



# Comparative Study of Various Business Correspondent Models in Uttar Pradesh and Karnataka



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An ISO 9001:2015 Certified Institution Promoted by NABARD





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# Director's Message



With a view to ensure greater financial inclusion and to provide comprehensive financial services to the underprivileged, particularly in unbanked and under-banked areas, the Reserve Bank of India in 2006, recommended for engaging the services of Business Correspondents (BCs). NABARD has been supporting this initiative of increasing banking penetration through BCs by providing monetary backing to banks (by utilizing FIF) for infrastructure development for BCs as well as by providing them with required training from its affiliated institutions.



Business correspondents provide financial and banking services such as deposits, remittance, insurance and many other banking services to people living in remote rural and unbanked areas, and have been playing a critical role in realizing government's financial inclusion initiative. Since its inception in 2006, many scheduled and non-scheduled banks have adopted BC model to offer their services to clients. According to the RBI's Annual Report 2020-21, till Dec 2020, approximately 360 million BSBD accounts have been opened in banks through BCs and the deposit mobilized in these accounts amounts to ₹772 billion.

However, while the BC organizations have been experiencing business growth in terms of client outreach and transaction volumes, many are struggling to remain financially viable. In addition, BC agents who are crucial to the success of the model are also struggling to meet costs and maintain business viability. Thus, before endorsing the effectiveness of the BC model as an effective channel for financial inclusion, few key issues need to be addressed. The current study "Comparative Study of Various Business Correspondent Models in Uttar Pradesh and Karnataka" has been conducted to analyse comparative performance of various available BC models prevailing in Uttar Pradesh and Karnataka, identify various BC services offered to clients and gauge financial viability at BC agent level. The study has been conducted in 5 districts from 2 states, viz. Barabanki, Unnao and Raibareilly in Uttar Pradesh and Uttara Kannada and Dakshina Kannada in Karnataka. It examines 4 BC models prevalent in Uttar Pradesh and Karnataka. These include – (1) Corporate BC model, (2) SHG federation as BC (Bank Sakhi) model and (3) Individual as BC model from Uttar Pradesh and (4) Shri Kshethra Dharmasthala Rural Development Project (SKDRDP) BC Suidha model operational in Karnataka. The study has covered a sample of 8 Banks (commercial and RRB), 22 Bank branches, 44 BC agents and 220 clients.

The study has been conducted by the team of Centre for Research on Financial Inclusion and Microfinance (CRFIM) at BIRD, Lucknow. I congratulate them as also thanks all the stakeholders and agencies for their responses and essential inputs for the study.

I sincerely hope that the findings and recommendations of this extensive study will be useful for the policy makers, development practitioners and other stakeholders of the sector.

**Shankar A. Pande**  
Director



# Acknowledgments



The study report on “Comparative Study of Various Business Correspondent Models in Uttar Pradesh and Karnataka” is based on the study conducted by Centre for Research on Financial Inclusion and Microfinance (CRFIM), Bankers Institute of Rural Development (BIRD), Lucknow, in the states of Uttar Pradesh and Karnataka.

We thank the Governing Council of BIRD, Lucknow, for providing opportunity to CRFIM to conduct the study.

We gratefully acknowledge the guidance and supervision provided by Shri Shankar A. Pande, Director BIRD whose insights and suggestions were critical in shaping this report. We are also grateful to Shri Mukesh Vats, Joint Director, Shri A. K. Shrivastava, Former GM, NABARD, Shri M. K. De, DGM and the then Faculty Member, BIRD, and Shri Deepak S. Ghorpade, DGM/Faculty Member, BIRD, for their critical inputs in finalising the study parameters.

The study is the result of extensive field study and documentation by Dr. Monika Saini, Research Officer, BIRD, ably assisted by other staff of BIRD. We acknowledge their efforts and record our appreciation for their insight brought in through the report.

We acknowledge and appreciate the valuable suggestions and improvements brought about by Ms. Joan Blah, DGM/Faculty Member, BIRD, who painstakingly reviewed the report and contributed to its final form.

We sincerely acknowledge the cooperation and support received from the officials of NABARD, Regional office in Uttar Pradesh and from the DDMs of the respective districts covered under the study and convey our thanks to all of them.

We appreciate the efforts of SKDRDP for providing us with all the field insights and inputs with respect to study districts of Karnataka. This study would not have been complete without their collaboration.

We wish to thank the staff of Banks, officials of BCNM, BC agents, clients of BC agents, for their unstinted support to the study team during the field visit.

We also wish to put on record the timely editing assistance received from the secretarial staff at BIRD.

**Deepmala Ghosh**  
**CRFIM In-charge**





# Executive Summary



1. In order to promote financial inclusion amongst the unbanked, RBI developed a set of guidelines to formalize branchless banking and was called as the Business Correspondent (BC) model. This model, proposed by RBI in 2006 on the recommendations of the Khan Committee report, permits banks to appoint third party agents to offer banking and financial services on their behalf. The BC model is a most revolutionary and suitable approach for efficient last-mile delivery of financial services in rural India. This model combines technology with the personal contact of service providers with rural poor clients, which is an important factor for development of trust.
2. Following the recommendations of the RBI's report (Dr. C Rangarajan Committee) on Financial Inclusion (2008), Government of India constituted two funds – Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) with NABARD to meet the costs of various promotional and developmental initiatives to promote financial inclusion and banking technology. Since July 2015, the FIF and FITF have been merged into a single Financial Inclusion Fund (FIF). To fulfil the mandate of promoting financial inclusion and banking technology, NABARD took initiatives, such as on-boarding of weak RRBs and RCBs on CBS, expansion of payment infrastructure, adoption of post CBS technologies, conduct financial literacy programmes, deployment of PoS Terminals in Tier 3 to Tier 6 areas, training and capacity building of BCs/BFs of banks, support to SCBs and RRBs in setting up of BC Kiosks in unbanked villages of North East Regions.
3. The BC model is the corner stone of India's financial inclusion strategy to ensure delivery of banking services in remote villages across the country. In order to promote BC model, NABARD extends support under FIF to BCs/BFs, by way of reimbursement to the banks against examination fees of successful candidate taking exam of BCs/BFs as well as in funding the training and capacity building of them. NABARD has collaborated with several leading training institutions in banking sectors for such tasks, which include - IIBF, BIRD, NABCONS, and NIRB. It also grant fund under FIF for reimbursement of monthly commission paid to BC agents of RRBs in North East states, etc.
4. Since, the BC model is given considerable importance in fulfilling the mandate of financial inclusion and significant fund is vested towards it, it certainly calls for timely appraisal of the model to ascertain that if it is meeting the desired goals. Further, it is important to review and comprehend the challenges BC model is facing and work towards mitigating them, so as to make this model a success.
5. Since the inception of the BC model in 2006, various models of Business Correspondent have become prevalent in India, such as - Corporate organization working as BC, SHG federation as BC, Individual as BC, SKDRDP BC *Suvidha* model, and many others.
6. Though there exist a variety of BC models, limited information is available on the factors which affects financial viability and sustainability of the BCs, specifically at the BC agent level and major challenges faced by them. These critical issues have to be examined and addressed if the BC model is to eventually achieve long term financial viability. It is in this background the current study analyses comparative performance of various available BC models prevailing in Uttar Pradesh and Karnataka, identify various BC services offered to clients and gauge financial viability at BC agent level.



7. The current study “Comparative Analysis of Different Business Correspondent Models in Uttar Pradesh and Karnataka” was conducted in 5 districts from 2 states, viz. Barabanki, Unnao and Raibareilly in Uttar Pradesh and Uttara Kannada and Dakshina Kannada in Karnataka. The study examines 4 BC models prevalent in Uttar Pradesh and Karnataka. These include - Corporate BC model, SHG federation as BC (Bank Sakhi) model and Individual as BC model from Uttar Pradesh and SKDRDP BC *Suvidha* model in Karnataka.
8. The field work for the study was accomplished during the period of January to February 2021 and covered a sample of 8 Banks (commercial and RRB), 22 Bank branches, 44 BC agents and 220 clients. The study covered 24 corporate BC agents and 5 individuals as BC, associated with branches of - Bank of Baroda (BoB), Punjab National Bank (PNB), Indian Bank and Bank of India (BoI). It also covers 7 Bank Sakhis, associated with branches of Aryavart Bank and Baroda U.P. Bank (BUPB) and 8 SKDRDP’s BC agents working for various branches of Canara Bank and SBI.
9. Profile analysis of the sample BC agents suggests that the age of BC agents varied between 21 to 43 years and education level from 10<sup>th</sup> standard to post-graduation level. No direct correlation between age and education level on the business activities of the BC agents or in the understanding of their work, was noticed, as BC agent from every age group and education level were found to be aware of their work and responsibilities.
10. Average years of work experience as BC agents associated with different BC models, ranged from 3 years to 10 years. It was lowest at 3 years for Bank Sakhi, owing to inception of this concept in banks in recent years. Highest average years of work experience of 10 years for Individual as BC agents, can be attributed to long association of them with their respective institutions. The BC agents were found to be located in both - rural regions as well as in semi-urban locations. Thirty four agents were located in the rural region whereas, 10 functioned in the semi-urban settings.
11. Thirty two BC agents, out of the total 44 agents, had own vehicle to perform BC activities. Eight SKDRDP BC agents relied on the vehicles provided by their BCNM. While 4 Bank Sakhis were dependent upon their family members, public mode of transportation or walked, to perform BC work. Fifteen BC agents, mainly Corporate BC agents and Individual as BC agents, carried out some secondary activities for livelihood such as *Jan Suvidha Kendra*, agriculture, dairy, provisions store, etc. All the 8 SKDRDP BC agents and 7 Bank Sakhis were engaged solely in providing BC services and did not pursue any secondary source of livelihood.
12. Banks/Corporate BCs/SHPIs selected their BC agents primarily on the basis of their age, educational qualifications, their local knowledge and network. After selection, agents are provided with training by banks/BCNMs/SHPIs. Thirty nine BC agents claimed to have received training ranging from 1 day to 10 days.
13. The list of services offered by BC agents to clients, shows a significant variation. BC agents can offer only those products/services that their partner bank/bank branch want to extend through BC networks. As observed in the field, the products/services offered to clients through BC agents include – opening new account, money transactions, enrolment to social security schemes, e-KYC, Aadhaar seeding, loan lead and loan recovery. However, the actual number of products offered to clients varied among BC agents. The whole basket of 14 banking products (listed in Table 3.3) was offered only by 7 of the 24 corporate BC agents, 3 of the 5 Individuals as BC agents, and 4 out of the 7 Bank Sakhi surveyed.



14. All the BC agents (except SKDRDP BC agents) were found to be spending on capital and recurring expenditure of varying degree, to perpetuate the BC work. The capital investment included expenditure on laptop/computer/micro-ATM and other peripherals, setting up of kiosk and depositing security deposit in form of FD for micro-ATM and overdraft to undertake financial transactions. Those BC agents, who worked using laptop/computer were found to be spending more than the agents working on micro-ATM, and it varies from ₹72,929 to ₹85,000. Whereas, those agents who use micro-ATM, the average capital investment they made varies from ₹28,846 (for Bank Sakhi) to approx. ₹58,000 (for Corporate BC agent).
15. The monthly recurring expenditure was mainly on transportation, rent, electricity bill, mobile internet/broadband, stationery, etc. which varied from ₹2,410 for Bank Sakhis, ₹5,200 for Corporate BC agent, ₹5,295 for Individual as BC agent. The SKDRDP BC agent did not make expenditure from their side as everything including the gadgets, cash collection centres and vehicle for ferrying to cash collection centres was provided by the BCNM, i.e. SKDRDP.
16. The net monthly income of sample BC agent was ₹6,768 for Bank Sakhi, ₹10,876 for a Corporate BC agent, ₹11,755 for SKDRDP BC agent and ₹16,135 for an Individual as BC agent. Thus, an Individual as BC agent was earning 37% more than from SKDRDP BC agent, 48% more than a Corporate BC agent, and 138% more than Bank Sakhi. Hence, in the current study, at BC agent level, Individual as BC model is found to be more financially viable than its other counterparts. Higher income earned by Individual as BC could be attributed to factors, such as – not sharing of commission with any other agency, longer association with banks and clients, greater number of banking products offered by them to clients and more BC activities performed by them.
17. As per the information provided by bank branch managers and BCNMs - minimum of 300 money transactions are required for a BC agent for breakeven i.e. to remain financially viable and survive sustainably in BC business. Monthly average money transactions performed by various BC agents are as follows: Individual as BC – 1210, SKDRDP BC agent – 1170, Corporate BC agents - 1,135 and Bank Sakhi – 1002. Hence, all BC agents surveyed are generating enough volume in terms of number of transactions necessary for financial viability.
18. Many factors were found to be affecting the viability of BC agents, which included – high capital and recurring expenditure, less remuneration to BC agents, lack of fixed salary/earning of BC agents, delay in receiving commission, limited number of banking products to offer to clients, low cash deposit and withdrawal limit for clients, low value of overdraft limit for BC agent, technical glitches especially Aadhaar authentication failure, inadequate marketing of BC agents, less support from bank/BCNM, delay in opening account, safety issues, and lack of insurance cover for BC agents.
19. The major areas, as suggested by the BC agents, where banks could enhance their support to them are – fixed monthly salary, increase in remuneration/commissions, timely payment of commission, capital and recurring expenditure support, expansion of the range of products/services offered to clients, support in marketing and training to branch staff on handling AePS and related glitches faced by BCs.
20. About 95% of the clients (n = 220) asserted they opened account in bank to save money, 91.8% stated that they completely trust BC agents, 86.8% find this banking system convenient over brick and mortar bank branch, 54.1% appreciate the facility of transacting small amounts, 40.9% find bank too far so preferred BC agents and 35.0% were satisfied in availing BC services to receive payments under social security schemes, such as - NREGA, Pradhan Mantri Garib Kalyan Yojana (PMGKY), pensions through BC agents, etc.



21. The most preferred service among the clients availed through BC agents is the money transaction through withdrawal/deposit/money transfer and is availed by 90% of the clients. Other services received include – enrolment in PMJJBY (64.1%), opening of saving account (56.4%), enrolment in PMSBY (51.8%), enrolment in APY (20.9%) and support in availing loan (10.0%).
22. About 95% of the clients are satisfied with the services of BC agents and feel it is safe to transact with them. 85% clients find it easier to do transactions with agents as compared to banks. 83.2% clients stated that they are able to avail the banking services from BC agent as per their need.
23. However, certain issues are also being faced by the clients in receiving banking services from BC agents, which include - not receiving timely services (mainly due to too much waiting time, bank's server issue, internet network issue and lack of cash with the BC agent) (23.1%), inadequate withdrawal and deposit limit (15.0%) and transaction failure owing to Aadhaar Authentication failure (10.9%).
24. Clients expect more products and services through their PMJDY accounts, such as - loan, RD, FD, etc. They expect services such as - passbook printing and chequebooks, passbooks and debit cards to be made available through BC agents. They also desire that the cash limit of transaction with BC agents should be enhanced to ₹25,000 to ₹40,000 for withdrawal and ₹40,000 to ₹50,000 for deposit.
25. On the basis of observations in field, key challenges have been identified at various level of execution of BC model. Recommendations corresponding to challenges are suggested for effective implementation of BC model and are presented below:

S.No.	Challenges	Recommendations
1	High capital and recurring expenditure	Capital and recurring expenditure to be met by banks/BCNMs
2	High cost-low profit construct	Ensure profitability of BC agents
3	Limited products/services offered to clients	Widen banking services offered through BC agents and equip them to act as online transaction points
4	Inadequate limit of cash withdrawal and deposit by clients	Enhance cash limits for withdrawal and deposit by clients
5	Issues in liquidity and cash management	Improve liquidity management
6	Delay in payment of remunerations	Timely payment of remunerations
7	Technology and connectivity issues	Resolve technical issues including authentication failures with AePS
8	Inadequate support from parent bank/BCNM/TSP	Cooperation from bank bank/BCNM/TSP and effective grievance redressal mechanisms for BC agents
9	Inadequate marketing of BC agents	Banks to own up the BC model and introduce them as Bank's agents
10	Less financial literacy and awareness among clients	Enhance customer awareness
11	Safety issues and lack of insurance cover for BC agents	Banks/BCNMs to provide insurance cover to BC agents



27. Apart from the aforementioned recommendations, RBI could consider formalising, strengthening and recognising a Self-Regulatory Organisation (SRO) for the BC industry which can set operational standards and formulate codes of conduct for all the BCNMs. Further, a master circular on BCs/ Financial Inclusion should be framed to present a uniform regulatory framework. Practices such as - providing adequate training to BC agents on inception of the job and using existing infrastructure such as GP halls as BC kiosk, should also be adopted.
28. Provision of banking services through BC model of financial inclusion has proved to be a success in the selected regions, enabling opening of new bank accounts of unbanked people and providing related financial services, thus bringing them within the ambit of formal banking network. This certainly evidences that the BC model has the potential to bring the much-needed financial empowerment of rural people.