

Financial Sustainability of Business Correspondent Model in Mirzapur District (Uttar Pradesh, India)

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Achieving financial inclusion through brick and mortar banks is a complicated task because of the huge operational cost and infrastructural issues involved in it. In recent years an innovation in the form of Business Correspondent (BC) model has evolved. It attempts to accelerate the pace of financial inclusion in the Indian banking system. Business correspondent channel essentially involves using third-party agents as a tool to carry out the banking operations on behalf of the banks, the latter being the regulatory and controlling agency for the business correspondent operations. Using primary data collected from the BCs operating in the Mirzapur district of Uttar Pradesh, the present study attempts to explore the determinants that affect the financial sustainability of the BC model in India. It concludes that if the BC model has to be financially sustainable, then continued generation of transactions backed by proper training facilities is a must. Further, the BCs need to take up more area-specific approach to deal with the challenges confronting them.

I Introduction

The Eleventh Five-Year Plan aims at 'inclusive growth'. Its important constituent is financial inclusion which aims at easy availability and affordability of credit and financial services to the people, especially the poor and vulnerable groups.¹ Rangarajan Committee defined financial inclusion as "the process of ensuring access to financial services and timely availability of adequate credit to the poor."² India has adopted the bank-led model³ of financial inclusion which emphasizes the use of technology in providing financial services. Despite a vast expansion in banking network, half of Indian population does not have a bank account and relies on informal sources to meet its financial needs. Further, achieving financial inclusion through brick and mortar bank branches is a

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¹ Excerpts sourced from <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/86734.pdf>.

² Rangarajan Committee was constituted by the Government of India to look into various aspects of financial inclusion. It submitted its report in 2008.

³ Excerpts sourced from the speech of Deepali Pant Joshi at RBI. The speech is available at https://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=871