the banking business at a premise other than that of the banks and are mobilising savings in the form of deposits to the banks which is clear from the fact that the BSBDA accounts that were only 104.76 million in Mar 2011 have increased to 536 million by Mar 2018 and then to 588.53 million by 2021 registering a CAGR of 18.84% while the Amount deposited through these BSBDA accounts increased from Rs. 76.12 Billion to Rs.1121billion in the same

period. The BSBDAs through BCs have increased from 31.63 million in 2011 to 289 million in 2018 and then to 1887.35 million in 2021, registering the CAGR of 37.86% while the growth in the amount of BSBDAs through BCs during the same period was 46.40% as the amount increased from 18.23 Billion Rs. in 2011 to 391 Billion Rs. by 2018 and to 824.49 Billion Rs. by 2021.

The ICT- BC total transactions also increased from 84.16 million in Mar 2011 to 328.57 in Mar 2018 and then to 1914.83 million by 2021, registering a CAGR of 36.68% while the amount of these ICT – BC transactions increased from 58 Billion Rs. to 5845.13 Billion Rs. during the period 2011 to 2021, registering a high CAGR of 58.61%. All these highlight the fact that the BCs are efficiently working for deepening penetration of banking services and are contributing positively to the ethical goal of financial inclusion in India.

The advantages of Business Correspondents can be stated as follows

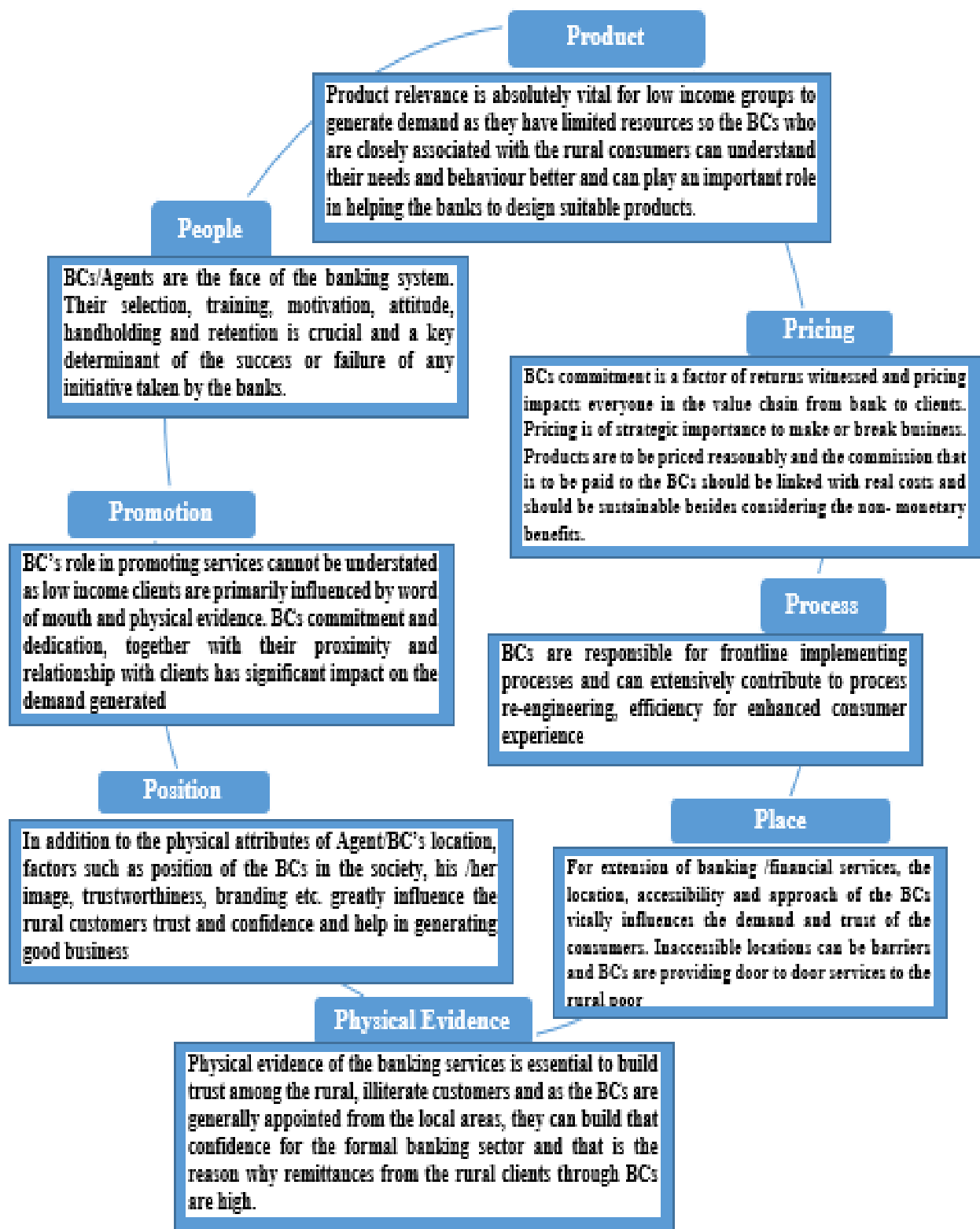
Business Correspondents / Business Facilitators (BC/BF) will help banks in:

- Reaching out to the unbanked people by identifying potential customers and encouraging them to open their accounts
- Learning about the needs of these people and advising / counselling them about appropriate bank products and services.
- Due to their ignorance and lack of required financial literacy many villagers are not using the accounts so the BCs help them in completing formalities that are needed to transact with banks.
- Educating customers about terms of sanction, repayment and recovery of the loans.
- Putting through / helping in putting through basic and small-value transactions of rural people

In spite of having many of these advantages and the BCs contributing positively to the cause of financial inclusion many stakeholders opine that there is a need to transform its current status as a “Social Add On” into a “Sustainable Business” because many of the accounts opened by BCs have remained non-operational and there is a need to adopt a suitable marketing strategy which would help in attaining profitability by transforming the account holders into active users with a different skill set.

Business Correspondents can influence the demand for financial services with their differential market led approach of assessing and ascertaining the needs of their target market and designing innovative products as per the expectations of their clients and providing them quick and affordable services. Their 8 P Marketing Strategy framework can be stated as follows

8 P Marketing Strategy of Business Correspondents



Source: Micro Save Report

Findings

- The number of Banking Outlets in villages through BCs have increased much (CAGR of 34.40%) and the CAGR of urban locations covered by BCs is 75.74% indicating their vital role in deepening banking penetration and reaching the unreached.
- The BSBDAs through BCs have also increased (CAGR of 37.86%) while the growth in the amount of BSBDAs through BCs during the same period was 46.40% which indicates that the BCs are mobilising savings in the form of deposits for the banks.
- The ICT- BC total transactions have increased (CAGR of 36.68%) and the amount of these ICT – BC transactions also increased at a high CAGR of 58.61%.

Suggestions

- BCs should have a **longer term vision** and should work with dedication and patience.
- They should **deliver Client Value** as the satisfied customer only can be retained by the banks.
- Should bring in **Product Innovation**. As the BC maintains cordial relations with the customers he knows their requirements so he can cater to the needs of the clients by delivering the products designed to satisfy the customers.
- **Go for Market Differentiation** – the BC needs to understand that his target market is different and specially when he is dealing with the poor, illiterate and technophobia clients he has to build in trust and confidence so that the banks provide the financial products to the customers at an affordable cost.
- Transform the operating model into a **Profitable and Sustainable Business Model**. The strategy adopted by the BC should be carefully designed in such a way that the structure, system and the process is refined and made flexible so that the complex procedures are simplified and the BCs are easily approachable so that the banks have to improve their scores on negative factors and their operations made easier to not only attract the customers but also retain them.
- Business Correspondents should not only act as the **Service Providers** to the customers but also turn into **Solution Providers** by guiding them promptly and treating them with dignity and honour.
- **Be good agents** for the banks by working honestly for the ethical cause of serving the poor and also putting in efforts to make the service providers sustainable business operators.
- Communication system is the effective tool for customer information and persuasion and the Business Correspondents can **effectively communicate** with the rural poor in an informal atmosphere in the language known to them and can gain trust and convince them to use the financial services provided by the banks for their upliftment.

Conclusion

Deepening financial access in a viable manner is possible with commercial banks expanding and strengthening the existing BCs and BFs that are the local touch points at the front-end and are contributing positively to the ethical cause of attaining inclusive growth. The BCs can be considerably strengthened by building their

capacity through training; enabling them with appropriate technology; infusing them with sufficient working capital; providing them a line of credit to originate loans at the local level and using a well-planned marketing strategy which will help the banks in attaining profitability by transforming the account holders into active users with a different skill set.

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