

MicroSave India Focus Note 63

Why People Do Not Use Present Banking Systems – A Case For BCs

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Introduction

Reserve Bank of India's (RBI) financial inclusion drive to cover the un-banked Indian population,¹ has led to initiatives such as the "No Frills Account" (NFA) and "Business Correspondent" (BC) model. This note examines the difficulties faced by low income households accessing banking services and presents a case for the acceptance of BC model for expanding the reach of banking services. The note draws from the recent primary research conducted by *MicroSave*.²

Challenges and Barriers in Accessing Banking Services

The difficulties that clients encounter in accessing banking services are at two levels: first in reaching the bank, and second in transacting. The former is mostly about distance,

the crowd, resulting in extended waiting time at the bank.

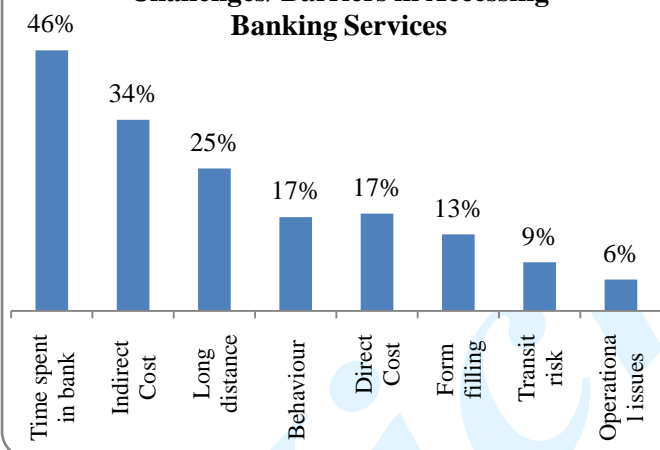
Indirect Costs

Customers incur several indirect costs when they go to a bank. Indirect (and direct) costs increase further when customers are required to visit the branch more than once to complete the transaction (see below).

"Gramathula yarum chuma iruka mattom. Velaiku polainalum keera pudingitu varuvom, veragu porikitu varuvom. Anniku bank pona kaikari vanganum kerosene vanganum – athu nashtam thane!" – "In villages no one sits idle. Even if we don't go for work, we gather greens and collect fire wood for cooking. If we go to bank, then for the day we have to buy vegetables and kerosene, aren't there indirect costs?" (CWP research Tamil Nadu)

"Kam se kam 4-5 ghante kheti kar lete toh aadhe din ka kaam ho jata" – "If we work in the field for at least 4-5 hours we finish a half day's work." Respondent group explaining opportunity loss. (CWP research UP)

Challenges/ Barriers in Accessing Banking Services



conveyance, travel time and other direct and indirect costs (e.g. opportunities to sell labour lost); while the latter arises from processes involved and other exogenous factors at the bank. The graph below presents various difficulties highlighted by respondents. The percentages indicate the number of times a particular issue came up in discussion groups.

Time Spent in Bank

One of the biggest deterrents to using banks is the amount of time one has to invest to transact. Though various factors contribute to this, including literacy levels of bank users, customers believe that the limited number of staff at rural branches means that they are overburdened – as well as inefficient. In addition, at the time of benefit payments like NREGA, customers reach bank in large groups that add to

"linon mein lago to do ghante tak khade rehte hain" - "If one stands in queue, it could take two hours to reach the cashier." (CWP research Rajasthan)

Time Lost in Travelling Long Distances

Clients often have to travel long distances to reach bank branches located far from their homes. Customers either have to wait (sometimes for hours) to get a conveyance, or walk kilometres, to reach to the bank. For this reason, such clients prefer not to use banking services for regular savings or other products. These customers typically use their bank accounts (when they have one) to receive government benefits, and therefore primarily for withdrawals. A few customers with substantial, regular income and savings do use bank accounts for deposits, but even they access their accounts only when they happen to be in the vicinity of a branch (often for work).

Behaviour

"Adikiramathiri pesuranga" – "They speak like they are going to beat us." Respondent group explaining uncouth behaviour of bank official. (CWP research Tamil Nadu)

Bad conduct or behaviour by the bank staff is also a deterrent for many customers. Behavioural patterns are important as they can encourage or discourage customers from using their bank accounts.

Direct Costs

Reaching a bank branch from remote parts of the countryside can cost as much as Rs.100. The costs incurred are mainly on conveyance and snacks.³ For small value

¹ 41% population in India lack access to formal banking services, Financial Inclusion: Perspective of the Reserve Bank of India' report dated 29 September 2010.

² Platt et al. "The Answer is 'Yes' - Cost & Willingness To Pay" *MicroSave*, 2011

³ The research shows that respondents do associate the cost of snacks to the direct cost incurred in reaching bank. They articulate that these snack costs would not have been incurred had they not gone to bank.

transactions, these direct costs are a considerable percentage of transaction amounts, thus preventing such transactions. One could argue here that in many instances bank visits are combined with other work, so the direct cost should not be a big deterrent. However, the study demonstrated that: firstly, only a small proportion of account holders have other work to do near bank branches; and secondly, the majority of account holders visit the bank specifically to transact.

Form Filling

Inability to fill forms, combined with limited understanding of banking services due to illiteracy, discourages customers. This factor, coupled with behavioural issues of bank staff, further discourages the use of banks, as poor people usually need support to understand and fill out forms, a service that is rarely offered.

Operational Issues

Lack of connectivity of smaller and remote branches with main branches in the city creates operational challenges. Respondents also refer to technical issues preventing or slowing down transactions, and add that there is higher frequency of these issues in the rural branches compared to branches in cities. At times, lack of sufficient funds in remote bank branches requires customers to either wait for long time, or leave without cash. For daily labourers this also results loss of daily wage, thus adding to indirect cost.

Lack of Appropriate Products

In addition to the challenges mentioned above, banks do not offer suitable products to meet the needs of low income households.⁴ *MicroSave's* research shows that low income households prefer quick deposit facilities, with the opportunity to deposit or withdraw in small amounts, from their accounts.⁵

How Business Correspondents Fit The Bill

The BC model enables banking services to be brought close to the customer, and thus is a potential solution to many of the problems discussed above. The graph below presents factors that come out as respondents discussed the benefits of the BC model.

Convenience and Saved Costs

BCs emerge as an appealing option for low income customers, as they promise quick, easy and proximate service. People can transact small amounts without the stress of standing in long queues or travelling long distances. People believe that BC services can lower the opportunity cost of wages lost, lost child care and loss of important household work, as it provides a quick transaction facility. In addition, BC offers the cheapest way to make transactions, as no/limited travel is involved. The

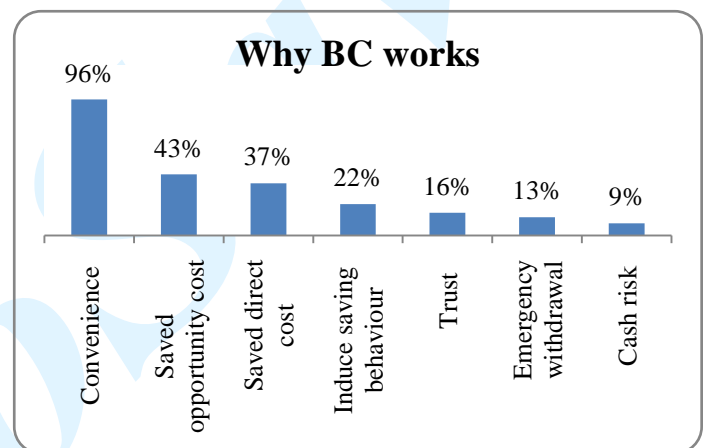
savings on transportation and miscellaneous expenses on shopping, snacks and so on makes BC an attractive option to save.

Inducing Saving Behaviour

BCs offer customers the flexibility to save at the time, and in the amounts, of their choosing. They will therefore be incentivised to make more frequent deposits, even if these are small in value. Female account holders also like the possibility of a separate, and perhaps clandestine, account which they control, and to which their husbands do not have access.

No Cash Risk

While considering BCs as a potential banking service provider, customers also appreciate that BCs could reduce their risk of carrying cash, as incidences of thefts of cash



from people travelling to/from banks seems to be quite frequent in remote areas.

Trust and Service

Some customers believe that BCs as service providers will be more trustworthy and helpful than bank staff. They perceive that BCs provide better access and support whenever they have queries or need help with forms.

Conclusion

The key objective of financial inclusion, to offer all households affordable financial services, can potentially very well be achieved with BC as a delivery channel, if it can be made viable for banks and BCs. The channel has the potential to deliver a range of financial services⁷ to the millions of un- and under-banked in India, as it can address many challenges and barriers faced by customers while banking.^{8,9}

⁴ The research shows that respondents do associate the cost of snacks to the direct cost incurred in reaching bank. They articulate that these snack costs would not have been incurred had they not gone to bank.

⁵ http://mmublog.org/wpcontent/files_mf/meetingthemicrosavingschallenge.pdf

⁶ "Deposit Assessment in India", *MicroSave*, 2011

⁷ For more details see *MicroSave's* India Focus Note 65 – "Successful Banking Correspondents Need a Compelling Product Mix".

⁸ Trust in the BC agent is the most widely mentioned concern and a very significant deterrent for the uptake of BC service. Almost all groups mentioned this issue irrespective of distance from the bank. How the bank guarantee the integrity of agent-based transactions and ensure that agent does not run away with savings, are some crucial questions with the customers.

⁹ See India Focus Note 64 examining how BCs fare against various informal savings channels.