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Review of Savings Options for MFIs in India

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Review of Savings Options for MFIs in India

Background

For ages savings have been an integral part of budgeting in all households, as insurance against emergencies, for religious and social obligations, and for investment and for future consumption. However even though the poor are inclined to save, they often do so by informal mechanisms that fail to meet their needs in a convenient, cost-effective and secure manner resulting in the loss or misuse of their hard earned savings. The poor look for some system to provide the security and accessibility necessary for them to save. Therefore, when they are given an opportunity to save in a safe and secure manner their commitment to saving is remarkable.

Savings have recently risen to the top of the microfinance community's agenda. In the Indian scenario, many MFIs understand the importance of providing savings services to the poor and are doing so by designing innovative savings products due to the mandate of the RBI that prohibits MFIs from collecting deposits. Designing savings services to respond to this potential market requires the careful balancing of the needs of the saver and those of the institution. There is increasing evidence that providing client-responsive financial services can both serve the needs of poor people while maintaining or in fact improving the sustainability and profitability of the MFIs. There are no magic formulas for designing appropriate savings products for poor people: it requires market research and careful, systematic product development. This paper written after a series of market research activities have provided insights on how MFIs can approach savings options and the steps they need to take to design and roll out efficient savings products in India.

Need for Savings

As Stuart Rutherford (Rutherford, 2005 ed)[1] mentions: ***'the case for introducing voluntary savings, as for any other service, must convince the management that two desirable outcomes are likely. First, it must show that the new service will be good for poor clients, making it easier for them to manage their money by expanding the range of financial intermediation options open to them. Second, it must also show that the new service will be good for the MFIs, expanding their market among the poor, allowing them to do more business, profitably, with a larger number and broader range of clients'.***

Several studies have highlighted the need for savings services to the poor for two distinct needs:

- Planned expenditures intended to meet lifecycle events; as well as
- Cash flow management so as to meet regular expenses or emergencies given the uneven and irregular income streams.

Past studies in MFIs show that only a small percentage of delayed payments of loans were in the nature of wilful default, the rest occurring due to immediate cash requirements of the households, which could have been serviced by appropriate savings options, if available. This is also obvious from the fact that household savings was cited as the most commonly used avenue by households to repay loans in lean periods and loans falling towards delinquency. Another point that came to the fore was the need for structured savings options to service lifecycle needs. Many respondents have cited lifecycle events as a significant contributor to financial stress; the five most stressful events cited being marriage, education, setting up a business, house construction and festivals.

From an organisational perspective, provision of savings services brings some important advantages for the institution:

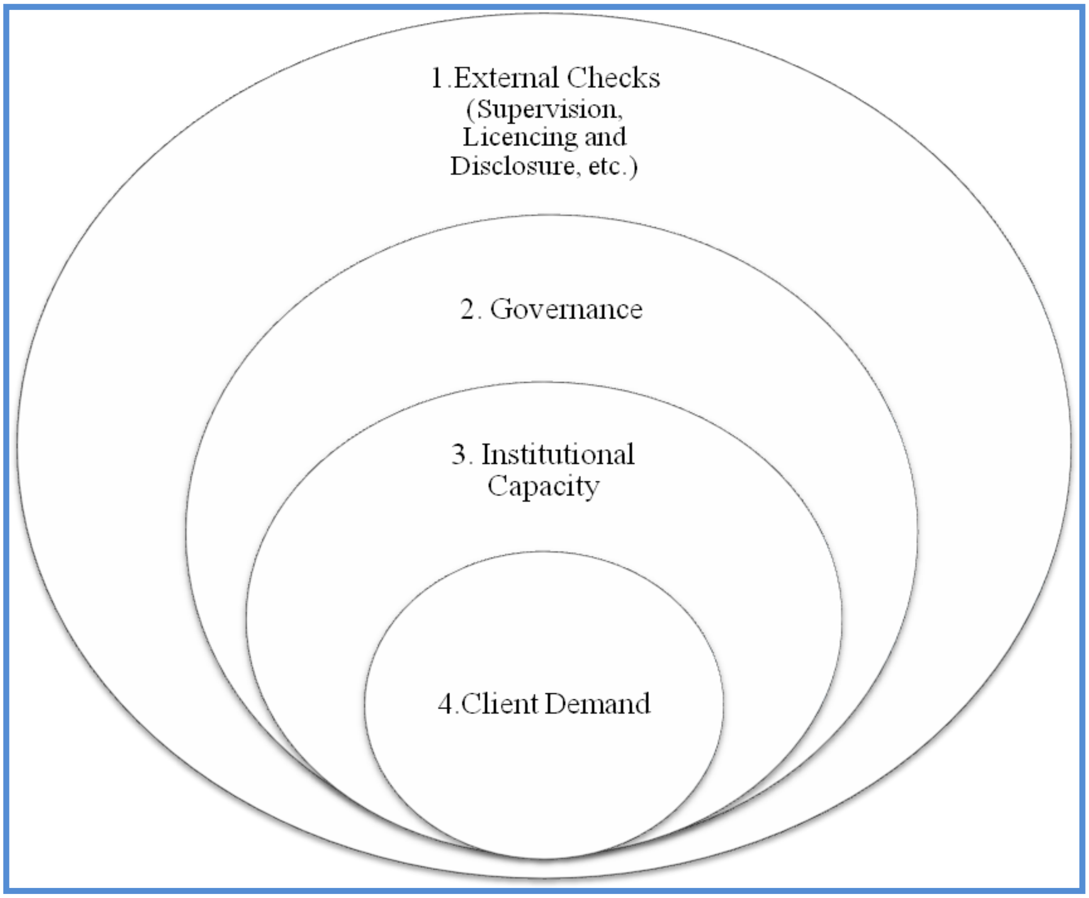
- Competitive edge as a one stop shop for all financial needs;

[1] Rutherford, S. (2005 ed). "Why Do The Poor Need Savings Services ? What They Get And What They Might Like", in M. Hirschland, *Savings Services for the Poor – An Operational Guide*, Kumarian Press Inc.

- Product diversification, thereby providing for an alternate source of income which would not require the level of capitalisation required by a credit product;
- Improvement in the loan portfolio quality, since the clients would have access to a reserve to turn to in case of shortfalls;
- Better outreach by enabling the organisation to serve clients who may not be interested in / require credit;
- Enhanced client loyalty which can be crucial in ensuring retention given the trust element that typically accompanies savings;
- Increased operational efficiency through leveraging existing branch infrastructure and human resources to deliver a wider range of services; and
- Additional possibility to bring cash transactions like loan repayments and disbursements by linking client's savings accounts through a mobile platform with the MFI's account, resulting in reduced risk and increased operational cost efficiency.

Assessment Parameters for Choosing an Appropriate Savings Option

To assess an MFI's readiness and fit for savings, the approach as detailed below, drawing largely from Katherine McKee's paper "Prerequisites for Intermediating Savings[2]" is suggested. The model looks at the different parameters under which an organisation needs to be analysed before introducing savings. It also provides a framework for assessing the different options available in the MFI's specific context.



[2] McKee, K. (2005 ed.). *Prerequisites for Intermediating Savings.* and In M. Hirschland, *Savings Services for the Poor – An operational Guide* . Kumarian Press Inc.

The four circles represent the necessary conditions to successfully introduce savings services:

Circle 4 - represents client demand – Will the services that the MFI offer attract a sufficient volume of deposits? The answer to this question will depend, in part, on whether potential clients trust the MFI enough to deposit their savings through it. Managers and board members should proceed only if effective demand is adequate. Another question to ponder would be if the MFI should offer savings only to its current members or to the general public? (Note: the answer to this question has fundamental implications for the nature of the services offered by the MFI).

Circle 3 – represents the supply side – Does the MFI have the financial soundness, cost structure, human resources and systems capacity to manage new products successfully? Can the MFI do so responsibly and well? For the security of both depositors and the provider, the MFI should be at or close to profitability and should have stringent credit management, a realistic business plan and ongoing viability, strong systems, sufficient physical security and management and staff that can manage a new product.

Circle 2 – represents effective governance – Does the MFI have an effective board or the governing body that exercises reasonable oversight, ensures sufficient discipline and serves as a check on management? At a minimum, the MFI should have a board that is sufficiently knowledgeable, sufficiently engaged, and has sufficient powers to be able and willing to step in if management is putting either savers 'deposits or the institution's viability at risk. The board must serve as the principal safeguard against malfeasance and mismanagement.

Circle 1 – represents other external checks and environmental and regulatory factors – Any provider of savings services would be subject to external supervision, or at a minimum, a rigorous licensing process. While supervision and licensing would be desirable to offer services directly, the MFI's inability to secure such mechanisms does not necessarily prevent the MFI from offering savings services. The bottom-line is, whether it is supervised by the government or not, the MFI should protect consumers through plain-language financial disclosure. Thus, the fourth circle requires either supervision and licensing and full disclosure and communication on an on-going basis.

An assessment of the savings options shortlisted by the MFI under the framework suggested above is recommended before arriving at a final decision regarding product design. This sort of an analysis will help the organisation arrive at the most appropriate product design given its specific context.

Therefore it is very essential for an MFI to do the following before finalising savings products:

- Understand the features of product offerings of different savings options under the 8 Ps framework (see below) and make an objective comparison of the advantages and disadvantages of each; and
- Assess the fit of different savings options suited to the MFI under the criteria of client demand, institutional capacity, governance requirements and external checks.

Methodology

This study focuses on six major savings options currently used by different organisations:

- Business Correspondent Model
- Gold Loans (Reverse Savings)
- Money Market Mutual Funds (MMMF)
- Micro-Pension Schemes
- Unit Linked Insurance Plans (ULIPs)
- Term Insurance Plans with Maturity Benefits

Categorisation of Savings Options

Regulatory requirements mandate that NBFCs have to depend largely on vending of third party products so as to provide savings options to their clients. The other option is to provide quasi savings products like gold acquisition loans, which could be delivered by the NBFC itself as its own proprietary product. In both these cases, the opportunity for the organisation to mobilise funds would be non-existent and the financial incentive to the organisation would be in terms of revenue from fee income or interest spread.

1. Bank Led Savings Options

Business Correspondent (BC) model has been used by commercial banks to provide savings as well as term deposits to end clients where branch infrastructure is limited or absent. RBI has been encouraging the model which depends on third party agents to provide the service. There have been many initiatives involving e/m-banking solutions within the BC model so as to enable efficient delivery of customer solutions. The model typically focussed on providing no-frills accounts; but lately some banks have also started delivering normal savings accounts, recurring deposits and term deposits also using the BC channel.

2. Proprietary Options

The most prominent proprietary savings option seen in India has been the Gold Acquisition Loan which is a quasi savings instrument working on the principle of reverse savings. Some prominent MFIs as well as NBFCs primarily working in South India have been offering gold acquisition loans to their clients so as to enable a build up of savings balances in the form of gold.

3. Mutual Fund Products

Money market mutual funds are in general considered to be relatively stable highly liquid instruments since they focus on investing in debt (largely government debt of short duration like T Bills) and since they have historically shown very little day to day fluctuation in their Net Asset Values (NAV). Some organisations have adapted money market instruments to provide a savings bank account proxy for their clients.

4. Pension Products

Pension products which provide a regular income post retirement have been in the vogue for a long time in India. But most of the pension schemes have been directed at the organised sector and generally directed at middle – higher income groups. Recently, there have been several voluntary pension products oriented at the bottom of the pyramid customers and delivered through channel partners including MFIs. Government of India’s New Pension Scheme (NPS) which also has a voluntary nature as well as a provision for periodical withdrawals is an interesting option which can combine the attributes of a voluntary savings product into a pension product. The government is also considering the introduction of an option for unorganised workers under the NPS.

5. Insurance Products

Insurance products combining the features of life insurance as well as term savings are another option available to MFIs for exploration. ULIPs are one option available for further exploration. Another route to take would be to offer endowment policies in partnership with life insurance companies.

Comparison of Savings Options in the 8 P Frame work

The selected savings options examined using the “8Ps” framework, i.e.:

- Product
- Price
- Promotion
- Place
- Positioning
- Physical Evidence
- Process
- People

The summary findings from the comparative analysis are described below:[3]

1. Product

The product concepts largely were dependent on selling of third party products ranging from no frills savings accounts, money market mutual funds, insurance schemes and pension funds. Only proprietary product observed was the gold acquisition loans, which work as a sort of reverse savings avenue. Of these different product concepts, most have variants tailored to the requirements of the low income market as with micro-pension schemes, variable SIPs for ULIPs as well as money market mutual funds etc.

2. Price

All of the savings options provided returns to the client directly or indirectly. It could be guaranteed as in the case of no frills accounts and term life insurance plans or market linked as in the case of MMMF, ULIPs and pension schemes, or even linked to commodity prices as in the case of gold loans.

All the schemes examined also had provisions for/charged the end customer for providing the service. This varied from charging a direct interest rate on the loan for gold loans, to different registration and transaction charges levied in the case of insurance and pension schemes. Both MMMF and BC model had a provision for charging the end customer, but in practice this was not being followed.

3. Promotion

Most organisations at the ground level depended on partnerships with the providers of these financial services for service delivery since most of them were not proprietary. These tie-ups with reputed organisations were highlighted often for the purpose of promotion. The product communication has been observed to be largely locally based, involving displays, house to house promotions, leveraging of JLGs, SHGs etc. The financial service providers as opposed to locally present agent organisations depended on the media for promotion.

4. Place

All the service providers used a locally present touch point (normally branches of the agent organisation or third party agents) for communication, sourcing and client end transaction processing. Most of the back office functions were done in the offices of the primary financial service provider. There are also some pilots with e/m-banking options, primarily with the business correspondent (BC) model.

5. Positioning

Almost all the savings options studied, with the exception of the BC model and gold loan, were primarily directed at a more affluent client group. Lately there has been a greater focus on low income clients and many of the products directed at more affluent clients are now being tweaked or modified to suit lower income clientele. Among the options studied, business correspondent model and MMMF were typically designed to address short term savings needs, while the other options were oriented towards longer term needs.

6. Physical Evidence

Evidence for the genuineness of the field level service provider (largely MFIs, NGOs and even independent third party agents) was provided largely by way of displays citing the financial service providers in the service point location. Evidence of transaction was provided largely by transaction receipts. In many cases other tangible evidence like gold coins, policy certificates etc. too played a part.

7. Process

The processes at the client end including sourcing and client end transaction processing was performed by the field level agent organisation, while the back end processes were largely performed by the primary

[3] The detailed findings are provided in Annexure 1.

financial service provider. In case of gold loans, since the product is proprietary, all transaction processing was done by the ground level organisation.

8. People

In most BC models, there was an involvement of a sub-agent other than the field level organisation who would act as a touch point for the customer. In almost all other models, regulatory restrictions implied that sourcing and client level transaction processing need be done by properly qualified staff members. But these models generally ensured that customer touch points, staff or agent are present in client locations.

Comparison of Savings Options on Specific Attributes

The selected savings options were studied on specific attributes of the product. The data was collated and presented as a comparative analysis to facilitate understanding. The specific attributes studied include:[4]

- Cost to customer
- Returns to the client
- Primary utility of the product
- Security aspects
- Cost to the organisation
- Returns to the organisation
- Regulatory aspects
- Need for partnerships

A snapshot of the findings are summarised below:

1. Cost to Customer

There were several costs to be incurred by the customer in availing the different savings options available. These included both charges payable to the service provider as well as other transactional expenses incurred indirectly by the customer. Many options did not have an upfront registration fee other than pension schemes which charged registration fees and some gold loan schemes which levied a processing fee. Transaction fees were charged largely in insurance and pension fund schemes, while gold loan schemes charged a straight interest rate on the loan. In pension schemes, transaction fees as well as registration charges are regulated by the Pension Fund Regulatory and Development Authority.

Other transactions costs incurred by clients indirectly involved being subject to market risks, costs of technology like GPRS, SMS cost, travelling costs and loss of value of investment on surrender of insurance policies before maturity.

2. Returns to the clients

The returns to the clients were generally variable in nature due to the fact that returns were, in general, market linked. The type and range of returns expected varied widely based on the savings instrument used. Notable exceptions were no frills accounts and term life insurance schemes which offered guaranteed returns. Some of the savings options provided additional benefits in the form of insurance cover, tax benefits etc. In gold loans, the returns were essentially linked to expected appreciation in gold prices.

3. Primary utility of the product

Of the savings options studied, the primary utility of most schemes were for the longer term, with strong disincentives for withdrawal before maturity (e.g. comparatively low surrender value of life insurance policies). Exceptions were no frills accounts delivered by the BC model and MMMF, which were essentially designed to be instruments to manage short term cash flow smoothening. Gold loans was interesting since though it was primarily designed for long term usage, it provided limited short term liquidity by an option to pledge the gold.

[4] The detailed findings are listed in Annexure 2.

4. Security aspects

Trust in the organisation is crucial where the customers are investing their money. In most of the options studied, the association with a respected and well known financial service provider provided the element of trust. This was reinforced by physical evidence like transaction receipts. In many cases, the client is also exposed to market risks.

5. Cost to the organisation

The costs incurred by organisations introducing savings options include the cost of identifying and entering into partnerships with other third parties like banks, insurance firms, mutual funds and pension funds. They also incur considerable expenses towards promotion as well as training of staff / agents.

6. Returns to the organisation

Returns to the organisation were in the nature of commissions in general (other than in the case of gold acquisition loans where the income was from the interest rate spread). The returns varied widely on product to product and from the partnering organisation.

7. Regulatory aspects

Entering into partnerships with other players would necessitate being subject to additional regulation by regulators like the Reserve Bank of India, the Securities Exchange Board of India, Insurance Regulatory and Development Authority and Pension Fund Regulatory and Development Authority (PFRDA). Gold acquisition loans were the only option where the requirement for additional regulatory compliance was minimal.

8. Need for partnerships

Almost all options required partnerships in one way or other. In most options primary product was owned by the partner while the field level organisation functioned primarily as a delivery channel.

Pros and Cons of Savings Options

The selected savings options were analysed based on the advantages and disadvantages of each option. The data was collated and is presented as a comparative analysis to facilitate understanding.

A snapshot of the findings are summarised below:

Savings Option	Pros	Cons
Business Correspondent Model	1. Provides convenience and accessibility to clients by way of services in the customer location 2. No-frills savings accounts provide a liquid cash management option for the client 3. Increased brand recognition because of association with a trustworthy bank (e.g.: SBI, BOI, UBI, ICICI etc.) and the trust element that is associated with commercial banks 4. Possibility to bring repayment and disbursement on savings platform through mobile technology resulting into reduced cash management / handling costs 5. Options to route other banking	1. High up-front investment of time, human resources and technology 2. Lower margins/ spread for the end client and the institution offering the product 3. Stronger governance and disclosure norms required 4. Stronger monitoring and supervisory systems needed 5. Coordination with different external partners – banks and technology companies 6. Increased responsibility and work-load for staff

Savings Option	Pros	Cons
	products/services through this channel (FD, RD, etc.) 6. Support from technology company and banks 7. Less risk because of real time settlement for all transactions through mobile/point of sale device	
Money Market Mutual Funds (MMMF)	1. Works almost like a savings account – highly liquid 2. Competitive/higher returns for clients as compared to most other conventional savings account options – depending on investment choice in debt and/or equity instruments 3. Comparatively stable as compared to other open market instruments 4. Demonstrated Product and MIS support	1. MF distribution is a data and computation intensive business process and may require an MIS upgrade. 2. The product is as yet comparatively new and the acceptability yet to be fully tested 3. There is a requirement for third party verification of KYC documents of the clients which would increase the lead time for initial investments 4. Customers of a mutual fund need to have PAN card which can have implications on the acceptability of product for target client group. 5. The MMMF is redeemed in T+1 days unlike savings withdrawal that happens the same day of the withdrawal request. Hence for the organisation to be able to serve clients immediately and on an on-demand basis, it might have to bear interest-rate and liquidity (volatility) risk for a day. Moreover, the organisation's funds may need to be blocked for providing a bridge loan. 6. There would be a need for intensive staff training.
Gold Acquisition Loans	1. Easy to launch and introduce as compared to other options 2. No need to look at significant organisational changes / heavy investments in infrastructure, MIS etc. since the existing system would be able to manage the product 3. Have greater control over product development and delivery 4. Less risk as compared to other products currently offered by most MFIs since it is covered by collateral 5. Higher revenue because of interest spreads	1. Purity of gold can be a concern given that the organisation will have to depend on third parties to purchase the gold 2. Product with limited savings features for clients, especially liquidity 3. No large and trustworthy partner involved to leverage 4. There is security risk involved in terms of possibility for theft 5. There would be a need for identifying a mechanism for safe keeping of gold 6. The client has downside risk if the

Savings Option	Pros	Cons
	6. Little or no regulatory constraints 7. Appropriate for long term needs while also liquid to a limited extent due to the opportunity to pledge	value of gold falls 7. If gold prices fall significantly, there could be a possibility for high level of delinquencies
Term Life Insurance Plans	1. Suited for long term planned expenditures since clients receive a lump-sum amount at the end of period 2. Both savings and insurance needs of target clients are satisfied 3. Simple and convenient product attributes 4. High amount of client recognition due to market penetration of LIC 5. Life cover – is an appropriate risk management mechanism 6. Tax benefits	1. Not appropriate for clients desiring liquidity since amount is paid out only at the end of term 2. There is a provision for surrender, but surrender value of the policy is typically miniscule as compared to the premiums paid 3. Will be subject to higher reporting, supervision and monitoring requirements as per guidelines by SEBI 4. Would need to train and certify insurance executives 5. Would not be permitted to use sub-agents for sourcing, thereby need to depend highly on staff which could potentially imply higher recruitment needs and associated costs
ULIPs	1. Suited for long term planned expenditures since clients receive a lump-sum amount at the end of period 2. Both savings and insurance needs of target clients are satisfied 3. Higher margin for the organisation as compared with traditional insurance plans or other savings options 4. Life cover – is an appropriate risk management mechanism 5. Tax benefits 6. Clients have an opportunity to generate higher returns over the long run since the plans are linked to open market instruments like equity	1. Is not appropriate for clients who desire liquidity since the amount will be paid out only at the end of the term 2. Higher cost for clients, as mortality charges are high for the initial 1-2 years 3. ULIP has a complex fee structure due to many charges associated – hence difficult to communicate to the clients 4. Generally ULIP comes with a three to five years lock-in period. There is a substantial exit fee if ULIP is redeemed before the lock-in period. 5. Return based on market conditions – hence difficult to explain and communicate to clients 6. Market risks 7. Unclear regulatory environment 8. Will be subject to higher reporting, supervision and monitoring requirements as per guidelines by SEBI 9. Would need to train and certify insurance executives 10. Would not be permitted to use sub-agents for sourcing, thereby need to depend highly on staff which

Savings Option	Pros	Cons
		could potentially imply higher recruitment needs and associated costs
Pension Schemes	1. Suited for old age security due to receipt of annuity 2. Product features flexible to suit client needs (for instance, the client can choose the investment amount, annuity period, investment mix etc.) 3. Product supported by Govt. of India giving security for the investments made. The charges are transparent since they are fixed by PFRDA 4. Tax benefits 5. The investments are transparent and can be viewed by the investor whenever desired online 6. Easy to launch and introduce as compared to other options 7. No need for new product development since MFI will be acting as an agent (Aggregator) for PFRDA 8. Revenue for MFI through commission for managing NPS lite accounts 9. Little or no regulatory constraints for starting this product	1. Is not appropriate for clients who desire liquidity since client can withdraw his fund only after attaining 60 years and that too as monthly pensions 2. Return based on market conditions – hence difficult to explain and communicate to clients 3. Market risks 4. Voluntary pension schemes regulated by PFRDA have not been taken up in any significant amounts and are yet to be tested adequately for the low income market 5. Product will require a efficient back office to monitor and reconcile payments and receipts regularly 6. Any issues related to non compliance of procedures and process might attract penalty from Govt. of India including non bail able offence 7. Additional cost of setting up infrastructure for giving this service.

Conclusion

This paper attempts to outline the different savings options available for organisations wanting to introduce savings options for low income clients. To offer credit services, the microfinance institution selects borrowers that it trusts through business assessments, character assessments, cash flow analysis, or a combination of several tools. In savings mobilisation, however, it is the customer who must trust the MFI (Robinson, 1995) and design appropriate products. Therefore to begin the process of introducing savings services, the MFI must always conduct market research and feasibility analyses. Once these tests are completed, the institution can use the information to design appropriate high-quality services, which are then tested and implemented to provide benefits to both the MFI and its clients. Based on an examination of savings options available, given the liquidity attributes, the options most suited for meeting consumption smoothening / short term needs seem to be bank savings accounts delivered via the BC channels or the Money Market Mutual Funds. Longer term savings needs would be better met by comparatively illiquid options like gold loans or life insurance plans (ULIPs or term insurance with maturity benefits). Pensions are most appropriate to ensure a regular income stream for old age security.

Annexure 1: Review of Savings Options under the 8P Framework

Parameters	**Business Correspondent (BC) Model**	**Money Market Mutual Funds (MMMF)**	**Gold Loans (Reverse Savings)**
Product Features 1. The Concept	• Business Correspondent Model involves provision of banking services through an intermediary. The model involves banks appointing partners who will service the customers where bank infrastructure is absent. • Mostly no-frills savings accounts are offered through the BC channel, though banks have lately started offering other products like recurring deposits, normal savings bank accounts and term deposits under the model	• Money Market Mutual Funds pool the money from investors into a liquid and stable instrument investing primarily in money market instruments of short maturity (for instance Treasury Bills) • In one example, Money Market Mutual funds have been customised to suit the low income clientele by: - Lowering the initial as well as subsequent investment amounts to sizes manageable by low income clients - Providing the product as a micro variable SIP; i.e., the deposit amounts can vary, moreover the deposit times and frequencies are not fixed and transactions can be done at anytime at the convenience of the customer - Imparting higher liquidity by way of providing bridge loans in the time period required for actual redemption (T+1)	• Gold Acquisition Loans are loans provided for the purpose of acquiring gold. • The loans are typically for a one year period • Generally 24 carat gold coins are purchased upfront by the organisation at the rate prevailing on the day and kept in hypothecation till the loan is fully repaid • Some players are also offering gold jewellery in partnership with reputed jewellery stores
Price	• Interest rate of 3.5% paid on no-frills accounts • For other banking products like recurring deposits, the interest rate	• Returns to the client can vary based on market conditions and yield on MMMF portfolio. The average annual returns	• The customers are required to pay an interest on the loan amount which ranges from 25 % - 30% per annum

Parameters	Business Correspondent (BC) Model	Money Market Mutual Funds (MMMF)	Gold Loans (Reverse Savings)
	will vary from bank to bank • RBI has permitted banks to charge a reasonable transaction fee on no-frills accounts serviced through business correspondents • But most BC transactions till date are free to the customer. • In very few cases a registration fee / fee for the technology device such as smart cards is levied. For example ICICI Bank charged Rs.200 for provision of smart cards.	have been in the range of 5% to 7% • Traditionally, the returns have been fairly stable and daily fluctuations in NAV negligible • No charges are levied on the customer as on date • Agents of the product are allowed to charge a commission on deposit amounts (though not done in practice) • There is also a possibility on charging on average balances maintained.	• The returns the customer receives would be in form of appreciation of gold prices (Average price increase of 16.8 % per annum for the past 8 years)
Promotion	• Displays at service points • Enrolment of local retailers as sub agents is a strategy many business correspondents use for communication purposes in addition to deriving operational advantages • Tie ups with recognised brands (for instance EKO entered into a partnership with SBI and Airtel) • Locally based promotion by way of product communication meetings, house to house communication, provision of leaflets etc. • Leveraging word of mouth promotion by using existing SHGs, JLGs etc.	• Tie ups with recognised brands (Mutual Fund AMCs like ICICI Prudential) • Displays at service locations • Locally based promotion by way of product communication meetings, house to house communication, provision of leaflets etc. • Leveraging word of mouth promotion by using existing SHGs, JLGs etc.	• Tie ups with reputed brands (reputed jewellery stores) • Certifications for purity of the gold • Displays at branch locations • Advertisements in media • Locally based promotion by way of product communication meetings, house to house communication, provision of leaflets etc. • Leveraging word of mouth promotion by using existing SHGs, JLGs etc.

Parameters	Business Correspondent (BC) Model	Money Market Mutual Funds (MMMF)	Gold Loans (Reverse Savings)
Place	• Most transactions would be performed at the local touch point, typically a neighbourhood retailer or customer service points appointed specifically for the purpose • Many business correspondent models are technology driven and use e/m banking solutions along with mobile phones, hand held devices or laptops • Generally, BC customers are not allowed transactions using bank branches or ATMs. But there are few like Bank of India which allows BC customers too facility for using bank branches / ATMs	• Branches of the service provider • Electronic / Mobile banking options are being explored to accommodate MMMF	• Branches of the service provider • Storage of gold in a safe / vault / bank locker for the duration of the loan • Jewellery store in case jewellery is provided instead of coin
Positioning	BC Model in general is positioned as a mechanism which brings banking transactions to the neighbourhood of the customers in geographies with limited financial access while providing an umbrella of safety associated with commercial banks	MMMF is positioned as a highly liquid, convenient and readily accessible savings substitute suitable for clients short term cash flow management	Gold loan is positioned as an option which helps in building long term balances due to high probability for appreciation and relatively stable gold prices which can ideally be used for lifecycle events. It can also suit short term requirements or emergencies since gold can be pledged for immediate needs.
Physical Evidence	• Bank logo displayed in service point locations • SMS / printed confirmation receipts • Passbooks • E/M banking device	• Transaction receipts / passbook • Displays at branch locations	• Gold coins / jewellery • Loan Agreement • Displays at branch locations • Product brochures • Passbooks
Process	**Account Opening** • In general, the sourcing of account opening documents is done by the service points for which they are	**Initial Deposit** • Client can approach the nearest branch of the agent for making the initial deposit	**Availing the loan** • The client can approach the branch of the service provider for availing the loan

Parameters	**Business Correspondent (BC) Model**	**Money Market Mutual Funds (MMMF)**	**Gold Loans (Reverse Savings)**
	paid a commission (which is on a per account basis) • The service point is required to forward the documents along with the Know Your Customer (KYC) documents to the bank • The bank verifies the documents and opens an account (normally a no-frills savings account) in the name of the customer **<u>Performing Transactions</u>** • In general, only cash deposit and withdrawal transactions are permitted though BCs • The customer needs to approach the service point for making a deposit or a withdrawal • The service point will enter the relevant details in the system (usually mobile hand sets or hand held devices) • The service point then hands out or accepts cash as required **<u>Cash Management</u>** • Since the BC model envisages a number of cash transactions, normally cash intensive businesses such as retailers are appointed as service points • A general practice is that the service point maintains an account with the bank which is debited or credited when transactions occur	• The customer submits the application at the branch • Once the application is verified, the customer is allowed to make the initial deposit • The client receives a transaction receipt for the transaction **<u>Subsequent Investment</u>** • The customer fills up the investment slip along with the money to the branch of the agent • The officer in charge accepts the application and enters the details in the system • The officer in charge prints out the transaction receipt, signs and hands over the receipt to the customer **<u>Redemption</u>** • Customer fills redemption slip and hands over to the Officer in charge at the branch • The officer enters the data in the system and checks the system for sufficient balance • The officer enters the transaction and prints the receipt • Customer signs the receipt and hands over a copy to the	• Generally there is a margin requirement (normally up to 10% of loan amount) to be paid by the client upfront • After completing the documentation, the loan is sanctioned • The organisation purchases the gold and keeps it in safe custody till loan is repaid in full **<u>Repayment</u>** • Most organisations collect the repayments in EMIs over the duration of the loan • The duration of the loan can range from 6 months to an year • Upon payment of last instalment, the gold kept in safe custody is released • After completion of documentation, the gold is handed over to the customer

Parameters	Business Correspondent (BC) Model	Money Market Mutual Funds (MMMF)	Gold Loans (Reverse Savings)
	• The service point is required to deposit the netted amount on a periodical basis	officer	
People	• Customer service point • Customer	• Staff member of the agent organisation • Customer	• Branch staff • Customer

Annexure 1(Cont...)

Parameters	Life Insurance Policies (Term Insurance Plans with maturity benefits)	Life Insurance Policies (ULIP)	Pension Schemes
Product Features 1. The Concept	• Term insurance plans typically provide an insurance cover for the life of the insured over the duration of the policy against periodical premium payments (can vary from annual, half yearly, quarterly and monthly) • They also provide an option for savings with the amount payable on maturity and the returns receivable being typically guaranteed	• Unit Linked Insurance Plans (ULIPs) are a unique combination of mutual funds and insurance • They provide a life insurance to the client at the same time providing a return to him at the end of the period • Typically the funds raised by a ULIP scheme is invested in open market instruments (usually a combination of debt and equity) and the returns to the customer would depend on the value of investment at the end of the period • Usually premium amount to be paid in fixed instalments at fixed intervals / as one time premium though some providers allow for flexible premium payment options (e.g. MaxVijay)	• Pension Schemes provide periodical fixed amounts to a customer after completion of a pre-defined age / period
Price	• Premium has to be paid by the customer (term life insurance plans are typically low cost as compared with other life insurance options such as ULIPs) • In general, a guaranteed return is provided which can vary from insurance provider to provider • In general a customer would get a rebate with higher premium payments • Some life insurance companies	• Premium has to be paid by the customer • High costs as compared to traditional plans • The charges to the customer usually include premium allocation charges, fund management charges, policy administration charges and mortality charges	• Premiums have to be paid by the customer (normally like an SIP) • There are charges for opening of account, maintenance of accounts, transaction fees etc. payable to the central record keeping agency (CRA), the pension fund managers and the trustee bank • Depending on the type of charge and the party levying the charge, it may be by way of

Parameters	Life Insurance Policies (Term Insurance Plans with maturity benefits)	Life Insurance Policies (ULIP)	Pension Schemes
	also provide for periodical pay out of bonuses		deduction in NAV, payment of an upfront amount or by cancellation of units • All charges are typically regulated by PFRDA which has imposed caps on different types of charges
<u>Promotion</u>	• Displays at service points • Tie ups with recognised life insurance brands • Communication through media • Locally based promotion by way of product communication meetings, house to house communication, provision of leaflets etc. • Leveraging word of mouth promotion by using existing SHGs, JLGs etc.	• Media based promotion • Use of corporate agency as well as broker channels • Displays, hoardings etc • Personal communication by way of tele-calling, house to house sourcing etc	• Media based promotion • Distribution through partnerships with NGOs, MFIs etc. • Personal communication by way of house to house sourcing • Leveraging word of mouth promotion by using existing SHGs, JLGs etc.

Parameters	Life Insurance Policies (Term Insurance Plans with maturity benefits)	Life Insurance Policies (ULIP)	Pension Schemes
Place	• Branches of the corporate agent • JLG / SHG centres can be leveraged for sourcing • Residence of the customer can also be a sourcing point • Back end processing done at the location of the life insurance service provider	• Branches of corporate agent • JLG / SHG centres can be leveraged for sourcing • Residence of the customer can also be a sourcing point • Back end processing done at the location of the life insurance service provider	• JLG / SHG centres can be leveraged for sourcing • Residence of the customer can also be a sourcing point • Back end processing done at the location of the pension service provider
Positioning	Term life plans with maturity benefits are positioned as low cost insurance options which provide an additional facility for long term savings	Primarily positioned as an investment option with insurance cover and tax benefits usually promoted as add-ons	Positioned as pension schemes which provide for old age security by way of an assured periodical income.
Physical Evidence	• Policy Certificate • Premium receipts • Product brochures • Displays at agent locations	• Policy Certificate • Premium receipts • Product brochures • Displays at agent locations • Public displays by way of hoardings, wall posters etc	• Transaction receipts • Statement of accounts • Product brochures
Process	**Sourcing** • Sourcing is done largely at client location (SHG / JLG meetings, client residence, work place etc.) • Branches of corporate agents also act as sourcing points • The application is submitted to the agent • Normally a mandated health check is done though it is now being increasingly waived by insurance companies where sum assured is low • The first premium is collected	**Sourcing** • Sourcing is done largely at client location • Branches of corporate agents also act as sourcing points • The application is submitted to the agent • Normally a mandated health check is done though it is now being increasingly waived by insurance companies where sum assured is low • The first premium is collected along with the application • The application along with the premium is passed on by the agent to	**Sourcing** • Sourcing done at pre appointed and PFRDA vetted points of presence • Applications are collected by the participating organisation which are passed on to a pension fund manager • The amount can be received as a lump sum or as an SIP **Premium Payments** • Periodical payments towards the pension are normally collected by the participating

Parameters	**Life Insurance Policies (Term Insurance Plans with maturity benefits)**	**Life Insurance Policies (ULIP)**	**Pension Schemes**
	along with the application • The application along with the premium is passed on by the agent to the life insurance company which issues the policy **<u>Premium Payments</u>** • Premium payments are collected by the corporate agent and passed on to the insurance company **<u>Claim Settlement</u>** • On death of the client, the nominee can make an application to the corporate agent along with the necessary documentation • The insurance company will make the payment to the nominee after verification **<u>Payment of Maturity Benefits</u>** • On maturity of the insured period, the client is paid back the guaranteed amount	the life insurance company which issues the policy **<u>Premium Payments</u>** • Premium payments are collected by the corporate agent and passed on to the insurance company **<u>Claim Settlement</u>** • On death of the client, the nominee can make an application to the corporate agent along with the necessary documentation • The insurance company will make the payment to the nominee after verification **<u>Payment of Maturity Benefits</u>** • On maturity of the insured period, the client is paid back the value of the investment on the redemption date	organisation and passed on to the pension fund manager **<u>Payment of Pension</u>** • On completion of payment period an annuity is paid out to the beneficiary • It could be monthly, quarterly, half yearly or annually depending on the scheme as well as preference of the customer • There are also options for specifying the period of annuity which could be for a fixed term, till death of the party etc.
<u>People</u>	• Staff of the corporate agent • Client • Processing the responsibility of staff of the insurance company	• Staff of the corporate agent • Client • Processing the responsibility of staff of the insurance company	• Staff of the participating organisation • Client • Processing the responsibility of staff of the pension fund manager

Annexure 2: Comparison of Savings Options on Specific Attributes

Attributes	Business Correspondent Model	Money Market Mutual Funds	Gold Loans (Reverse Savings)
Cost to Customer			
- *Registration Fees*	- Nil in general. - One notable exemption is ICICI Bank which charged a Rs.200 service charge for issuing a smart card	- Nil as per current practice	- A processing fee is charged by some organisations
- *Transaction Fees*	- RBI in its recent guidelines had permitted banks to charge a reasonable fee as long as it was transparent in nature - Till date, none of the banks have started charging the customers for transactions	- Nil as per current practice - There is a possibility for charging a commission on investment amounts though this is not practiced currently - There is also a possibility to charge on average balances	- Interest rates are charged by the organisation on the loan amount (can vary from 25% - 30%)
- *Other Transaction Costs incurred by the customer*	- In some mobile banking based models, the cost of SMS and GPRS has to be borne by the customer - Waiting time at the agent location in case of cash shortage with the agent	- In case of transactions at branch, the travelling costs would be incurred by the customers. - Also there could be opportunity cost in terms of loss of wages if the client has to come to the branch to transact	- An upfront margin is normally required to be paid by the customer - Customer has to take the downside risk in case there is a fall in gold prices - In case of transactions at branch, the travelling costs would be incurred by the customers. - Also there could be opportunity cost in terms of loss of wages if the client has to come to the branch to transact
Returns to the Customer	- Most banks provide only no-frills savings accounts through the BC model which offer an interest rate of 3.5% per annum - The interest rates for other	- Returns can vary according to yield on mutual fund portfolio, instruments invested in and based on market conditions. - But compared to other open market instruments, the returns tend to be	- The returns the customer receives would be in form of appreciation of gold prices (Average price increase of 16.8 % per annum for the past 8 years)

Attributes	Business Correspondent Model	Money Market Mutual Funds	Gold Loans (Reverse Savings)
	products like recurring deposits offered through the BC route vary from bank to bank	stable and daily fluctuations have been observed to be negligible. - Returns in money market funds typically seen in the range of 5%-7%	
Primary Utility of the Product	- Since the main product offered through the BC channel is a no-frills savings account, the primary utility has been seen to be for day to day cash flow management - In case of products like Recurring Deposits, the utility is seen to be with regard to building lump sums for meeting planned expenses	- Short term liquidity needs of the household - Day to day cash flow management - A reserve for emergencies	- Long term asset accumulation, especially for weddings - Can be a reserve used for meeting emergencies or short term needs by pledging the gold - Aesthetic purposes like wearing gold in the form of jewellery
Security Aspects	- The backing of a scheduled commercial bank brings in the necessary trust for the customer - Moreover, instant transaction receipts by way of SMS / print also provide evidence that the savings balance of the clients is safe - All e/m banking based models use adequate IT and network technology protocols - Many also use innovations like biometric identification and one time passwords to ensure transaction security	- Transaction security needs to be reinforced to the customer by use of transaction receipts / passbooks - A robust backend technology needs to be implemented for real time data updating and sufficient monitoring. - The investment is subject to market risks and overall economic environment	- The gold will have to be provided by a third party. So purity of gold would be a concern - Storage of gold could give rise to security risks - Any significant fall in gold prices would give rise to erosion in value of investment for the clients
Cost to the Organisation	- Cost of oversight and	- Costs of developing / implementing	- Reputation risk in case of theft of

Attributes	Business Correspondent Model	Money Market Mutual Funds	Gold Loans (Reverse Savings)
	supervision - Costs for entering into partnerships with third parties like banks, technology service providers and agents at field level - Costs of developing / implementing technology solutions including integrating the BC model into the MIS - Costs for recruiting and training service providers - Cost of promotion and / or initiating financial literacy campaigns - Commissions payable to the agents - Opportunity costs for the organisations funds which can be deployed elsewhere to generate a return	technology solutions - Costs of entering into partnership with third party Mutual Fund AMCs - Costs of recruiting and training field staff - Cost of promotion and / or initiating financial literacy campaigns - Opportunity costs for the organisations funds which can be deployed elsewhere to generate a return - Opportunity costs for the funds lent as bridge loan to clients to ensure liquidity (if a provision for bridge loan is made)	gold or inadequate purity - Any significant fall in gold prices could potentially trigger delinquencies - Need to earmark funds which would involve an opportunity cost - Cost of entering into a partnership with a third party for provision of gold - Cost of promotion
Returns to the organisation	- An account opening fee is generally provided to the business correspondent on a per account basis - Some banks provide a fee to the BC based on savings balances - Some others provide a fee to the BC based on value of transactions	- Commissions paid by the mutual fund - Possibility to levy commission to clients on investment amounts - Possibility to charge clients based on average fund balances	- Interest rate spread - Fee income if a processing fee is charged
Regulatory Aspects	- RBI has issued some guidelines with regards to	- Mutual Funds in India are governed by SEBI	- No significant regulatory aspects need to be considered for NBFCs

Attributes	Business Correspondent Model	Money Market Mutual Funds	Gold Loans (Reverse Savings)
	who can be a Business Correspondent (for instance NBFCs cannot be) - A for-profit company may set up a not-for-profit company (as a Section 25 company) provided it does not own more than 10% stake in the company - BC operations are also restricted to within 30 KMs of the base bank branch	- It is mandatory to obtain NISM (National Institute of Securities Market) certification in order to become a Mutual Fund distributor (including all employees involved). Once the AMFI registration number (ARN) is issued, the company needs to sign on the empanelment form and send it to the Mutual Fund whose Distributor/Channel Partner it wants to become. - Since it is a mutual fund product, assured returns cannot be communicated to the client - The clients compulsorily require to possess a PAN card - Third party verification of KYC documents of the clients is mandatory	who are already in the lending business
Need for Partnerships	- Need to empanel with a scheduled commercial bank as a business correspondent - Need to identify and enter into partnership with a technology service provider for front end technology as well as for developing / adapting an efficient MIS system - Need to recruit and enter into partnerships with field level customer service providers	- The organisation needs to become an agent for any of the mutual fund AMCs - A partner would be needed to identify and implement both front end as well as back end technology components - Guidance from players who have already successfully implemented the product can be helpful	- Needs to enter into a partnership with corporates or reputed jewellery stores for obtaining the gold
Potential Partners	**Banks** - Bank of India - State Bank of India	- Mutual Fund Asset Management Companies like ICICI Prudential AMC, UTI AMC, HDFC AMC etc	- Tata Gold Plus - Reputed jewellery stores

Attributes	Business Correspondent Model	Money Market Mutual Funds	Gold Loans (Reverse Savings)
	- Union Bank - ICICI Bank - Punjab National Bank - HDFC Bank **Technology Service Providers** - mChek - ALW - FINO - EKO - TCS - Atyati - Ekgaon - Fidelity	- IFMR Trust Holding Company / KGFS for understanding the model / exposure visits - Technology partners like atyati, mChek, FINO, Fidelity etc.	

Annexure 2 (Contd...)

Attributes	Life Insurance Policies (Term Insurance Plans with maturity benefits)	Life Insurance Products (ULIP)	Pension Schemes
Cost to Customer			
- *Registration Fees*	- Not Applicable	- Not Applicable	- Payable to the points of presence as an upfront amount - Payable to the central record keeping agency(CRA) by way of unit deduction - All charges are limited by caps decided by PFRDA
- *Transaction Fees*	- Nil	- High transaction fees as compared to other savings options - Fees typically include premium allocation charges, fund management charges, policy administration charges and mortality charges - There is an upfront deduction of premium amount towards charges with only the residual amount being invested (the deductions can go up to 20%-25% in many cases)	- Fund manager charges and custodian fees payable by way of NAV deduction - Trustee bank charges applicable if transaction is done from a non RBI location on a per transaction basis by way of NAV deduction - An annual maintenance charge as well as per transaction charge is levied by the CRA - All charges are limited by caps decided by PFRDA
- *Other Transaction Costs incurred by the customer*	- On surrender of policy before maturity, a significant portion of the premiums paid would be deducted to arrive at the surrender value	- The investment is subject to market risks with the client being exposed to market fluctuations - On surrender of policy before maturity, a significant portion of the premiums paid would be deducted to arrive at the surrender value	- The investment is subject to market risks with the client being exposed to market fluctuations - Returns are not guaranteed
Returns to the Customer	- Low cost life cover - Guaranteed Returns - Some providers offer rebates for higher premium amounts - Tax exemption on premium paid	- Market linked returns (chance of high appreciation but dependent on market conditions) - Some providers offer guaranteed returns	- Annuity is provided - Some schemes provide maturity benefits - Some providers offer bonuses on the investment amount

Attributes	Life Insurance Policies (Term Insurance Plans with maturity benefits)	Life Insurance Products (ULIP)	Pension Schemes
	as well as returns accrued	- Tax exemption on premium paid as well as returns accrued	- Some providers offer rebates for higher investment amounts - Tax exemption
Primary Utility of the Product	- Life Cover - Long term savings - Tax planning	- Investment / Long term savings - Life Cover - Tax planning	- Pension - Long term savings - Tax planning
Security Aspects	- A tie up with a reputed life insurance company with an established track record can bring in an element of trust - Physical evidence like policy certificate and premium receipts can also contribute to increasing trust	- Investment is subject to market fluctuations and the client is exposed to downside risks - Transparency in charges / allocation would be crucial in enhancing client confidence	- Investment is subject to market fluctuations and the client is exposed to downside risks - Only selected few fund managers appointed by PFRDA - Highly transparent albeit regulated charge structure - Closely regulated by PFRDA and observed from close quarters by the government machinery as well as media.
Cost to the Organisation	- Costs for entering into partnerships with life insurance companies - Cost of promotion - Costs involved for training and certifying persons involved in sourcing	- Reputation risk if client investments are impacted negatively to a significant extent by market conditions - Costs for entering into partnerships with life insurance companies - Cost of promotion - Costs involved for training and certifying persons involved in sourcing	- Costs for entering into partnerships with regulated points of presence / pension fund managers - Cost of promotion - Cost of training
Returns to the organisation	- Commissions received from the insurance company	- Commissions received from the insurance company (typically higher than offered on traditional insurance plans or other savings options like MMMF)	- Commissions received from the points of presence / pension fund manager
Regulatory Aspects	- IRDA is the regulator for insurance industry in India - A corporate agent for an insurance company would be	- The regulatory terrain still not clear with IRDA and SEBI still debating on jurisdiction - As of now all provisions of IRDA	- PFRDA is the regulator for pension schemes - PFRDA has very strict regulation on charges etc. and has imposed caps

Attributes	Life Insurance Policies (Term Insurance Plans with maturity benefits)	Life Insurance Products (ULIP)	Pension Schemes
	subject to licensing as per IRDA norms - Appointment of sub-brokers is prohibited by IRDA and hence only employees of the corporate agent will be permitted to source insurance applications - Any promotional material would require explicit approval from the insurer - Disclosures and reporting to be done to the insurer as per IRDA norms - The specified persons involved in sourcing should have IRDA prescribed qualifications	applicable on corporate agents would be applicable - In addition SEBI has requirements since the ULIPs invest in open market instruments coming under SEBI's jurisdiction	- If invested in open market, SEBI also has a regulatory role
Need for Partnerships	- Partnerships with registered life insurance companies as a corporate agent is required	- Partnerships with registered life insurance companies as a corporate agent is required	- Partnerships needed for becoming agents for registered Points of presence - Need to be appointed as a regulated point of presence by PFRDA
Potential Partners	- Aviva Life Insurance Company - Life Insurance Corporation of India - SBI Life Insurance Company - ICICI Prudential Life Insurance Company - Bajaj Allianz Life Insurance - Birla Sun Life Insurance	- Max New York Life Insurance Company - Aviva Life Insurance Company - Life Insurance Corporation of India - SBI Life Insurance Company - ICICI Prudential Life Insurance Company - Bajaj Allianz Life Insurance - Birla Sun Life Insurance	- Invest India Micro Pension Services - UTI Asset Management Company - PFRDA - LIC Pension Funds Limited - SBI Pension Funds Pvt Ltd - UTI retirement solutions ltd - IDFC Pension fund management company Ltd - ICICI Prudential Pension fund management company limited - Kotak Mahindra Pension Fund Limited