

AGENT BANKING IN THE RURAL AREAS : SELECT CASES ON OPERATIONS & IMPEDIMENTS IN NORTH BENGAL

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ABSTRACT

Financial Inclusion has gained much popularity around the world and is emerging as a new paradigm of economic growth that induces reduction in poverty throughout the country. It is a process through which the vulnerable and weaker sections of the society are brought within the ambit of formal financial system. Financial Inclusion is potentially a viable business proposition for the banks due to the large untapped market, which cannot be covered through the conventional brick and mortar model as the cost of servicing those unbanked location is extremely high compared to the benefit accruing from it. As a result, the bank has resorted to a technology-based Agent Banking Model that is cost effective and provides banking services to the urban and rural population at a lower cost. Since agent banking has a crucial role to play in providing services on the doorstep of the last mile of the population, the identification and overcoming of barriers remains a major task. In this paper, we tried to study the operational barriers encountered by the banking agent and explored the potential for growth and sustainability of the agent network through the case study method.

Keywords : Financial Inclusion, Agent Banking, Business Correspondents

I. INTRODUCTION

Financial inclusion through banking agent networks based on the use of digital financial services is now in the process of ensuring the inclusiveness of the unprivileged segment of society in formal financial systems. As stated by Usha Thorat (2006) in the last decade, financial inclusion means 'provision of affordable financial services, access to payment and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded.' Although financial inclusion has been on the agenda for the government and policy makers for a long time, the provision of accessibility to the large non-banked population was accelerated only after a policy announcement on the Financial Inclusion by Extension on Banking Services was made in January 2006. The Circular allowed the banks to engage third party agents known as Business Facilitators and Business

Correspondents to provide financial services to those segments which were excluded from the banking network.

Agency Banking can be promoted to cater the need and provide services to the unbanked people residing in the rural inhabitants; one can increase the accessibility by providing banking services at the doorstep of the people. Agent network can be leveraged by the banks for improving its presence in those locations where the bricks and mortar branches are not available making it technologically feasible and sustainable due to its low cost. Thus, the priority should be to increase the accessibility and usability of the account regularly for deposit, withdrawal, savings, remittances, insurance, pension and credit. The model is considered unique because of its reach and scale, the quality of the services provided, and the technological platforms that have enabled these services (Kumar et al. 2006). After the roll

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out of Pradhan Mantri Jan Dhan Yojana (PMJDY) there has been a major improvement in the reach of banking and financial services to the unbanked population. According to the Annual Report of RBI (2017-18) the number of Business Correspondent (BC) on March, 2018 have increased to 6,58,276 out of which 5,15,317 BC are in rural areas while the remaining 1,42,959 BC are operating from the urban outlets.

II. ROLE OF AGENT NETWORK IN FINANCIAL INCLUSION

Agent Network has gone through major transformations since its inception from the year 2006. Initially, banks use to appoint BC entities which uses to be a non-profit company registered under section 25 of the Companies Act, 1956 while they use to provide banking services through their technological partners. Further they use to appoint Network Agent who used to serve the customer in the field. Later, during the year 2010, bank permitted 'for profit' companies registered under Companies Act, 1956 as BC. During the year 2014, RBI allows non-deposit taking NBFC (Non-Banking Finance Companies) and Micro Finance Institution (MFIs) operating as NBFC can operate as BC of the banks. Agent based banking act as a low cost alternative channel to regularly serve the poor and unprivileged populace residing in the far flung remote areas compared to the branch based banking.

Network Agent act as an interface between the bank and customer, providing banking services from the Customer Service Point located in the unbanked villages. They operate either through handheld devices or Kiosk devices, since the Network Agent belongs to the local villages; it becomes favourable for the villagers to avail the product and services available at the Customer Service Point without any obstacles. Kolloju (2014) has found that due to the Business Correspondent Services banks are getting vast exposure to the rural population without opening any bank branch, while the unbanked people belonging to the remote area are getting easy access to basic banking facility at their doorstep thus making it an economically feasible and customer friendly banking model for the poor.

“Brazil's correspondents have gradually

proceeded towards the provision of more complex financial services, although clearly their role in credit services is still very limited.”(Kumar et.al., 2006). However, every attempt to operate the BC system is not successful as several problems crop up while operating these systems which has to work in tandem with the banks, the customers, the individual agents and of course the digital service providers. These need deliberations so as to sort out the thorns in the bed and ensure the desired goals.

Veniard and Melinda (2010) pointed out that the major impediments to the functioning of traditional banking in rural areas are the high costs of providing banking and financial services to the poor. Similarly, agent banking can serve a high transaction, low balance account that is common among the poor segment of society, while close proximity to people will increase the transaction by adding more revenue to their existing business.

Dhar and Sarkar (2016) assessed the expectations and actual perceptions of the agents regarding the various aspects of operation as BC through Importance Performance Analysis and found that “the primary deficiency lies in the 'tangibles' category where 9 out of 10 indicators need to be improved. Training from BC Entity or Bank, support from technology vendor, utility of Hand Holding Machine, availability of smart card on time, digital connectivity etc. are perceived to be much below in terms of performance. Further, operational indicators relating to amount of remuneration and income, disclosure about commission calculation system are not up to the expectations of the field workers.”

According to George et al., (2016), “financial inclusion in India is largely dependent on a robust last mile agent network model and there is a fresh need to catalyse radical changes in the functioning of the 'last mile' delivery agents by enabling effective financial access which comprises accountability and standard guidelines, agent availability, agent viability, better agent support and effective monitoring and supervision.” Even though Digital financial services are being delivered through agent network in majority of low and middle-income countries there are multiple challenges which

needs to be addressed for its smooth functioning and achievement of laid down objectives.

III. OBJECTIVE & RESEARCH METHODS

The study aims to find out the operational difficulties encountered by BC while servicing the unbanked population and try to identify and suggest as to how the impediments can be dealt with for enhancing the growth and sustainability of the BC Model. In this paper attempts have been made to explore the operations and the impediments faced by the BC (original names of BC have been kept confidential on request) operating in the different areas of North Bengal in West Bengal.

Cases have been developed to understand the operational problems of the BC. The cases have been prepared using personal interview with BC, Bank Branch Manager and BC Customer along with telephonic conversation and on-site observation during their operations. One of the key benefits of using cases is their ability to capture what Hodkinson and Hodkinson call 'lived reality'. As they put it, case studies have the potential, when applied successfully, to 'retain more of the "noise" of real life than many other type of research' (Hodkinson and Hodkinson, 2001). While attempting to study situations via cases it is natural that as one gains in depth of the study there is a loss in the breadth of the study. Moreover, cast in a narrative format, descriptive case studies can make complex situations accessible and interesting to a non-technical audience. Problems of Agents are rather varied in nature and needs to be studied specifically in depth rather than resorting to broad aggregative analysis using quantitative methods.

In fact much of the motivation for digging into the problem through cases was derived from the success of using cases by FINCA International to study journey to deploy agency banking over the past four years, with the goal to provide strategic, operational, and technical learning for other institutions that are considering deploying or building upon a similar channel. (Were & Lin 2017). Two cases have been presented in this paper so as to give more of the noise of real life of network agents. The names of the BC have been changed due to the issue of confidentiality. The inputs for the case have been collected through frequent discussions and interviews

with the agents and customers using pre-drafted checklists and through personal observations made by the first author of this article.

IV. PRESENTATION OF THE CASES

CASE ONE : NAME OF THE NETWORK AGENT – SONY CHETTRI

i. Commission

Each Network Agent is provided a monthly commission which includes both fixed and variable component. Fixed Component of Rs.3300 pm for which 100 activities and 25 days login has been mandated though 21 days login is also accepted while the variable commission depends on the amount of transaction like deposit, withdrawal, remittances, account balance maintenance and loan recover etc.

ii. Lack of Awareness

There are a large number of nearby customers of home bank (on-us transaction) and other bank (off-us transaction) who goes to the bank branch or ATM either for deposit or withdrawal of less than Rs.10,000, but are reluctant to do business at the Customer Service Point due to the lack of awareness.

iii. Liquidity Issues

Majority of the customer visit the Customer Service Point for withdrawal, whether the customer is of home bank (on-us) or non-home bank (off-us), but due to the liquidity issue customers are denied transactions. Even Overdraft limit of Rs.25000 creates liquidity crisis for BCs.

V. Lack of Continuous Accessibility

The basic objective behind the introduction of Agent network in India was to provide continuous banking services to all the citizen residing in different parts of the country at their doorstep saving travelling time and cost, but in reality it is found that many of the agent are providing services only during the banking hours.

Vi. Digital Transaction Impediments

Service downtime has become a major concern for the CSP operator, even though the network is good yet the transaction completely fails due to the server being out of operation. She stated that on an average 10- to 15 customers are denied transaction due to server problems.

CASE TWO : NAME OF THE NETWORK AGENT **-SOMIKSAHA**

i. Digital Transactional Impediments

ATM Debit Card have been sent to the Network Agent for distributing it to its customers, but in reality it is being found that majority of the tea garden worker are declining to accept ATM cum debit card fearing that it may be misuse either by their kin or closer one in their family.

ii. Lack of Proper Grievance Redressal Mechanism

Agents are maintaining a register for deposit and withdrawal wherein the customer are asked to put their signature or thumb either in case of withdrawal and deposit but no register is maintain for any grievances or complaint regarding the services availed through the agent by the customers.

iii. Commission & Income

Commission is not being paid regularly by the Corporate BC; there is a delay in payment every month creating dissatisfaction and uncertainty among the agent. The banking and financial services like granting home loan, car loan, personal loan, booking railway ticket, air ticket, paying electricity bill and selling health insurance of third party product were promised to them from the BC system, which can fetch additional commission for them. But in reality, no such product and services have been offered to them which is largely affecting their earning potential.

V. THE PRESCRIPTIONS

- OD Balance limit needs to be increased from Rs.25000 since many of the customer belonging to different banks have Aadhaar linking or ATM cum Debit Card and they can easily withdraw the money from the CSP rather than visiting the bank branch or ATM, saving both the cost of time and travelling.
- Bank should focus on disbursing more liquidity to the BCs as this will direct the customer towards the CSP making it more accessible by the masses, which gradually can be used by the bank to sell more product and services including the third party product at lower additional cost, fetching revenue

to both the bank and BCs.

- Both the Banks and Corporate BC should ensure timely payment of commission to the agent to make them feel certain and reliable regarding the recipient of commission every month. This small step can bring a major change in their attitude making them more attached and inclusive in serving the rural customers.
- Interoperability is a game changer in the field of agency network adding more premiums in the earning of the agent but in reality it is being found that the Corporate BC are asking the agent not to transfer the money of other banks as it might get blocked resulting into a hardship for BCs. Thus, many of them are not transacting other bank account transfer resulting into a loss of commission for the agent and the customers are also suffering incurring additional cost to visit the branch just to transfer the money. Lesson can be learn from the international experience including that of Tanzania where interoperability resulted in an exponential growth in mobile money adoption and usage (George et al., 2016)
- Bank Branch official needs to visit the CSP at least once in a two month which has to be a surprise visit without informing the agent as this will throw the clear picture of running the CSP by the agent. Officials also needs to talk to the local customer about the functioning and services of the agent, similarly the transaction register and slip needs to be matched to check if any discrepancy arises.
- Lack of Awareness in the rural belt especially in the tea garden where the majority of the population are illiterate is acting as major hindrances in the sustainability of the BC. Proper coordination along with the Branch Official needs to be done and conduct awareness campaign basically on the day of Gram Sabha when the large numbers of people are gathered.
- Bank and Corporate BC needs to understand the ground reality while servicing the poor people. The product and services offered by the bank cannot be uniformly suitable for all the category of the


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customer; they need to build a tailor made product according to the requirement of the customer which will ultimately benefit the bank.

On the whole, the system attributes of the agency banking system in rural areas are by far very good in principle and policy. However, if the system impediments in operations cannot be addressed at the grass root level, the success of Agent Banking in India will never be able to reach the outreach standards of Brazil or other sub-Saharan countries.

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