



BRANCHLESS BANKING FOR THE POOR AS A PART OF FINANCIAL INCLUSION

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Abstract:

Financial Inclusion is one of the most significant initiatives taken by the Government of India and the Reserve Bank of India. Indian Banks must embrace financial inclusion as an economically viable and profitable business activity by innovation in service delivery process and information technology solutions to lower costs of transactions and improve customer acceptance and satisfaction. Business Correspondent (BC) agents have been a key resource in ensuring that the unserved population receives banking facilities. Based on these grounds the study focused on the awareness, usage and frequency of usage of services of branchless banking models in selected areas of Mangalore and Udupi districts and to determine motivating and hindering factors affecting branchless banking adoption in rural areas. It has been found that majority of the customers are aware about branchless banking alternative and with the help of Business Correspondent they opened a bank account and also operating their account every now and then. During the study it was observed that branchless banking alternative helped the customers to increase their level of savings, consumption and also increased their standard of living. Study also reveals that lack of trust and confidence among the customers is a hindering factor to adopt branchless banking alternatives. The consumption aspect was used as a way to measure the effects on welfare. Most of the customers have experienced an overall increase in the use of financial products although the use of insurance products remains low. This clearly indicates that branchless banking has positive impact on financial inclusion.

Index Terms: Financial Inclusion, Branchless Banking, Business Correspondent & Bank Account

Introduction:

1.1 Background of the Study:

Financial inclusion is based on the principal of equity and inclusive growth and will be the catalyst to empower the poor to contribute to the social and economic growth of India. As per 2011 census, about 58.7 percent households had reported availing of banking facilities. Out of the 24.69 crore households, 14.48 crore reported availing banking services, nearly 10 crore households were not availing the services; which is a significant percentile of the population. Branchless banking will usher in banking for the unbanked in India and will provide a window in financial inclusion for a large segment of the population which is poor and unbanked. Branchless Banking needs to see as the key enabler of financial inclusion of the poor in India.

The self-service concept in many businesses has considerable recognition. It plays a vital role in reducing costs to an organization by facilitating automated interface between service provider & customer. As banking service has gone through a positive technological change, it should also be noted that any such change is not considered good unless it is usable, understandable and finally adoptable by the user. It is increasingly clear that 'inclusive growth' is a compulsory requisite for smoothening our country's journey towards growth and development. Inclusive financing is the delivery of financial services at affordable costs to the sections of disadvantaged and low income segment of the society. As real India lives in rural India area, inclusion of these

neglected segments in the socio-economic mainstream and enabling them to reap benefits of globalization should stand as a priority.

1.2 Problem Statement:

As Branchless Banking alternatives occupied main space, banks started getting trust and confidence that they can manage to lend the service with the help of technology at a lower cost. But it could never enable any rural individual to conduct transaction from a remote location by fastening the process of financial inclusion. Despite making sufficient improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to reach the vast portion of the population. When it comes to effective and faster penetration of banking into each and every individual in the rural area and households, branchless banking is considered as an alternative of financial inclusion.

1.3 Objectives of the Study:

- To study the awareness, usage and frequency of usage of services of branchless banking models.
- To determine motivating and hindering factors affecting branchless banking adoption in rural areas.
- The study is also aimed to learn about potential users of branchless banking services among rural people.

2. Literature Review:

From literature reviewed, the major reason for the introduction of Branchless Banking in many nations of the world is that, it is seen as a way of reaching the unbanked. The unbanked can simply be described as those individuals that do not have any form of account with a bank, Anderson (2007) defined the unbanked as diverse group of individuals who remain outside the banking mainstream for many reasons.

Many of unbanked people who are usually low income people are less exposed to technology (Coetzee, 2005), In India, Vinayak (2007) cited an Indian lady who claimed that she has never entered a bank in her life due to the fact that the nearest branch was 8 km far away from the village.

One of the most accepted solution to this problem is the shift- from the Branch-based Banking System to the adoption of Branchless Banking System. Guatam (2008) opined that if the unbanked Africans cannot go to the Bank, it is the Bank that must reach out to them and it is possible only through Branchless Banking. African Banks are now moving closer to the 230 million unbanked households in Africa's rural areas through advanced satellite technologies (IT News, 2008). CSR News (2000) also revealed that, the rapid growth of Branchless Banking is reducing the cost and expanding the availability of such service to those in developing countries who lack access to financial services.

Rangarajan Committee (2008) on financial inclusion stated that: "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." The financial services include the entire gamut of savings, loans, insurance, credit, payments, etc. The financial system is expected to provide its function of transferring resources from surplus to deficit units, but both deficit and surplus units are those with low incomes, poor background, etc. By providing these services, the aim is to help them come out of poverty.

Indian Institute of Banking & Finance (IIBF) opines, "Financial inclusion is delivery of banking services at an affordable cost ('no frills' accounts,) to the vast sections of disadvantaged and low income group.

A perusal of literature on finance and economic development reveals that the earlier theories of development concentrated on labor, capital, institutions, etc., as the factors for growth and development. There have been numerous researches analyzing how financial systems help in developing economies. A great deal of consistency exists among economists regarding financial development prompting economic growth. Many theories have established that, financial development creates favourable conditions for growth through either a supply leading or a demand-following channel. According to Rajan and Zingales (2003), development of the financial system contributes to economic growth.

Empirical evidence time and again emphasizes the relationship between finance and growth. According to the works of King and Levine (1993) and Levine and Zervos (1998), at the cross-country level, evidence indicates that various measures of financial development (including assets of the financial intermediaries, liquid liabilities of financial institutions, domestic credit to private sector, stock and bond market capitalization) are vigorously and positively related to economic growth. The topical endogenous growth literature structured on 'learning by doing' processes, allocates a special role to finance (Aghion and Hewitt, 1998 and 2005). The researchers so far have not only looked at how finance facilitates economic activity, but also social aspects like poverty, hunger, etc. The consensus is that finance promotes economic growth, but the magnitude of impact differs.

Methodology:

3.1 Data Collection:

Primary data was collected by administering a semi-structured questionnaire. This type of questionnaire used both closed and open-ended questions. Two different set of questionnaire for banks and customers were prepared and distributed to 300 respondents in South Canara and Udupi districts. Secondary data was collected through review of both empirical and theoretical data from books, journals, dissertations, magazines and the internet.

3.2 Data Analysis:

Before processing the responses, the completed questionnaires were edited for completeness and consistency. Quantitative data collected was analyzed by the use of descriptive statistics such as frequency and percentage and presented through frequency tables. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives.

4. Result and Discussion

4.1 Demographic:

The study found that majority of the respondent as shown by 62 percent was male whereas 38 percent of the respondents were female. 61 percent of the respondents were aged between 25-34 years. Majority of the respondents were possessed below SSLC. Major portion of the respondents were belong to the income group of below Rs.10, 000 per month and they are daily wage based workers.

4.2 Awareness and Usage of Branchless Banking (Business Correspondent):

100 percent of the respondents possess bank account and in that 36 percent of the respondents motivated by PMJDY and 32 percent of them motivated by Business Correspondent appointed by the particular bank. 80 percent of the respondents possess SB Account from more than 3 years. 79 percent of the respondents aware about Branchless Banking and 69 percent of them at least once in a week operate their account. Out of all the alternatives of Branchless banking (i.e., ATM, Mobile banking,

Internet Banking, BC etc.) majority of the respondents aware and use the services of Business Correspondent.

4.3 Motivating and Hindering Factors for Branchless Banking:

43 percent of the respondents said that they use branchless banking channels mainly to save out of their income. 89 percent of the respondents opined that banking transactions through branchless banking saves their time, cost, wages and energy, BC come to their home door or Customers to go their BC to do their banking transactions. The main reasons for not using branchless banking alternatives are apprehension of technology, fear of mistake, unaware, illiteracy. 85 percent of the respondents said that they are not able to get insurance facility.

4.4 Potential Users of Branchless Banking:

A majority of the surveyed claimed that these services had contributed to an increased use of transaction; saving and loan service meanwhile the use of insurance products had not increased as dramatically. Majority of the respondents opined that, they are satisfied with the overall services of branchless banking.

5. Conclusion and Recommendations:

Being a part of the financial inclusion, Branchless banking model has been termed as an effective tool to provide basic banking services to the under privileged economy and also can be said at a cost and time effectiveness model which saves a lot of expenditure and time both to the customers and the bank. Business correspondent service to the customers is also termed as important because he/she is the only person through which the Bank can provide service to the rural masses. Based on the findings it is inferred that a large proportion of rural population in both South Canara and Udupi districts do not have bank accounts for reasons which include insufficient money and fear of insecurity of funds deposited with banks. Branchless banking which presently have no impact on the banking habit of the people due to reasons such as lack of awareness about these facilities, lack of access to the basic delivery channels and infrastructure facilities. Finally, the study concludes that if all the necessary infrastructures and awareness programmes can be put into place, Branchless Banking will be an effective tool for reaching the unbanked people. Based on the above findings, the study puts forward the following recommendations-

- ✓ Awareness level about branchless banking is low. In real what comes in branchless banking people are not aware of it. There is a need for awareness program and authorities have to show concern to promote branchless banking.
- ✓ The information on cost and benefit in branch and branch less banking should be passed to users and some percentage of benefit should be given to users who are availing branchless banking.
- ✓ Business correspondence must be able to offer their customers a positive and consistent service. They need continual support from the bank to help customer, maintain cash flow and provide technological support for any devices or equipment they utilise.
- ✓ The Bank needs to audit the security measures being taken by the agent to ensure the customer can transact confidently. RBI should take the measures to retain the Business Correspondence by paying good incentives.

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