

## **5<sup>th</sup> State Financial Inclusion Forum (SFIF), Odisha Meeting**

Theme: “Financial Inclusion through BCs: Prospects & Challenges”

Date: 29<sup>th</sup> January 2015 (10.00AM-02.00PM)

Venue: Hotel New Marrion, Bhubaneswar

### **Summary of proceeding**

**Background:** Small Industries Development Bank of India (SIDBI) in partnership with Department for International Development (DFID), UK, is implementing a bilateral project titled “Poorest States Inclusive Growth (PSIG)” programme. The programme aims at to facilitate better access to financial services by the poor and to promote pro-poor investments in India’s four poor states of Bihar, Odisha, Uttar Pradesh and Madhya Pradesh. The key mandate of the programme as earlier said is to improve access to both financial as well as non-financial services(savings, credit, insurance, pension, remittance, mobile banking, BCs etc) for poor people and to strengthen the institutional framework so as to help the poor in improving their income and quality of life through multi-farious initiatives.

*ACCESS-ASSIST* has been assigned by PSIG to coordinate the initiatives on policy advocacy in the above four states as well as at the National level. Setting up of a multi-stakeholder, State Financial Inclusion Forum (SFIF) in each PSIG focus state has been agreed as one of the key mechanisms to achieve the objectives under the policy advocacy component at the state level. The SFIF is expected to act as a platform to facilitate effective coordination and synergy among all stakeholders in creating an enabling environment and accelerating the process of financial inclusion in the state.

Going by the consensus from the members and other stakeholders, the 5<sup>th</sup> SFIF meeting was organized on the underlying theme of **“Financial Inclusion through BCs: Prospects & Challenges”**. The secretariat undertook a series of visits to Banks and BCs to understand the modalities of BC-banking which helped in preparing the background note for the meeting. Understanding the nature of the deliberation, the secretariat in consultation with PSIG-SIDBI team invited RBI, Banks, BCs, sector experts, besides the SFIF members. The event was by far the most engaging discussion of all with large participation from all key stakeholders including the RBI. The list of SFIF members and other participants of the meeting is provided in ***Annexure 1***.

### **SUMMARY OF PROCEEDINGS**

#### **1. Overview on the BC Model:**

It is understood that it is too expensive on the part of commercial banks to reach each villages by establishing brick-mortar branches. Thus the Business Correspondent model, initiated by RBI in 2006, gives ample opportunities to expand financial access by creating an extensive network of village-level touch points. Thereby the role of BCs is significant and they can be very effective if they are being used efficiently in order to serve the remote clients. As per recent data from SLBC, all the Commercial Banks together have opened about 5855 CSPs through several BCs, covering a total of 30230 villages in Odisha. Altogether 6702732 no. of accounts have been opened through these CSPs, out of which around 3923984 numbers are now operational.

No doubt that the BC model has been one of the cost effective channels to reach out to the excluded segment of the clients living in rural and remote areas, however, it still faces multiple issues and challenges. The delegates present in the meeting had very enriching deliberations on the BC model, its role in financial inclusion, key issues, and challenges. More importantly they discussed on how that can be addressed collectively by all stakeholders to make it more effective channel to reach out increased number of poor clients in the state.

## 1.1 Experience of BCAs:

From among the established BCs, some prominent ones like Zero Mass Foundation (ZMF), Swayanshree Micro Credit Services (SMCS) and SAHAJ attending the meeting shared their invaluable experience about the BC model. Some of the very important points and issues shared by them are given below:

- The initial investment to run a CSP is burdensome for many BCs, especially the smaller ones. There is also the cash flow problem at CSP level, as just only payments go through them; no cash comes in-for making it self-reliable. Overdraft facility is yet to be given by banks to BCs.
- Sometimes it looks like the cost of transaction to serve the rural clients has been transferred to the BCAs from Banks. So the onus to serve clients with limited resources is now on BCs. Apparently there is lack of ownership with some of the banks for BC model
- It is also discouraging to see that many of BCs suffer from recognition as an agent of the particular bank. They yet to find banks have anywhere publicly advertised about the organization working on behalf of them are legitimate entities to distribute banking services in the locality.
- There are frequent issues of untimely payment from the banks. The worse thing happens when the branch manager transfers or retires and someone new takes the post.
- Some of the bigger BCs having reasonable resources, infrastructures and technology like Zero Mass Foundation (ZMF) has been able to expand the services through BC model well by continuously upgrading the technology base. The ZMF has used the mobile-the best possible way to sort out last mile connectivity issues. The mobile couple up with hand-held printers and biometric identification system has helped it serving 22 banks in opening 17256676 accounts in 596 districts of 24 different states across the country.
- Still the big BCs also are encountered with the similar problems and token commission for small value deposits after investing huge amount on the infrastructure.
- The connectivity problem during the transaction creates doubts in customer's mind which sometimes makes them think twice to come back to the CSP as end of the day the safety of their hard-earned savings is at stake.

YES Bank started its own BC model in 2013 and has now 5 partners operating in 86 branches in Odisha. The interest rate under this model varies between 15-26% where the BC gets 10 to12% commission out of that to cover their operational expenses. However, the FLDG deposit in advance (5 to7.5%) has been an issue for some of the smaller partners as they find it difficult to arrange the amount. The model is not yet discussed in SLBC although RBI is aware on it.

## 1.2 Experiences from Banks:

- From the discussion, it was clear that the banks take care of the due diligence while recruiting BCAs. But for successful implementation of the model, the CSPs commissioned by the BCs need to be more efficient and their monitoring is equally important. Though Banks have designated officials at various levels to monitor the CSPs but sometimes it becomes difficult to address multi-focused approach of the banks with limited staffs.
- Banks agreed that despite their continuous efforts-the acceptance of BC at the branch level is very poor. This is happening only because of the reputational risks of the bank is involved in some way or other.
- But the enormous contribution that these BCs have made under the PMJDY, we are gradually getting the good signs of their acceptance at the branch level.
- To make them economically sustainable the banks are coming up with IMPS, NPS (L) etc for the BCs to distribute at the CSP level and thereby the commission from these services would

address the cash flow issues. After these additional services added to the CSP's kitty, the current average transaction of about 10 per day (SBI) would then be increased to some more numbers.

- The banks have earlier experienced the non-repayment on the issue of over drafts and so they are critical in doing so currently.
- Financial Literacy: The banks now employing Financial Literacy Counselors who visit the Gram Panchayat and address the villagers about the benefits of various products of banks.
- As far as the issues of connectivity is concerned, banks itself face the same issue in remote areas; thus the same problem will be solved in the long run with the advent of more superior technologies.
- Offline mode of working through BC/CSP is difficult to control by the banks. There is a question mark on the cash handling at the CSP/BC level when it is offline or connectivity issue is there.
- PSU Banks-there can be board approved policies for BC business similar to the YES Bank model and the PSU banks can use this concept through BCs, but yes without charging higher interest rates.

## **2. Open Discussion**

During the open discussion on the model, all the delegates provided their inputs on the prospects and challenges of the BCAs. The response about the progress of the model unfolded several interesting issues/points which are like:

- The branch staffs near to the BC location sometimes unaware about the presence of the BC in and around their operational area(s), thus creates confusion on the credibility of the BCAs in the locality.
- The attrition rate at the ground level (of BC) is quite high and that affects the bank's operation as well as reputation.
- Financial inclusion through BCs shouldn't be limited to banks or MFIs, all the Govt departments with target specific schemes can be merged and there should be a target based approach- recruitment of BCs in semi-urban areas shouldn't be taken in similar manner to that of tribal/mountainous areas.
- Similarly, the training and capacity building of BCs also need to be taken care of looking at the location where the BC will be operating.
- The role of Govt departments is critical in spreading financial literacy and the same can be included in school curricula with the orders from HRD/Education Ministry. So that the people would understand that there is an entity of the bank which is called BC and will be available in their vicinity to address their financial needs.
- RBI is continuously advocating on increasing the commission to BCs and also supports the model. The entire commission structure can be discussed between the bank and the BC.
- The same commission issue can more effectively address at the SLBC meetings as the particular committee happens to be in each state. Otherwise this can be discussed at the meeting of sub-committee of SLBC.
- Publicity/brand building – Need for mass media advertising to promote recognition of BCs as authorized agents.

## **3. Suggestions on the effective use of BC/BCAs/CSPs:**

Deepening financial access in a viable manner is possible with commercial banks expanding and strengthening the existing BCs that are the local touch points at the front-end. The comprehensive set of Business Correspondents that already established at the village level can considerably be

strengthened by enabling them with appropriate technology; infusing them with sufficient working capital; and providing them a line of credit to originate loans at the local level. So that a substantial part of the expenses of the BCs can be suitably recovered.

Other key elements that were suggested like;

- **Providing adequate training and building the capacity of BCs:** Institutions like SIDBI, NABARD, RBI, academic institutions of repute, can come in together to develop minimum training curriculum and duration for BCAs.
- **Encouraging BCs to expand operations:** In addition, the BC could be encouraged to offer micro-savings, micro-credit, domestic remittance, NPS (L), and insurance schemes such as life and personal accident.
- **Recognition of BCs:** The banks may educate their customers through various means – print, electronic, etc. - the role of the BCs and their obligation towards the customers.
- The BC model can succeed only if the banks own up the BCs as their agents. Banks may need to have a relook at the compensation structure for BCs, which depends upon the negotiation between the two parties.
- The banks recruiting BCs need to sensitize their respective rural branch managers on the existence of their BCs.
- All the banks can work to create an enabling & inclusive environment where Civil Society Organizations (as BC) play an important role in identifying rural entrepreneurs on behalf of banks.

#### 4. SFIF Action Points & Way Forward:

- Discuss with SLBC on the possibility of creating a specific agenda on BC model in the state. This can also be deliberated in-depth in the existing sub-committee on SGH-Bank Linkage
- Facilitate the review of the existing BC training modules by a Core Committee (5) and improve that further with addition of recent developments in financial inclusion sphere.
- Explore the possibilities of supporting the smaller BCs including imparting trainings for them.

#### 5. Next Meeting

- Next SFIF meeting (6<sup>th</sup> meeting) is proposed to be held in 2<sup>nd</sup> week of April 2015.
- Theme: PMJDY & Financial Inclusion-Accounts Opened What Next??

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#### **Annexure-1**

##### **List of Participants-SFIF Members**

Sl. No	Name & Designation of SFIF Member	Representing Institution	Present
1	Dr. T. K. Pradhan, Director	Institutional Finance, Govt. Of Odisha	Member
2	Mr. S. Ramakrishnan, GM/Regional Head	SIDBI	Member
3	Ms. Supriya Pattanayak, State Representative	DFID India	Member
4	Mr. Jagadananda, Co-Chair & Member Secretary-CYSD	Sa-Dhan & Centre for Youth and Social Development (CYSD)	Member

5	Mr. H. K. Pradhan, Professor	XLRI, Jamshedpur	Member
6	Mr. Ambika Prasad Nanda, State Program Officer	UNDP	Member
7	Ms. Nayana Mohanty, CEO	Swayanshree Mahila Samabaya Ltd	Member
8	Mr. B. P. Samantaray, Convenor	SLBC (UCO Bank)	Mr. U. Jagadala, Sr. Manager
9	Mr. Govinda Pattnaik, MD & CEO	Annapurna Microfinance Pvt. Ltd	Mr. Satyajit Das, Chief Finance Manager
10	Mission Director, OLM	Odisha Livelihood Mission	Mr. B. M. Pattanaik
11	Mr. S. Hansda, Sr. Divisional Manager	LIC of India	Mr. A. K. Sahoo (P& GS)
<b>SFIF Members (Absent)</b>			
12	Mr. S. K. Kale, CGM	NABARD	
13	Mr. Manas Pani, Head	Dhanei- KGFS	
14	Dr. Haribandhu Panda, Pro-Vice Chancellor	Centurion University of Technology and Management	
<b>Special Invitees Present</b>			
15	Ms. M. Usha, AGM	Reserve Bank of India	
16	Mr. S. S. Acharya, DGM	SIDBI	
17	Mr. Parshuram Nayak, Wholetime Director	SMCS	
18	Mr. Baburam Parida, AGM (Outreach)	State Bank of India	
19	Mr. Satya Mishra, AVP	YES Bank	
20	Mr. R. K. Bal	Utkal Grameen Bank	
21	Mr. Netra Mohan Patra, Div. Manager	Canara Bank	
22	Mr. Devarshi Negi, Director-Finance	Mahashakti Foundation	
23	Mr. S. R. Mohanty, Sr. Manager	Syndicate Bank	
24	Mr. Neelanchal Pradhan, MD	GU Financial Services	
25	Mr. P. C. Behera	SMCS	
26	Mr. Sujit Satapathy	SAHAJ	
27	Mr. Manoj Jena, State Head	ZMF	
31	Mr. Ashish Prasad, Sr. Manager	Union Bank of India	
32	Ms. Sharda	Union Bank of India	
33	Mr. S. N. Sahoo	ODISHA	
34	Mr. Manoj Kumar Das	ZMF	
<b>Other Delegates present</b>			
35	Mr. Rajesh Kumar, State Director-PSIG	SIDBI	
36	Mr. Pravanjan Mahapatra, Theme Leader	SIDBI	
37	Ms. Radhika Agashe, Executive Director	Access-Assist	
38	Mr. Narendra Nayak, Associate Director	Access-Assist	
39	Mr. Arjun Pagal, Sr. Project Co-ordinator	Access-Assist	

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