

# A study of SHG Members as Business Correspondent for Financial Inclusion



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# Executive Summary

The report “*A study of SHG Members as Business Correspondent for Financial Inclusion*” is based on sample survey conducted in three districts in Uttar Pradesh and four districts in Madhya Pradesh with 30 Banks Sakhis, 45 BC/CSP and 300 clients of BCs. The report provides a professional documentation of primary/secondary data collected on the performance of Business Correspondents and interpretation thereof. The main objective of the study was to examine viability of SHG member as BC and what are the issues and modalities in their functioning. Comparison of SHG-BC with other Business Correspondent (BC/CSP) Models and post Pradhan Mantri Jan Dhan Yojana (PMJDY) scenario was also examined to explore the implementation requisites and policy options for improving business prospects of BCs and financial inclusion in general.

A number of BC/CSP model have been operating for financial inclusion. Government and banks are consistently taking innovative ways to expand the banking services at lower cost and with minimal resources for reliable and sustainable model for financial inclusion. Shri Kshetra Dharmasthala Rural Development Project (SKDRDP)’s BC Suvidha Model and NABFINS Model as Business Correspondent Network Manager (BCNM), NBFC - (ND) - MFIs as Banking Correspondents, Corporate BC/ Kiosk Banking/CSP BC Model are some most prevalent BC models. In 2012, the Rural Financial Institutions Programme (RFIP) initiated to connect two approaches of SHG-Bank Linkage Programme (SBLP) and Financial Inclusion (FI) through BCs with an objective to improve the integration of bank agents into the community by appointing women SHG member as BC agents called as “Bank Sakhi”.

Success of BC model not only depends on performance of supply side stakeholders i.e. BCs, Banks, TSP, SHPIs, but also on satisfaction of clients and services availed through this channel. Keeping in view this fact, 300 clients, associated with business correspondent (BC/CSP/SHG-BC) were interviewed for getting their perspective on overall experiences on different aspects of BC channel. Out of these 300 sample, 180 (60%) client samples were from rural areas and rest 120 (40%) were from urban/semi urban areas. out of total 300 clients 159 (53%) were female and 141 (47%) were male clients. Highest number of clients (46.8%) were landless agricultural labour and other labourers, the next significant category was farmers (29.9%), self-employed (14.4%) and others (8.9%).

- ☛ Monthly income of almost half 79% of the clients was less than ₹ 6000/- and 18% clients in range of ₹ 6000/- to 10,000/-. Only 3% clients had income in range of ₹ 10,000/- to 15,000/-.

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 Out of total 300 surveyed clients, 36% had availed loan from institutional sources in past one year. Out of this 49% had taken from Banks, 29% from SHGs and 22% from/MFIs.
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 Besides these, another 37% people had borrowed from other/informal sources. So altogether 73% clients had loan liabilities.
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 For most of the clients, amount of loan was small. 28% clients had loans of less than ₹ 10,000/-. Another 31% clients had loan liabilities between ₹ 10,000/- to ₹ 25,000/-, 23% clients were indebted for ₹ 25,000/- to ₹ 50,000/- and 15% had availed loan of for ₹ 50,000 to 1 lakh. Number of clients having loan liabilities of more than 1 lakh was only 1%. This reflect that the BC/CSP/SHG-BC are serving poorest of the poor in rural areas.
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 About 68% clients were opened account on the persuasion of BC/CSP/SHG-BC, another 24% clients had opened account on their own initiative and 8% clients were referred by banks.
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 Out of 300 clients, 47% reported that saving was the main purpose for opening an account. The next preferred service availed through account was having a recurring deposit account (11%). The main reason behind this practice was that a large number of account holders were also SHG member and these were encouraged by their mentor SHGs to open an RD account for saving. Availing Kisan Credit Card (9%) and Micro-Insurance (9%) were also cited as the next reason for opening accounts. Micro Pension (7%), Loan (5%) and Remittances (5%) were the other reason for opening account.
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 Only 49.33% clients were aware about benefits and financial products offered under PMJDY. However, the number of account opened under PMJDY (55%) was more than the clients who were aware about the scheme. Out of total 300 clients, 41% of them don't had knowledge and awareness regarding the process and benefits incurred from having a bank account.
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 About 39% clients don't have money to save or transact through their account, so their account were idle.
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 Ease of access (30%) due to availability of banking services at door step and hassle free easy process (25%) emerged as the major factors, which encourage a client to open and operate an account with BC/CSP/SHG-BC. About 8% clients also had reported that, the association with BC/CSP/SHG-BC helped them to increase awareness in financial matters.
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 About 30% clients responded that they were not satisfied with BC/CSP/SHG-BC as they were expecting additional services e.g. help in sanctioning general loan, MUDRA Loan, Kisan Credit Card (KCC) and overdraft facility etc.








In our survey it was found that, since the Bank Sakhis are appointed from SHG members, therefore; 90% of Bank Sakhis were working in rural Area. In contrast to this only 36% Bank Mitra worked in rural areas, rest 64% were operating in urban/sub-urban areas. It was observed that, 33% Bank Sakhi had graduation or higher level of education, whereas this figure was 73% for Bank Mitra. However, there was no direct effect of education on their business or understanding of their work. Bank Sakhis were as equally active and vigilant for their work and responsibilities as the Bank Mitra. On an average a Bank Mitra has three time more accounts than Bank Sakhi. Average Number of total accounts was 2027 for Bank Mitra and 769 for Bank Sakhi. The maximum account with a Bank Mitra was 14,000, whereas it was 3,600 for a Bank Sakhi.

- ☞ It has been observed that 53.6% clients of Bank Sakhi and 40% clients of Bank Mitra were landless farmer and other labourers. About 27.1% account holders of Bank Sakhi and 32.7% account holders of Bank Mitra had farming activities as their source of livelihood. They constitute economically most weaker section of the rural economy. About 12% clients of Bank Sakhi and 16.8% clients of Bank Mitra were self employed, shopkeepers, small vendors, hawkers, rural business owners, SHG members and other small enterprenures.
- ☞ On an average, a BC/CSP was making fixed investment of ₹ 64,829/-, which was ₹ 39,450/- for SHG-BC. In case of SHG-BC operating with POS Machine, the fixed investment was about 18,500/- only, including security deposit.
- ☞ The average recurring expenditure of a BC was ₹ 3158/-, which was ₹ 971/- for SHG-BC.
- ☞ On an average a BC/CSP has three time more accounts than SHG-BC. Average Number of Accounts was 2027 for BC/CSP and 769 for SHG-BC. A BC/CSP was opening 51 accounts in a month, whereas a SHG-BC was opening 28 accounts in a month.
- ☞ A BC/CSP was doing 467 transactions in a month on an average, whereas this number was 357 for SHG-BC. As per an estimate, minimum 300 transactions per months are required to attain break-even for a BC.
- ☞ Average gross income of a BC/CSP was ₹ 9690/-, which was ₹ 6490/- for SHG-BC. However, net income for BC/CSP was ₹ 5992/-, and ₹ 5190/- for SHG-BC. Which is almost similar for both, due to high investment and higher operating cost of BC/CSP model.
- ☞ After PMJDY, monthly opening on of new accounts has increased 4.5 times for BC/CSP and 4 times for SHG-BC. Monthly number of transaction, reaches 467 in post-PMJDY (after August, 2014) period from 223 from pre-PMJDY period for BC/CSP. The corresponding figure for SHG-BC was recorded 357 from 169 respectively for the same periods.

The Business Correspondent faces several problems from every single tier of the model. The sustainability of the BC model, cash management and liquidity issues, maintenance of minimum balances, least number of transactions etc. are some issue inherent with the design of BC models. Besides these, BCs are facing many other practical problems, which hinders their smooth functioning. The problems are categorised in three group i.e. management related, administration related and operational problems.

- Coordination with Sponsoring Bank (in case of RRBs), coordination with Corporate BC/ Technical Service Provider and asymmetry between BC and Client Needs were identified as the main managerial problems.
- Account opening by BC and its verification at bank's end; dormancy in BSBD (No-Frills) accounts, administration of other than BSBD Account; and payment of remuneration were major administrative problems faced by BCs.
- Limited working/catchment area for Banks Sakhi; technical problems related to network/software/hardware (POS machine) and lack of awareness among customers regarding products and services are operational challenges for BC.
- As per BC/CSPs, lack of due support from concerned authorities of bank branch was the next big issue for 17% of them after low commission rate (38%). About 15% BC/CSPs also indicated that their catchment area is limited in terms of both; geographical reach and inter-bank operation.
- In case of SHG-BCs, low rate of commission was a major issue for 45% of them. Further, 11% SHG-BC were not satisfied with high seasonality and related instability of work and limited working area.
- Survey data reveals that 55.6% SHG-BC and 71.1% BC/CSP were struggling with internet and network problem.
- 31.1% BC/CSP and 11.1% SHG-BC reported that, there business was limited due to lack of awareness among customers.
- 24.4% BC/CSP and 8.9% SHG-BC had reported that they were not getting proper attention and cooperation required for smooth functioning.
- In addition to this, there are some specific policy issue like standardize of BC Policy and technology, technology to allow a BC to act on behalf of multiple banks, client security, product diversity, promotion and marketing, certification of BCs etc., which are equally important for promotion and escalation of this model.

It has emerged that, there is need to introduce more innovative approach in terms of operation and management of BCs. Some recommendation to accelerate the business of BCs and make this model successful for sustainability of the model and financial inclusion in wider perspective are as follows:

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 Product Diversity and inclusion on other financial product is one of key aspect, which may increase the viability of BCs. Some banks have allotted their BCs/ SHG-BCs BSBDA plus works like, forwarding loan applications for KCC, General Credit Card (GCC), Overdraft (OD), renewal/ rescheduling KCC, GCC, term loan proposals, MUDRA loan proposals, promotion/ nurturing of SHG, and Joint Liability Group (JLG), monitoring of loan accounts, recovery of NPA/Overdue amount, distribution of notices, mobilisation of deposits, third party insurance, health insurance, Direct Benefit Transfer (DBT), generation of loan applications for solar sets and other third party products etc..
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 The BCs are allowed to work under limit of ₹ 5,000/- to 20,000/- daily transaction. These limitations confine the business volume of BCs, who are performing better. There is need to make timely payment and extend the overdraft limit of BCs on need based basis.
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 BCs are also mobilising high value customer but they don't have such resources to promote their business except individual promotion. Therefore, banks need to integrate the Business Correspondent (BC) model into their business strategy and promote them as business entities.
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 There is scope to extend better performing BC/SHG-BC as customer service points. They may be allowed to perform e-KYC, using Aadhaar integration, Aadhaar UID Integrated system to deliver cash, enrolment for different pension payments and rural e-governance initiatives for different state governments. Aadhar, PAN and passport applications may also offer some additional income to BCs in rural areas. The BCs may allowed to provide these services.
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 A huge opportunity is available with RRBs to easily rope in BCAs/ CSPs for taking on a business facilitator role and persuade them for formation, monitoring and extending hand holding support to the JLGs, as an add-on function. This will not only externalize some of the bank's functions viz., mainly of monitoring, ensuring high touch, hand holding and following up for timely repayments but will also enable the BC Agents to get additional income from managing the JLGs.
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 There is lack of awareness amongst clients about various schemes of financial inclusion and their utility. Therefore, it is equally important to increase awareness and interest in products offered under various schemes of financial inclusion. BCs also required training for client mobilisation beyond the SHG group members for their sustainability.
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 Some important sensitive aspects for proper functioning and success of BC/SHG-BC are cash handling and security measures, service facilitation to BCs, grievance redressal related to remuneration, business claim, client's account etc., Coordination with Technical Service Providers (TSP) and coordination with self-help group promoting institutions (SHPI). Therefore a well-trained and dedicated staff is required for promotion of BC/SHG-BCs.

- ❶ Different banks are also providing varying amount ranging from ₹ 1500/- per month to ₹ 5000/- per month for a limited time period (usually four to six months) to encourage the BCs. This variation dis-incentivises and endorses a sense of unfair opportunities among BCs, while they are getting different income for similar work. This may be addressed at policy level.
- ❷ There are lack of straightforward strategy and long term vision regarding business potential and other demand side factors. Therefore, it is required to standardise practices, products and the services offered by BCs.
- ❸ The BC work, especially for individuals, requires some minimum basic literacy and proficiency regarding banking products and practices. BCs with a good track record and advanced training can be trusted with more complex financial tasks such as credit products that go beyond deposit and remittance. Therefore, a graded system of certification from basic to advanced training of BCs is essential.

It has been observed that, the BC model itself is still under experimental phase and only few banks have adopted SHG-BC this model. Therefore, it is too early to judge as success or failure of the model. However, the SHG-BC model has demonstrated successfully that how the SBLP and the BC model can be converged for financial inclusion, with potential benefits for the bank, service providers, and the customers. Despite the restricted mobility, limited social circle, and low comfort with technology, the SHG-BCs are performing better than conventional agents. The introduction of PMJDY has helped the SHG-BCs to expand their avenues through BC/BF activities. The sustainability of the approach is critically dependent on the institutions and stakeholder involved. There is need to confiscate the barriers mentioned in the study and expand the scope of BC/SHG - BC model for viability of work as well as extending financial inclusion.