



Empowering Financial Inclusion: Analyzing The Impact of Business Correspondents in Nagpur City

Naziya Khan, Research Scholar, RTM Nagpur University, Nagpur
Dr. Prashant Kshirsagar, Research Supervisor, RTM Nagpur University, Nagpur

Abstract

Financial inclusion remains a critical challenge in urban India, where access to formal banking services is unevenly distributed among different socio-economic groups. Business Correspondents (BCs) have emerged as key intermediaries tasked with bridging this gap by delivering banking services directly to underserved communities. This paper presents a case study focused on Nagpur city, exploring the role and impact of BCs in promoting financial inclusion within an urban setting. Using a mixed-methods approach, this study combines quantitative analysis of banking penetration rates and qualitative insights from interviews with BCs, banking officials, and urban residents. The quantitative analysis assesses the extent to which BC initiatives have expanded access to financial services among urban populations in Nagpur. Meanwhile, qualitative data provide nuanced perspectives on the operational challenges faced by BCs, community perceptions of BC services, and the socio-economic factors influencing financial inclusion.

Key findings highlight the effectiveness of BCs in enhancing financial literacy, increasing banking penetration, and fostering community trust in Nagpur city. However, challenges such as regulatory compliance, technological limitations, and infrastructure constraints also impact BC operations and service delivery. The findings contribute to a deeper understanding of how BCs contribute to urban financial inclusion strategies and offer actionable insights for policymakers, financial institutions, and BC operators aiming to optimize BC models. By addressing these challenges and leveraging BC networks effectively, stakeholders can enhance the impact of financial inclusion initiatives and promote sustainable economic growth in urban India.

Keywords – Banking Services, Financial Literacy, Access to Finance, Socio-economic Factors, Community Trust

Introduction

Access to formal financial services is crucial for fostering economic growth, reducing poverty, and promoting inclusive development. In India, despite significant strides in economic reforms and digital innovation, a substantial segment of the population remains excluded from the formal banking sector, particularly in urban areas like Nagpur. This exclusion perpetuates socio-economic disparities and limits opportunities for economic empowerment among urban residents.

Business Correspondents (BCs) have emerged as pivotal players in India's financial inclusion agenda, tasked with extending banking services to underserved communities. Operating under regulatory frameworks established by the Reserve Bank of India (RBI), BCs act as intermediaries who facilitate basic banking transactions, financial literacy initiatives, and digital payment solutions directly at the doorstep of customers. Their role is particularly critical in urban centers where access to traditional banking infrastructure is limited or inadequate.

Nagpur city, known for its rapid urbanization and diverse socio-economic landscape, provides a compelling case study to examine the impact of BCs on enhancing financial inclusion. This study seeks to analyze how BCs navigate the urban financial landscape, address challenges in service delivery, and contribute to expanding access to financial services among urban residents. By exploring the operational dynamics, stakeholder perspectives, and socio-economic factors influencing BC effectiveness in Nagpur, this research aims to provide empirical insights into the role of BCs in empowering financial inclusion strategies.

The objectives of this study include assessing the effectiveness of BC initiatives, identifying barriers to financial inclusion in urban settings, and proposing actionable recommendations to enhance BC operations and optimize their impact on urban financial inclusion. Through a mixed-methods approach combining quantitative analysis and qualitative insights from key stakeholders, this study aims to contribute to the discourse on financial inclusion strategies in





urban India, ultimately aiming to foster sustainable economic growth and inclusive development in Nagpur city.

Literature review

Financial inclusion, defined as the availability and accessibility of banking services to all segments of society, is a critical component of economic development strategies globally (Demirguc-Kunt & Klapper, 2012). In India, where a significant portion of the population resides in urban areas, yet remains unbanked or underbanked, Business Correspondents (BCs) have emerged as key facilitators of financial inclusion initiatives (RBI, 2019).

BCs are authorized agents who represent banks in delivering basic banking services to customers at their doorsteps, particularly in remote and underserved areas (RBI, 2021). The concept of BCs was introduced by the Reserve Bank of India (RBI) to leverage existing retail networks and expand the outreach of formal banking services, especially in regions lacking brick-and-mortar bank branches (GoI, 2020).

Studies underscore the pivotal role of BCs in bridging the urban-rural divide in financial access. They enable marginalized urban populations, including low-income households and small businesses, to access savings accounts, credit facilities, insurance products, and government subsidies (Banerjee & Duflo, 2011). BCs also play a crucial role in promoting financial literacy and digital financial services, thereby empowering communities with essential financial knowledge and skills (CGAP, 2018).

Challenges faced by BCs include technological limitations, regulatory compliance, and operational sustainability (Mishra & Sahu, 2017). Urban settings present unique challenges, such as infrastructure constraints and varying customer perceptions of banking services delivered through BCs (Kumar & Singh, 2018). Despite these challenges, empirical evidence suggests that BCs significantly enhance financial inclusion metrics by increasing banking penetration and fostering community trust in formal financial systems (Sarma & Pais, 2011).

In the context of Nagpur city, a burgeoning urban center experiencing rapid socio-economic transformation, understanding the effectiveness and challenges of BC operations is crucial. This study aims to contribute to the existing literature by providing empirical insights into how BCs navigate urban complexities, address operational barriers, and promote inclusive financial growth in Nagpur.

Objectives of the study

- To assess the extent to which BCs have expanded access to formal banking services among urban residents in Nagpur city.
- To investigate technological, regulatory, and infrastructure constraints impacting BC operations in an urban setting.
- To understand perceptions and attitudes of urban residents, banking officials, and BC operators towards BC services and their role in financial inclusion.

Research methodology

This study employs a mixed-methods approach to comprehensively examine the role of Business Correspondents (BCs) in promoting financial inclusion in Nagpur city. Quantitative data collection involves conducting surveys among urban residents to assess the penetration of BC services, banking access, and financial behavior. A structured questionnaire will be administered to a representative sample, focusing on demographics, banking habits, and perceptions of BC services. Quantitative analysis will include descriptive statistics and regression analysis to identify factors influencing BC effectiveness. Additionally, qualitative insights will be gathered through in-depth interviews with key stakeholders, including BC operators, banking officials, and community leaders. These interviews aim to explore operational challenges, stakeholder perceptions, and socio-economic factors affecting BC operations and their impact on financial inclusion. The qualitative data will be analyzed thematically to extract patterns, themes, and perspectives. By integrating quantitative and qualitative approaches, this study seeks to provide a comprehensive understanding of the dynamics surrounding BCs in Nagpur city and offer actionable insights for policy and practice aimed at enhancing urban financial inclusion strategies.



Data analysis and discussion

Table 01 Share of Business Correspondent in Total Banking Outlets in India

| Year | Banking outlets through BC | % to total banking outlet | Total Banking Outlets – Branches | % to total banking outlet | Banking outlets through other modes | % to total banking outlets | Total Banking Outlets |
|------|----------------------------|---------------------------|----------------------------------|---------------------------|-------------------------------------|----------------------------|-----------------------|
| 2010 | 34174 | 50.48 | 33378 | 49.31 | 142 | 0.21 | 67694 |
| 2011 | 80802 | 69.53 | 34811 | 29.96 | 595 | 0.51 | 116208 |
| 2012 | 141136 | 77.65 | 37471 | 20.62 | 3146 | 1.73 | 181753 |
| 2013 | 221341 | 82.45 | 40837 | 15.21 | 6276 | 2.34 | 268454 |
| 2014 | 333000 | 86.76 | 46126 | 12.02 | 4678 | 1.22 | 383804 |
| 2015 | 500186 | 90.33 | 49571 | 8.95 | 3956 | 0.71 | 553713 |
| 2016 | 531229 | 90.61 | 51830 | 8.84 | 3248 | 0.55 | 586307 |
| 2017 | 543472 | 90.87 | 50860 | 8.50 | 3761 | 0.63 | 598093 |
| 2018 | 515317 | 90.48 | 50805 | 8.92 | 3425 | 0.60 | 569547 |

The table provides a snapshot of the share of Business Correspondents (BCs) in total banking outlets in India from 2010 to 2018. It illustrates a significant increase in the number and proportion of banking outlets operated by BCs over the years, reflecting their growing role in expanding financial services to underserved areas.

From 2010 to 2018, the number of banking outlets through BCs rose steeply from 34,174 to 515,317, reaching a peak of 543,472 in 2017. Correspondingly, the percentage of total banking outlets represented by BCs increased from 50.48% in 2010 to 90.48% in 2018, indicating a substantial shift towards BC-led banking outreach.

Conversely, traditional bank branches saw a decline in their share of total banking outlets, dropping from 49.31% in 2010 to 8.92% in 2018. This trend underscores the complementary role of BCs in augmenting banking services, particularly in remote and urban areas where establishing physical branches may be economically challenging.

Moreover, the table highlights the negligible contribution of other modes of banking outlets (such as mobile banking units or kiosks) throughout the years, with percentages consistently below 1%. This suggests that BCs have predominantly driven the expansion of banking services beyond traditional branch networks in India.

In conclusion, the data underscores the pivotal role of BCs in enhancing financial inclusion by significantly increasing the accessibility of banking services across India, thereby bridging the gap between formal financial systems and underserved communities. The trend also reflects evolving strategies by financial institutions and policymakers to leverage BCs as key agents in promoting inclusive economic growth and development.

Table 02 Share of Business Correspondent Model in opening of BSBDA

| Year | BSBDA - through Branches (No. in millions) | % | BSBDA - through BC (No. in millions) | % | Total BSBDA (No. in millions) |
|------|--|-------|--------------------------------------|-------|-------------------------------|
| 2010 | 60.19 | 81.95 | 13.27 | 18.07 | 73.45 |
| 2011 | 73.13 | 69.81 | 31.63 | 30.19 | 104.76 |
| 2012 | 81.2 | 58.63 | 57.3 | 41.37 | 138.5 |
| 2013 | 100.8 | 55.37 | 81.27 | 44.64 | 182.06 |
| 2014 | 126 | 51.85 | 116.9 | 48.11 | 243 |
| 2015 | 210 | 52.76 | 188 | 47.24 | 398 |
| 2016 | 238 | 50.75 | 231 | 49.25 | 469 |
| 2017 | 254 | 47.65 | 280 | 52.53 | 533 |
| 2018 | 247 | 46.08 | 289 | 53.92 | 536 |

The table presents data on the share of the Business Correspondent (BC) model in the opening of Basic Savings Bank Deposit Accounts (BSBDA) in India from 2010 to 2018. BSBDA accounts are crucial for promoting financial inclusion as they provide basic banking services to low-income individuals without the requirement of maintaining a minimum balance.

From 2010 to 2018, there is a notable trend towards the increasing utilization of the BC model

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for opening BSBDA accounts. In 2010, BSBDA accounts through BCs accounted for 180 million (81.95%) out of a total of 22.07 million accounts. This percentage increased gradually over the years, reaching 53.92% in 2018, with BCs facilitating 289 million out of a total of 536 million BSBDA accounts.

Conversely, BSBDA accounts opened through bank branches saw a decline in both absolute numbers and percentage share during the same period. In 2010, branches opened 13.27 million BSBDA accounts (18.07% of total), which reduced to 46.08 million accounts (8.58% of total) in 2018. This decline reflects a strategic shift towards leveraging BCs to reach underserved populations and reduce operational costs associated with traditional banking infrastructure.

The data highlights the effectiveness of the BC model in expanding the outreach of basic banking services, particularly in rural and remote areas where physical bank branches are limited. It underscores the role of BCs in enhancing financial inclusion by providing convenient access to banking services, fostering savings habits, and enabling financial transactions among marginalized communities.

Overall, the increasing reliance on BCs for BSBDA account openings underscores their pivotal role in India's financial inclusion agenda, aligning with broader policy initiatives aimed at extending the benefits of formal banking to all segments of society.

Conclusion

This study has explored the pivotal role of Business Correspondents (BCs) in enhancing financial inclusion through the facilitation of Basic Savings Bank Deposit Accounts (BSBDA) in Nagpur City. The data from Table 02 reveals a significant shift over the years towards BCs playing a predominant role in opening BSBDA accounts, reflecting their effectiveness in reaching underserved populations and expanding access to basic banking services. The steady increase in BSBDA accounts handled by BCs, coupled with a decline in branch-based openings, underscores the BC model's efficiency in addressing geographical and operational challenges faced by traditional banking infrastructure. Moreover, the findings underscore the cost-effectiveness and scalability of the BC model in extending financial services to marginalized communities, particularly in rural and remote areas where physical bank branches are limited. This trend not only aligns with national financial inclusion objectives but also emphasizes the adaptability of financial institutions in leveraging BC networks to achieve broader socio-economic goals.

Policy implications from this study advocate for continued support and enhancement of BC operations through conducive regulatory frameworks and technological innovations. Strengthening BC networks with adequate training and infrastructure could further optimize their outreach potential and operational efficiency. Additionally, ongoing monitoring and evaluation are crucial to ensuring the sustainability and impact of BC-led initiatives in advancing financial inclusion agendas. Looking forward, future research should explore evolving technologies and consumer behaviors to optimize BC services, address operational challenges, and enhance customer engagement. By harnessing the transformative potential of BCs, India can accelerate progress towards inclusive growth, empowering individuals and communities with greater financial access and opportunities.

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