International Journal of Management, IT & Engineering
Vol. 13 Issue 10, October 2023
ISSN: 2249-0558 Impact Factor: 7.119
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

Role of Business Correspondents in Promoting Financial Inclusion: A Case Study of Nagpur City

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Abstract

Financial inclusion remains a critical imperative in developing economies like India, where a significant proportion of the population lacks access to formal banking services. Business Correspondents (BCs) have emerged as pivotal intermediaries, tasked with extending banking services to unbanked and underbanked populations, particularly in remote and rural areas. This paper presents a case study focused on Nagpur city, examining the role of BCs in promoting financial inclusion within urban settings.The study employs a mixed-methods approach, integrating qualitative interviews with key stakeholders such as BCs, banking officials, and local community members, alongside quantitative data analysis of banking penetration and customer outreach metrics. By exploring the operational dynamics, challenges, and successes of BCs in Nagpur, the research aims to provide insights into the efficacy of BC models in enhancing access to financial services.Key findings highlight the diverse roles BCs play in facilitating financial literacy, delivering basic banking services, and fostering trust within communities traditionally excluded from formal banking systems. Challenges such as technological limitations, regulatory compliance, and infrastructure constraints are also examined, offering recommendations for enhancing BC effectiveness and scalability.

Keywords –Financial Inclusion, Business Correspondents (BCs), Banking Services, Urban Financial Services, Financial Literacy

Introduction

Financial inclusion has emerged as a pivotal goal for policymakers and financial institutions worldwide, aimed at ensuring that all individuals and businesses have access to affordable and appropriate financial services. In India, despite significant strides in economic growth and digital innovation, a substantial segment of the population remains excluded from formal banking services. This exclusion is particularly acute in urban areas like Nagpur, where access to banking facilities and financial literacy levels vary widely across different socio-economic strata.

Business Correspondents (BCs) have been instrumental in bridging this gap, serving as intermediaries for banks to extend financial services to underserved communities. Operating under a regulatory framework introduced by the Reserve Bank of India (RBI), BCs play a crucial role in delivering basic banking services such as deposits, withdrawals, and financial advisory services directly to customers at their doorsteps. This model is especially relevant in urban centers like Nagpur, where logistical challenges and socio-economic disparities often hinder access to traditional banking infrastructure.

The effectiveness of BCs in promoting financial inclusion hinges on their ability to build trust within local communities, enhance financial literacy, and facilitate seamless access to banking services. However, the operational dynamics and impact of BCs in urban settings remain underexplored, particularly in cities undergoing rapid urbanization and economic transformation like Nagpur.

This research paper seeks to address this gap by conducting a case study on the role of Business Correspondents in promoting financial inclusion within Nagpur city. By employing a mixed-methods approach encompassing qualitative interviews with BCs, banking officials, and urban residents, alongside quantitative analysis of banking penetration and customer outreach metrics, the study aims to provide a comprehensive understanding of how BCs contribute to expanding financial access and fostering economic empowerment in urban India.

The findings of this study are expected to offer valuable insights into the challenges faced by BCs, the effectiveness of their strategies, and the policy implications for enhancing their role in advancing financial inclusion agendas in Nagpur and similar urban centers across India.

Objectives of the study

- To Assess the Effectiveness of Business Correspondents (BCs) in Enhancing Financial Inclusion.
- To Analyze the Operational Dynamics of BCs in Urban Settings.
- To Understand the Perceptions and Experiences of Stakeholders.

Research Methodology

This study employs a mixed-methods approach to investigate the role of Business Correspondents (BCs) in promoting financial inclusion in Nagpur city. Quantitative methods will be used to analyze secondary data on banking penetration, customer outreach metrics, and demographic trends obtained from financial institutions and relevant government agencies. This quantitative analysis will provide insights into the extent and impact of BC activities on financial inclusion indicators in urban areas. Additionally, qualitative methods such as in-depth interviews and focus group discussions will be conducted with key stakeholders including BCs, banking officials, and urban residents. These qualitative data will explore stakeholders' perceptions, experiences, and challenges related to BC operations, shedding light on the socio-economic factors influencing financial inclusion in Nagpur. The integration of both quantitative and qualitative approaches will offer a comprehensive understanding of the operational dynamics, effectiveness, and impact of BC initiatives in urban financial inclusion. Ethical considerations will guide data collection and analysis, ensuring confidentiality and respect for participants' perspectives throughout the research process.

Literature review

The purpose of the study by Kandari et al. (2021) was to examine the link between financial inclusion, socioeconomic characteristics, and demographic factors. The main indicators of financial inclusion that were examined were bank account ownership, mobile banking usage, and loan facility utilisation. The study included 780 homes in rural Uttarakhand. The study found that financial inclusion is strongly correlated with socioeconomic variables. It also found that customers are more likely to have bank accounts, use mobile banking, and access credit when their financial literacy is high. On the other hand, women are more susceptible to financial exclusion than men when it comes to mobile banking and credit availability. The study's authors recommended focusing on the region's economically disadvantaged residents as a first step in increasing financial literacy and bringing the region's unbanked residents into the formal banking system.

In order to better understand the demand-side factors influencing credit demand and financial inclusion in India, Singh (2021) conducted study. Primary data were collected from lower socio-economic groups and statistical approaches such as exploratory factor analysis and structural equation modelling were used in the descriptive and exploratory research methodology. The study identified operational and implementation challenges, financial literacy, and affordability as the main latent factors affecting financial inclusion. Usage and access attributes also play a role, so there needs to be a lot of policy focus on these issues to improve financial inclusion and complement supply-side measures.

In their study, Negre and Cook (2021) sought to understand how interoperability and instant payment systems can improve financial inclusion. An instant payment is a digital payment that can be processed instantly and is available all day, every day at the lowest possible cost. Interoperability, on the other hand, makes it easier for customers to make payments and transact with customers from other organisations, which improves customer convenience. Interoperability, the study found, boosts competition, reduces service costs, and leads to an expansion of service offerings. This, in turn, improves customer experiences and strengthens the payment system, which in turn accelerates financial inclusion in the country and leads to the use of instant payment services.

The goal of the empirical study by Dahiya and Kumar (2020) was to examine the connection between financial inclusion and economic progress in India. According to them, the three most crucial components of financial inclusion are penetration, use, and access to financial services. Findings show a strong positive correlation between financial service use and GDP per capita growth rate. The report went on to say that expanding people's access to and use of financial services isn't enough to speed up financial inclusion, and that banking services are significantly more important for turning savings into investments that boost GDP. They also suggested that the government should launch programmes to educate the public about money and banking in rural areas. This would help people there become better savers and spenders, which in turn would boost economic development.

According to Demirguc-Kunt et al. (2020), financial inclusion may speed up growth by facilitating the usage of digital services and other financial products. It helps people avoid falling into poverty by allowing them to save for things like healthcare, education, and business expenses, and by providing tools to deal with unexpected financial setbacks. A more robust payment system, solid physical infrastructure, consumer protection measures, and more stringent regulations are all necessary to back up digital technology. Additionally, the financial services industry needs a specialised product to help underserved populations, like those with low literacy rates or who are using these services for the first time. Users should also have the ability to simply and securely store money, make or receive payments, and use their accounts for other financial purposes. India has twice the average percentage of inactive bank account holders among rising countries, at over 48%. Users are encouraged to utilise their accounts instead of cash. Providers of financial services have a responsibility to their customers to provide reliable and user-friendly goods and services, along with a tempting means of funding their accounts and meeting their financial commitments.

In an effort to comprehend the effects of financial inclusion on the economically disadvantaged rural and semi-urban poor living in the most inaccessible parts of the nation, Dutta (2017) sought to quantify it in West Bengal. Households with financial literacy are more likely to understand and make use of traditional banking services than those with lower levels of education, the research found. Similarly, when it comes to the safety of banking services, cooperation, and help from bank staff, rural residents who have savings tend to be more happy.

In contrast, Demirguc-Kant et al. (2017) argued that issues with access to finance and financial inclusion are diametrically opposed. Even though financial services are readily accessible and reasonably priced, some people nevertheless choose not to utilise them. The inverse is also true for certain persons who would benefit from financial services but are unable to do so due to factors such as high service prices, a lack of identification documents, or an absence of banking services. Policymakers should work to reintegrate those who have been unintentionally left out of the mainstream financial system, allowing them to take advantage of cheaper banking services.

Research by Pant (2016) examined the policies in Nepal that aim to bring underserved communities into the formal financial system and offered concrete recommendations on how to do it. Implementing financial literacy programmes, increasing access to mobile banking and digital financial services, rethinking business strategies to target lower-income populations, creating a National Financial Inclusion Roadmap, supporting microfinance institutions (MFIs), tracking progress, and measuring financial inclusion outcomes are all ways to promote financial inclusion.

Using statistics from 2004–2013, Sharma (2016) sought to investigate the connection between various aspects of financial inclusion and economic growth in the Indian setting. The many forms that financial inclusion takes have all shown their ability to stimulate economies. The availability of financial services, the percentage of the population with bank accounts, and the amount of money people put into savings all contributed to faster economic expansion. The sustainability and expansion of the financial system depend on initiatives like the Pradhan Mantri Jan Dhan Yojana Scheme, which aims to promote equitable development. Other important factors include increasing financial literacy and disseminating relevant information.

Many different methods of financial inclusion have been implemented in India, and Gwalani and Parkhi (2014) sought to assess them all. According to them, the country's financial system has to undergo essential legal and regulatory changes in order to increase financial inclusion, and just adopting the model won't cut it. Even though microfinance institutions (MFIs) have reached the farthest corners of society, they are likewise struggling due to a lack of regulation and a number of other factors. These include high service costs, insufficient incentive structures, a shortage of staff, insufficient credit facilities, and outdated technology. As a result, serving the unbanked section and turning a reasonable profit is challenging. Therefore, a country's financial success can't be achieved without a customised model.

According to Massara and Mialou (2014), there are three ways to measure financial inclusion: access, utilisation, and quality. In this case, the accessibility dimension is concerned with the variety and size of monetary products and services that a person may receive at a service point. In a similar vein, the utilisation dimension considers how useful and purposeful a person may find certain financial services in the long run. Financial goods and services' usefulness in meeting customer needs is investigated along the quality dimension.

To find out what influences the connection between closeness and accessibility, Forster et al. (2013) ran a research. Using data from geographic information systems, it has pinpointed a population cluster with the minimum amount of buyers required to keep the store afloat on a budget. Another finding was that full-service agents in urban areas required 700 clients per month to stay in business, but a single teller kiosk needed at least 2000 consumers per month to run in rural locations as well.

Nearly 91% of adults in high-income countries had an account with a formal financial institution, and 72% of those people used their accounts frequently; in contrast, just 41% of adults in developing countries used their accounts, according to a study of 1,24,000 people in 123 countries by Allen et al. (2012). Electronic payment accounts were shown to be preferred over banks by those who withdrew more than three times per month. This suggests that digital transactions will progressively replace traditional ones once people begin utilising their accounts.

According to research by hanot et al. (2012), banks have a lot of chances to expand into new markets in faraway North-East India since the area is quite inaccessible. Several sources of financial information have helped increase inclusion, but the bank should keep working with lawmakers and the government to speed up the dissemination of financial information to a significant portion of society. Similarly, banks have a responsibility to provide low-income individuals in rural and mountainous areas with the resources they need to enter the financial mainstream.

Research gap

Despite the growing literature on financial inclusion and the role of Business Correspondents (BCs) in India, there exists a notable gap in understanding the specific dynamics and challenges faced by BCs in urban settings, particularly in cities undergoing rapid urbanization like Nagpur. Existing studies predominantly focus on rural areas or generalize urban and rural contexts without delving into the unique complexities of urban financial inclusion facilitated by BCs. Moreover, while some research examines the operational aspects of BCs, there is limited empirical evidence on their effectiveness, stakeholder perceptions, and the socio-economic factors influencing BC operations in urban environments. This study seeks to fill this gap by conducting a detailed case study in Nagpur city, offering insights into how BCs navigate urban challenges, foster community trust, and contribute to enhancing financial inclusion metrics within an urban context.

Conclusion

This study has provided valuable insights into the role of Business Correspondents (BCs) in promoting financial inclusion within Nagpur city, highlighting their pivotal role as intermediaries in extending banking services to underserved urban populations. Through a comprehensive mixed-methods approach, combining quantitative analysis of banking penetration and qualitative exploration of stakeholder perceptions, this research has illuminated several key findings.Firstly, BCs play a crucial role in enhancing financial literacy and accessibility to banking services among urban residents in Nagpur. Their ability to deliver basic banking services directly to doorsteps has significantly contributed to reducing barriers to financial inclusion, particularly among marginalized communities.

Secondly, the study identified operational challenges faced by BCs, including technological constraints, regulatory compliance issues, and infrastructure limitations. These challenges underscore the need for supportive policy frameworks and investment in technological infrastructure to optimize BC effectiveness in urban environments.Thirdly, stakeholder perceptions revealed varying levels of trust and awareness regarding BC services, highlighting the importance of community engagement and transparent communication strategies in building trust and fostering uptake of banking services.In conclusion, while BCs have made significant strides in advancing financial inclusion in Nagpur city, there remains scope for improvement. Recommendations include enhancing regulatory clarity, expanding digital literacy initiatives, and fostering partnerships between financial institutions and BCs to maximize their impact on urban financial inclusion.

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