

## Branchless Banking: Can It Attain the Larger Objectives of Reaching out to the Unreached?

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Despite critical importance of access to financial services for achieving inclusive economic development, in most developing countries, a large segment of the population particularly low income and vulnerable section of the society has very little or no access to financial services from formal financial system. It is estimated that globally over two billion people are currently excluded from the access to financial services. When announcing 2005 as International Year of Micro-credit, UN Secretary-General Kofi Annan (2003) noted that: "The stark reality is that most poor people in the world will lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector." In a landmark research work titled "Building Inclusive Financial Sectors for Development" the UN had also raised the basic question: "why are so many bankable people unbanked?" (UN, 2006)

Financial inclusion refers to a process that ensures access, availability and usage of the financial system for all, inclusive in terms of people, area and sectors. Inclusive finance, including safe saving, appropriately designed and at affordable cost loans for poor and low income households and micro, small and medium sized enterprises and appropriate insurance and payment services can help people to enhance incomes, acquire capital, manage risks and come out of poverty. The range of financial services include the entire gamut of financial products – check-in accounts, saving products, loans, debit cards, credit cards, insurance and health care services and other financial services such as payment services, remittance and money transfer and financial advisory services and counseling.

Recognizing the critical importance of financial inclusion for inclusive economic development in India, the

Government of India constituted a Committee on Financial Inclusion on June 26, 2006. It has defined financial inclusion as *the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost.* Thus, the financial inclusion, in the Indian context, implies the provision of affordable financial services viz. access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded (RBI, 2008). It may include a basic no-frills banking account for making and receiving payments, savings products suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes.

The problem of financial inclusion mainly centered on reaching the hitherto financially excluded segment of population. Despite rapid expansion of the banking network over the last four decades, there is a vast majority of the people in the country, which does not have access to basic banking services resulting in financial exclusion. The financially excluded sections of the society comprise largely assetless, low income, small and marginal farmers, landless laborers, oral lessees, unemployed youth, people engaged in unorganized sector, women, old people, physically-challenged people and urban slum dwellers. They experience difficulties in accessing basic financial products such as savings, loans, debit cards, payment services, remittance and insurance. Although, with rapid expansion of bank branches, the banking penetration improved from 63000 per bank branch in 1969 to 14000 per bank branch in 2010, it is still far behind developed countries where per branch population is less than 5000. Out of 638,596 villages

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in India, only 5.2 percent of the villages are having bank branches.

The National Sample Survey Organization in its recent report entitled *Indebtedness of Farmer Households* (NSSO, 2008) reported that 51.4 per cent of the total farm households did not have access to credit. Further it has also observed that there is a substantial difference between marginal and sub marginal farmers on the one hand and the rest of the farmer households on the other regarding the purpose for which loans are obtained and the sources of credit. For all farmer households taken together, at the all-India level, institutional sources were responsible for providing 57.5 per cent of the total credit. But as far as farmer households owning one hectare and less, this proportion is only 39.6 per cent. For all farmer households, the proportion of loan going for production purposes is 65.1 per cent as against 40.2 per cent for marginal and sub-marginal farmer households. Thus, for sub-marginal and marginal farmers, the proportion of production loan is lower than for all farmers. Similarly, the banking penetration at the household level in terms of saving deposits and credit remain at a low level of 30 percent. About 73 percent of farm households and 90 percent of adult population in the rural areas have no access to credit services from commercial banks. The incidence of financial exclusion among non-cultivator households was found to be the highest (78 percent) in rural India (Thingalaya, 2010).

The magnitude of financial exclusion also varies widely across regions, states, sectors, social groups, income levels and asset holding. The poorer the households are, greater is the financial exclusion. There is also wide inter-regional disparity in access to financial services. The farm households excluded from accessing credit from formal sources constitute as high as 96 percent in North-eastern region and 80 percent in Eastern and Central regions. These regions taken together account for 64 percent of the all-India total farm households excluded (Moodithaya, 2011).

Strategic interventions are needed to remove the barriers and broaden the access to financial services geographically and demographically. The barriers responsible for financial exclusion are several, both on demand-side and supply side. The supply side constraints emanate from the structural operation of financial institutions. The principal barriers on supply side are: lack of physical access in terms of branch network, distance, branch timing and infrastructure such as transport and communication, high interest charges, penalties, appropriateness of products and services, cumbersome procedures and documents required, collateral requirements, language, staff attitude and risk perception of financial institutions about poor as unbankable. The demand side factors mainly emanate from socio-economic conditions of financial service users. They include lack of awareness, assetlessness and resultant difficulty in offering collateral required, low income and low productivity leading to small and unviable demand, lower social status resulting social exclusion and financial literacy and information asymmetry.

#### **Branchless Banking for Reaching out**

Branchless Banking is an attempt to deliver banking services outside conventional brick and mortar bank branches through Business Correspondents, using ICT enabled channels. While the strategy may complement an existing bank branch network for giving customers a broader range of channels through which they can access financial services, branchless banking can also be used as a separate channel strategy that entirely forgoes bank branches. As an innovative tool for reaching out to the unreached, this model recognizes that with the available technology enabled channels, a banking outlet for delivery of banking services need not necessarily be a brick and mortar branch.

Branchless Banking minimizes the cost structure constraints that were preventing the traditional banking services from reaching the vast section of bankable poor. It can be additive in the sense that it can provide

a range of services at cost effective and convenient way to the existing bank customers at their door-step. More than that, it can play transformational role by extending banking services to potential customers who could not be reached for delivery of banking services in cost effective way. It reduces geographical distance as well as transaction costs.

The device used in Branchless banking consists of a keypad, fingerprint scanner, display unit, printer and a Lithium ion battery. The key pad is used for entering the inputs and the details of the customer and his transactions, which are displayed in the display unit. The fingerprint scanner captures the fingerprints of the customers/BCs for authentication. A receipt in duplicate is printed immediately for every completed successful transaction. The receipt is provided to the customer and a copy is retained by the BC for records. The device would work in regular AC power supply. In the case of power outages, it would work on the lithium ion battery. The device has also voice guidance in the local language to facilitate the illiterate/semi-literate customers to understand the transactions being carried out by them. The latest devices are provided with the embedded GSM chip so as to facilitate the BCs to connect to the Financial Inclusion Server. The device has the capability to be connected to the computer host through a variety of options viz. Landlines, Mobile Phones (both GSM and CDMA) through GPRS, WiMax or LAN.

Under this model, every customer is provided with a smart card that serves to identify the customer. The fascia of the card contains the name, address, date of birth and the photograph of the customer. The microprocessor in the card contains the account details of the customer viz. account number, latest balance in the account, and last five transactions in the account. The smart card has capability to hold four accounts for each customer. In case a customer has more than four products, they need to be provided smart cards of higher capacity. The BC is provided with a smart

card, which contains his name, address and photograph. This master card is used by BC to authenticate with the POT terminal. This card records and stores all transactions carried out by the BC from the previous day. The BC should, at the beginning of the day, connect to the Financial Inclusion Server to start carrying out transactions. At the end of the day, he should flush all transactions from his smart card to Financial Inclusion Server. The data in Financial Inclusion Server is transmitted to the Bank branch for uploading to the various customer accounts. This would be directly interfaced to the Core Banking Server subsequently. Since transactions are off-line transactions, they are updated in the respective accounts of the customers at the day-end by the BC. Every customer is provided with the Pass Book.

The Business Facilitator companies are responsible to provide training to BCs and branch officials for operation of POT terminals. The customers are educated by the branch officials on various bank products and procedures of Branchless Banking during their interaction with them. The Branch Manager visits the location of BC and conducts meetings periodically to sensitize the customers on Branchless Banking. Leaflets and pamphlets are printed in local language for creating awareness on advantages of various banking products and services.

Though the Business Facilitator companies would engage the services of BCs, the Branch would play a vital role in identifying a suitable person as the BC. The Zonal Head is made the competent authority to approve the appointment of individuals as BCs by the branches in their zones. To be eligible as BC, the person should be a permanent resident of the village and aged between 18 years and 60 years except in the case of retired personnel. He/she should have minimum qualification of 7<sup>th</sup> standard, impeccable integrity and commitment. He/she should be credit worthy, dependable, easily accessible by all sections of the villagers and willing to serve the community.

He/She should not be a permanent employee of any other organization/company and active member of any political or banned organization with extremist ideology. The workplace of the BC should be centrally located and convenient for customers to access without any restrictions. It should have either a regular landline telephone or a mobile with GPRS facility.

For the services rendered, the BCs are paid remuneration commensurate with the volume of work handled. In addition to the fixed remuneration received, the bank would augment their income by providing incentives for canvassing bank products and for providing other services. The amount of incentives payable to BCs would be routed through the facilitator companies and paid along with the monthly remuneration. The objective of providing incentives to BCs is to help the rural and semi-urban branches to increase the customer base apart from facilitating the customers to carry out the basic transaction and thereby widen and deepen the financial inclusion in the identified villages.

### **The Research Questions**

The above review suggests that the Financial Inclusion drive in India has not been very successful as a tool for inclusive growth and for reaching out the vulnerable and weaker sections of the society to the desired extent. If this objective is to be attained, there is the need for using innovative tools of reaching out such as the Branchless Banking. In this regard, though there are a few macro level studies looking at the extent of financial inclusion in India, there have only been a few attempts to understand the branchless banking model at work at the grass root levels. Given that several attempts are being made by the banking industry to achieve the objective of cent percent financial inclusion, it would be interesting to know whether branchless banking can attain the objectives of reaching out to the sections of the society which have not been successfully reached by the formal banking. Following are the questions addressed in this study:

1. What is the socio economic profile of the beneficiaries of the branchless banking model?
2. What are the banking facilities availed by the beneficiaries?
3. How often are the banking services availed by the users of branchless banking?
4. What are the sources of information on branchless banking to the actual and potential customers?
5. What are the apprehensions of the beneficiaries in utilizing the services of the branchless banking?
6. What are the steps to be initiated by the different stakeholders in improving the effectiveness of the branchless banking?

The procedures, instrument and data collection and the sample profile in this study are discussed below.

### **Procedures**

For data collection, household surveys were administered to a sample of beneficiaries of the branchless banking in six states of southern India, namely, Karnataka, Kerala, Andhra Pradesh, Tamil Nadu, Maharashtra and Gujarat. These states, when compared to the North Indian states are well developed in terms of banking facilities and have seen successful implementation of micro financing. The understanding is if we can reach out the vulnerable sections of the society which could not be reached by formal banking in spite of having high banking penetration, branchless banking as a model can play a much more significant role in the north Indian states where banking penetration is low. Two villages were selected in each state representing varying agro climatic conditions for the household survey. The sample generally represented the different segments of the customers covered under the branchless banking model. The list of the beneficiaries was collected from the manager of the branch sponsoring the branchless bank. The respondents were selected on random basis.

### Instrument and Data Collection

The field data was collected through three types of structured questionnaires – one for the beneficiaries, the second for the business correspondents and the third for the managers of the bank branches to which the branchless banking units were linked.

The questionnaires administered on the beneficiaries of branchless banking was designed to collect data on the socio economic background of the beneficiaries, information on their banking habits, kinds of services availed, expectations from the bank and their suggestions for improving the branchless banking model. The questionnaires for business correspondents were designed to cover their background, business details, operational difficulties, expectations from different stakeholders and suggestions for enhancing the effectiveness of the initiative. The third set of questionnaires was used to collect data from the managers of the branches of the banks to which the business correspondents were linked. Data on transactions under branchless banking operations were collected through this questionnaire. Though all the questionnaires were in English, they were administered by a team of trained field staff who were well versed with the local language, such as Kannada and Tulu (Karnataka), Malayalam (Kerala), Telugu (Andhra Pradesh), Tamil (Tamil Nadu), Marathi and Hindi (Maharashtra) and Gujarati (Gujarat). It was also ensured that at least one local resident was made a part of the survey team so as to win the confidence of the resident respondents. The survey instruments were pre tested in the Madanthyar village of Karnataka state and fine tuned later for enhancing effectiveness. All questions were factual and majority were close – ended though, a few questions were included at the end for capturing the expectations and aspirations of the respondents' for making branchless banking a sustainable and replicable model.

### Sample

The field study was carried out in selected eight

branches of one of the premier nationalized banks having nationwide presence, in six states viz. Karnataka, Kerala, Tamil Nadu, Andhra Pradesh, Maharashtra and Gujarat with a view to get the first hand information on operational aspects of Branchless Banking. Branches were selected purposively by considering the two to three years of performance of Branchless Banking in their command area. Table below shows the details of Branchless Banking units selected and sample of beneficiaries chosen for the field study.

**Table 1**  
**State wise Branchless Banks and Sample of Beneficiaries Selected**

States	Base Branch	Location of Branchless Banking unit	Sample Chosen (Number)
Andhra Pradesh	Chittoor	Gandlapalli	50
Karnataka	Madanthyar Doddabelavangala	Parenki Hulikunte	5050
Kerala	Bovikana	Karadka	50
Gujarat	Tarapur	Moraj	50
Maharashtra	Sarasbaug	Janata Vasahat Janata Vasahat	5050
Tamil Nadu	Kulamangalam	Boothagudi	50
<b>Total</b>			<b>400</b>

In Karnataka and Maharashtra, two branchless banking units were selected and other states, one each. From each branchless banking unit, a sample of fifty beneficiaries was selected at random. Since the branchless banking units are attached to and under the supervision of the base branches, prior to carrying out survey, detailed discussions were held with the Branch Managers and the officials concerned on their perceptions on feasibility of operations and future perspective of branchless banking. Field study was

carried out on a rapid appraisal basis. Though, structured questionnaires were used to collect data from the branchless banking units and their beneficiaries, emphasis was given to field level interactions with the stakeholders on dynamics of branchless banking operations in providing banking services in rural areas particularly rural poor.

### **Findings of the Study**

The major findings of the study relating to the nature and extent of the reach through branchless banking along with the issues and concerns that need be addressed in replicating this model on a larger scale are discussed below.

### **Operation of the BC Model and the background of the Business Correspondents**

The discussion with the officials of the base branches revealed that they are very enthusiastic and committed in successful implementation of branchless banking units as they consider them opening challenging opportunities for expansion of banking business in their surrounding rural areas, which otherwise they would not have captured and remained unexploited. Though initially, the focus was to open no-frills accounts to bring in the hitherto financially excluded into the banking fold, they gradually hope that this measure would enable to allow currently financially excluded population to save, to borrow and thereby economically empower and receive money remittances faster and more easily. Once the branchless banking unit carries out all banking transactions (deposits, loan withdrawals and repayments, transfer of cash and receipt of payments) for their customers through the technical device, the scope for their viability and sustainability becomes very wide.

Out of 8 field-level BCs selected for study, 7 were women. Only the BC of Moraj branchless banking unit

was male. The branchless banking initiatives thus provided an alternative avenue for women employment and socio-economic empowerment of women. All women BCs belonged to the age group of 30 to 35 years. Only one BC in Moraj branchless banking unit was 25 years old. It is evident that only younger people in the rural areas are attracted to undertake the function of BCs. The education level is also a major factor in understanding the leverage of technology, banking products and services and promotion of financial inclusion. The Bank has stipulated minimum qualification of 7<sup>th</sup> standard for field-level BCs. The analysis of the data of education level of BCs shows that one is a graduate and other seven are with secondary education. The occupation pattern of BCs studied showed that out of seven women BCs, three were engaged in tailoring at their home and the remaining four, home-makers. The Moraj BC is an otherwise unemployed youth.

Almost work from their home. Since their houses are located at the centre of villages, customers find convenient to access banking services at their home. Although the gadgets provided to BCs have potential for all bank transactions (deposits, loan withdrawal, cash transfer, payment services etc, the study revealed that in Chittoor, the BC is only undertaking MGREGA wage payment, most of the other BCs in savings collection through no-frills accounts. Only in Moraj branchless banking unit, out of 1557 no-frills account-holders, 196 were granted GCCs amounting to Rs.25 lakh and 15 agricultural loans amounting to Rs.3.46 lakh and 2 Kisan Credit Cards amounting to Rs. 1.55 lakh. Banking transactions take place as and when convenient to the customers without any time restrictions. All BCs studied have been provided cash box for keeping cash in safe. On an average, less than 10 percent of the accounts were found dormant mainly

due to financial illiteracy of the customers, misconception that their deposits do not earn interest if they deposit at branchless banking unit and no assurance of benefits of other banking products if they bank through branchless banking unit.

The field level BCs are found to be committed and enthusiastic to undertake the banking transactions through the technical gadgets on a mission mode. They enjoy an element of pride in working as agents of the Bank. It enhances their status in the eyes of the rural people. Since most of the BCs are women, it provided them an alternative employment opportunity and source of income for their social and economic empowerment. Since transaction is done through secure technology platform and the people transact with trust that the transactions are properly recorded and they get the receipts for the same, the people have full confidence with the BCs. Chipping in with necessary incentives, the BCs appointed by the Bank are poised to become catalytic agents of the Bank in rural banking.

### **The socio-economic background of the beneficiaries**

Notwithstanding the various benefits of the branchless banking units, it is important to know who the beneficiaries of branchless banking services are. The general perception is that social and economic characteristics of the potential customers determine accessibility or inaccessibility to financial services from the formal financial system. The branchless banking is primarily expected to provide banking services to hitherto neglected and financially excluded poor and disadvantaged section of the society. With a view to find out who benefited from the banking services rendered by the branchless banking units set up by the Bank, the field study attempted to compile socio-economic status of 400 sample beneficiaries in the six states selected for the study. Table 2 analyses the findings.

**Table 2**  
**Socio-Economic Characteristics of Customers of Branchless Banking Units**

Characteristics		Number	Percentage
Gender	Male	143	35.8
	Female	257	64.3
Age ( Years)	Below 20	14	3.5
	20 -40	219	54.8
	40 – 60	123	30.8
Education	60 - above	44	11.0
	Illiterate	190	47.5
	Primary	132	33.0
	Secondary	63	15.8
Social status	Graduate	15	3.8
	SC/ST	84	21.0
	OBC	174	43.5
	Minority	49	23.3
Occupation	Others	93	12.3
	Agri. Laborer	109	27.3
	Non-Agri. Laborer	106	26.5
	Artisans	3	0.8
	Farmer	44	11.0
	Petty Business	110	27.5
Annual Income (Rupees)	Others	28	7.0
	Below 10,000	81	20.3
	10,000 – 20,000	123	30.8
	20,000 – 40,000	98	24.5
	40,000 – 50,000	21	5.3
	Above 50,000	77	19.3

The main beneficiaries of the branchless banking units are found to be women, who might not have earlier access to formal banking services. Out of 400 sample beneficiaries studied, 64 percent of them are found to be women and only 36 percent of them men. The age composition of the beneficiaries show that majority of the beneficiaries belong to younger age group below 40 years (58 percent). Nearly one-third of the beneficiaries are found to be in the age group of 40 to 60 years. The percentage of customers belonging to old age group above 60 years works out 11 percent. The analysis of the age composition thus evidently shows that though the major beneficiaries of the branchless banking are the young, other age group customers are well represented and the branchless banking would be an effective instrument to financially include women and old people in the rural areas.

The education level is usually considered as a critical factor in creating awareness and understanding of the advantages of the banking products and services and thereby, in promoting financial inclusion. The analysis of the field data in the table shows that 47 percent of the customers of the branchless banking are illiterates and 33 percent, semi-literate. In other words, nearly 80 percent of the beneficiaries belong to illiterate and semi-literate groups who might not have seen the bank earlier. This finding empirically demonstrates that the illiterates and semi-literates in rural areas, who would not normally have access to formal banking, can now have access to banking through the branchless banking. The small percentage of the beneficiaries belonging to higher education level also shows that the branchless banking is the bank for hitherto neglected illiterate and semi-literate rural community.

Similarly, it is generally believed that the social status of the people determine the access to formal banking services. The financially excluded belong to the lower ebb of the society. In the sample customers studied, the Scheduled Castes (SC), Scheduled Tribes (ST) and the Other Backward Communities (OBC), who are generally considered to be socially backward, are found to be the main beneficiaries of branchless banking. SC and ST customers constitute 21 percent and OBC 44 percent. Together, they constitute nearly two-third of the beneficiaries. The minorities are found to be 12 percent, whereas the upper caste constitutes nearly 23 percent. All these evidently demonstrate that the branchless banking model provide access to all social segment of the community without discrimination and at the same time act as instrument to bring the hitherto financially excluded lower ebb of the society to the banking fold.

Empirical studies have shown that occupation and income status are closely correlated with the access to banking services. Contrary to this, the branchless banking has proved that even the weaker sections can

have easy access to the banking services. Analysis of the data on occupational pattern of the sample customers shows that the main beneficiaries of branchless banking belong to weaker sections. Agricultural and non-agricultural laborers constitute 54 percent of the total beneficiaries studied. Another important segment of the community benefitted from the branchless banking belongs to petty business. They constitute 28 percent. Very few farmers and artisans took advantage of the branchless banking.

It is very difficult to compute accurately the income levels of the customers. However, an attempt is made to estimate approximately the income data in order to know income category of people who access the banking facilities rendered by the branchless banking. The analysis of the income data shows that the majority of the customers of the Branchless Banking studied belong to low income groups. The annual income of nearly half of the customers is less than Rs.20000; roughly earning Rs 1600 per month. Nearly one-third of the customers earn the annual income between Rs. 20000 and Rs.40000; roughly earning Rs. 1600 to Rs.3000 per month. They all belong to casual working class.

To sum up, the field data clearly shows that the main beneficiaries of the branchless banking are poor and disadvantaged section of rural and urban community. The branchless banking units evidently proved as an effective instrument to bring to the banking fold hitherto neglected and financially excluded weaker and disadvantaged section of the community both in rural and urban areas.

#### **The Banking Facilities availed**

The primary objective of the branchless banking is to provide access to banking services to poor and disadvantaged section of the community on easy terms at affordable costs. Improved access to finance should be not only pro-poor but also pro-growth; improving income levels and thereby reducing poverty.



Conceptually, the access has many dimensions on demand-side including awareness, acquaintance or understanding usage of various banking products and services. Access is also determined by supply-side factors such as easiness of access, timely availability of services, affordability of terms etc. The branchless banking model is expected to remove both demand-side and supply-side barriers to improve the access to banking services to financially excluded poor and disadvantaged people.

The Bank has understood the access problems of poor on both demand-side and supply-side and therefore underlined the need for conducting a village household survey as fundamental building block for the delivery of banking services by the branchless banking model. The operational framework formulated, therefore, extends banking services beyond mere opening of a basic banking no-frill account. Based on need-based business plan, it aimed at supplementing the basic account with GCC, Kisan Credit Card and other loan products to meet the credit needs for income generating activities as well as micro insurance and new delivery channels through branchless banking on easy and more affordable way.

At the outset, it should be noted that the branchless banking units of the Bank are still in the inception stage. In the inception phase, as a first step, the emphasis was focused on customer enrollment exercise; inclusion of financially excluded customers through opening of no-frills saving accounts. In the second phase, the branchless banking units are expected to graduate to credit inclusion of the customers through GCC and other loan products. In the final phase, the branchless banking units are expected to enter into payment and remittance services as well as delivery of micro insurance products. Most of the units set up by the Bank are operational only during the last three years. Hence they are in transitional stage of opening of no-frills account to credit inclusion. While studying the access to banking facilities to the beneficiaries, the

transitional phase of branchless banking units should be taken into consideration.

The field study has made an attempt to compile information from the customers on both demand and supply side dimensions of access to banking services through branchless banking units. Table 3 sets out the banking facilities availed by the sample customers studied.

**Table 3**  
**Banking Facilities Availed from Branchless Banking units**

Products	Number	Percent
No-frill Saving Accounts	400	100.0
General Credit Cards	76	19.00
Kisan Credit Cards	15	3.75
Loan	21	5.25

The analysis of the data in the table shows that all the respondents have reported opening of No-frills saving accounts and availing saving facilities. However, out of 400 sample customers studied, only 76 which work out 19 percent reported availing General Credit Cards (GCCs). Similarly, only 15 respondents have reported availing of Kisan Credit Cards and 21 accessing agricultural loans. Most of these respondents are from Moraj branchless banking unit in Gujarat state. In all other branchless banking units studied, access to banking services is restricted to only opening of no-frills saving accounts. This finding has serious implications as regards viability of operation of branchless banking unit is concerned. Moreover, it is contrary to the Bank's policy of providing access to all banking products particularly along with saving deposits, GCCs for meeting the emerging credit needs of the customers.

The analysis of the data in the table shows that all the respondents have reported opening of no-frills saving accounts and availing saving facilities. Out of 400 sample customers studied, 76 have reported availing general credit cards (GCCs), 15, Kisan Credit Cards and 21 agricultural loans. Most of these respondents are from Moraj branchless banking unit in Gujarat state.

All other branchless banking units studied are still in the inception stage and access to banking services is restricted to only opening of no-frills saving accounts. In Gandlapalli branchless banking unit in Chittoor district, no-frill accounts are used for wage payment under MREGA. The Bank's policy is gradually transform all these branchless units to provide access to all banking products particularly along with saving deposits, GCCs for meeting the emerging credit needs of the customers and Kisan Credit Cards to agriculturists.

**Frequency of the operation of the bank accounts**

With a view to understand the operational aspects of the banking transactions, the field study made an attempt to elicit the responses of the sample customers on frequency of operation of their accounts. The responses of the sample customers are analyzed in the Table 4:

**Table 4**  
Frequency of the operation of the bank accounts

Operation Indicators		Number	Percent
Frequency of Deposits	Daily	11	2.8
	Weekly	39	9.8
	Monthly	27	6.8
	As and when required	323	80.8
Frequency of withdrawal	Daily	4	1.0
	Weekly	9	2.3
	Monthly	12	3.0
	As and when required	375	93.8

The analysis of the data in the table shows that most of the account holders deposit in small amounts ranging from Rs.20 to Rs.50 as and when they get their income. The frequency of deposits depends on the periodicity of their income receipt. However, it is important to note that a significant number of customers deposit in their saving accounts daily, weekly and monthly on regular basis. Similarly, withdrawal of amounts in the saving accounts mostly as and when required. The field study thus clearly shows that poor and disadvantaged people in rural areas require access to banking services at their convenient time and for

small value transactions. The branchless banking is found to be more appropriate institutional mechanism to meet their need.

**Sources of information on branchless banking**

Awareness or initial source of information is an important element in motivation to access banking services provided by the branchless banking. The lack of awareness or not knowing the availability of banking services in terms of location and type of services is considered as one of the main demand-side barriers for financial inclusion particularly among the illiterate, poor and vulnerable segment of the society in rural areas. Unless the individuals or households are made aware of the availability of services of the bank in a particular location, they would not be motivated to avail the banking services. The process of financial inclusion, in fact, begins with dissemination of information on availability of banking services, terms and conditions and ease in which they are available and the benefits that can get by use of them. It is therefore important to analyze the role of various players in providing information and motivating the customers to access the banking facilities in branchless banking units.

In the field study respondents were asked to identify the sources of information, which ultimately led to access banking facilities in branchless banking units. In Table 5, an attempt is made to analyze the responses received in this regard.

**Table 5**  
Sources of Information on Branchless Banking Units

Sources	Number	Percent
Family Members	31	7.8
Branch Manager/ Employee	179	44.7
Business Correspondent	252	63.0
NGO Representative	0	0.0
Self Help Groups	40	10.0
Advertisement	3	0.8
Others	-	-

Note: Some respondents indicated more than one source of information.

It is important to note that business correspondents followed by the Branch Manager and bank officials apparently played a significant role in providing

information and motivating the customers to access the banking facilities rendered by the branchless banking units. Nearly 63 percent of the customers in the sample have reported BCs as their main source of information. Since the BCs are residents of the same village and know the people closely, poor and illiterate residents have more faith with them. Hence they can definitely play catalytic role in financial literacy and motivating people for financial inclusion.

Recognizing the critical importance of awareness, the promoting bank has, from the beginning, conceived the idea of household survey and interactive discussion with the panchayat members and stakeholders in the village prior to setting up branchless banking units. The finding of the field study evidently shows the impact of the Bank's initiatives in this regard. Nearly 45 percent of the sample account holders confirmed that they were motivated by the Branch Manager/Bank Officials. Other two important sources of information reported in promotion of financial inclusion are found to be Self-Help Groups and family members. Surprisingly NGOs have not played any role in promotion of access to branchless banking.

**Customers' Perception**

The sustainability of the branchless banking ultimately depends on the perception of customers particularly on the access to branchless banking units. The field study has therefore focused on compiling the perception of the sample customers on how they feel or experience in accessing branchless banking facilities. The findings of the field study are analyzed in Table 6.

**Table 6**  
**Customer' Perception on Working of Branchless Banking**

Perceptions	Number	Percent
Comfortable in going to BC	314	78.5
Not Comfortable in using Smart Cards	337	84.2
Friendly Attitude of BCs	379	94.8
Trust in BCs	327	81.7
Fear of use of Technology	38	9.5
Lack of information/knowledge	248	62.0
Proximity	319	79.8

Surprisingly, there was no wide difference in the pattern of responses received in the various districts studied. The majority of the customers studied feel comfortable to go to BCs for accessing banking facilities. Most of them also confirmed the friendly attitude of BCs and their trust in their functioning. Proximity is also considered as an important factor in accessing banking facilities by majority of the sample customers studied. Though the fear in use of new technology is not mentioned as an issue, the majority have reported that they are not comfortable in use of smart cards. This is apparently due to problem of finger authentication process, frequent non-operation of the machine and handling of biometric smart cards as it is easier to lose.

Since significant number of beneficiaries of branchless banking units are illiterate and semi-literates, lack of information and financial education of customers is definitely act as a barrier to accessing banking facilities provided through the branchless banking. When the respondents were asked what support they require from the Bank, nearly three-fourth of the respondents ascertained that they require information about bank products and services, guidance in using smart card and gadgets and simplification of procedure for availing loans. It is gratifying to note that the Bank has already seized this problem and initiated program for financial literacy campaign for sustainable financial inclusion.

**Conclusion**

Branchless banking has, no doubt, brought revolutionary change in the delivery process of banking services and transition from class banking to mass banking. It has already proved to be an appropriate and effective institutional channel for provision of banking services to poor and disadvantaged section of the community at affordable cost. The Bank has not considered the branchless banking only to fulfill the target of financial inclusion. It has conceived the idea of branchless banking on a scientific basis as a viable

and sustainable business proposition in medium and long term perspective. Prior to setting up branchless banking units, it has undertaken household surveys which provided much needed building blocks for preparing demand driven need based business plans by mapping the financial service needs of the villages in the command areas of their rural and semi-urban branches. The branch of the Bank has been made responsible to implement the business plan through branchless banking initiative.

The branchless banking model initiated definitely provides the bank a profitable business avenue in remote or unbanked location without much initial capital investment and on cost effective basis. As against the costly brick and mortar banking, the investment cost and transaction costs of the branchless banking model is found minimal. The availability and usage of banking services by otherwise excluded population groups, who constitute majority segment of the population, would in the medium and long run lead to increase in their income levels and savings. This, in turn, would have the potential to increase savings deposits as well as demand for other banking products and services. In this process, the branchless banking has potential to revolutionize banking in rural India.

Branchless banking facility has enabled the poor and weaker sections of the community to undertake small value banking transactions and thereby access to banking facilities, which other-wise would not have been possible. In other words, through branchless banking model, "poor are made bankable" and their demand for small value transactions fulfilled. The model has helped the rural and urban poor to avail banking services at their door-steps, thereby saving transport costs, time and hustle of going to the branch. Moreover, the rural customers find more comfort in dealing with the BC as she is a familiar face and convenience of transacting business practically at any time of the day.

Given the right impetus, the ICT enabled branchless banking model of the Bank has apparently the potential to deliver banking services and harness business opportunities at the bottom of the pyramid on viable basis. The Bank is already in the forefront in setting up branchless banking units through most of its rural and semi-urban branches throughout the country. No doubt, most of them are in the inception phase of opening no-frill saving accounts. Only a few of them graduated to undertake other banking services. The Integra gadgets provided to BCs have potential for delivery of all banking services, but they are used only for no-frill saving deposits. In order to realize full potential of the gadgets adopted, the Bank should explore the possibility of its branchless banking units to provide full range of banking services. Since the Central and State Governments are planning to route all payment services through the banking system, the branchless banking units could be the ideal delivery route for the Bank to handle huge volume of low value transactions at the Bottom of the Pyramid.

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## Financial Inclusion and Beyond

Issues and Challenges

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