

Cost and Willingness to Pay in Rajasthan

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Executive Summary

MicroSave conducted this research with 190 respondents in two districts and 27 different villages in Rajasthan in late 2010. (For more information on Cost & Willingness to Pay in other states, please see *MicroSave's* Tamil Nadu and Uttar Pradesh reports, plus the Summary Overview on this topic – all available on www.MicroSave.net). This report explores banking services available in rural Rajasthan and the problems, including costs, many account holders have accessing them. It also examines whether or not these bank customers are willing to pay a fee, and if so how much, for more local service offered by business correspondents (BCs) serving as bank representatives.

Findings include:

- The direct and indirect costs of branch banking are onerous for many respondents, and if fees for BC services amount to less than these costs, the majority appear willing to pay.
- Transportation and other travel expenses to and from the branch—up to Rs.100—are the direct costs most often cited by those who live and work more than 3-4 kilometres away. (In this study, almost 40% live more than ten kilometres from the nearest branch).
- Lost wages—and, for women, a day spent not cooking and not attending to small children and the elderly—impose even greater tolls on family finances.
- Time is also a factor, not simply because of distance, but also due to long waits up to three hours in bank queues, poor IT and other bank service delays, and the all-too-frequent need to return a day or two later to complete a transaction.
- Many respondents claim they feel unwelcome in branches, bank staff is impolite and impatient with low depositors, and the illiterate (30% in this study) and semi-literate have a particularly difficult time filling out forms and carrying out simple transactions.
- Almost everyone agrees there is a strong need for more flexible, local banking services—and in 87% of the group discussions, respondents are willing to pay a small fee to save more, with more services, particularly in emergencies, and to reduce the time, cost, and difficulties they currently incur in bank visits.
- Among those willing to pay, a majority prefer a small percentage (0.5-1%) of the transaction amount. No one supports fees on savings and other deposits.
- Those unwilling to pay note that bank, Sahara, and the post offices offer financial services for free. For these respondents, the BC services are not compelling enough to warrant fees, even small ones.
- Another alternative is to revert to lending, saving, and investing within the village and extended family, and use banks infrequently, if at all. For the currently unbanked, this system has not lost its appeal, despite poor security and potential fraud. Business correspondents will have competition in some areas, and the better return on savings and investments generally offered in these community arrangements will affect the pricing of BC services.

For the BC model to work, banks will need to consider:

- Optimal convenience, flexibility and cash security for customers in remote locations;
- Uncomplicated, easy-to-understand fees, calculated to be less than current direct and indirect costs—and to compete with non-bank competitors;
- More account offerings and stronger incentives for recurring deposits and other savings; and
- Promotion and active support for BCs, especially at the outset, to build trust and help allay customers' anxieties.

Market-led solutions for financial services

Introduction and Background

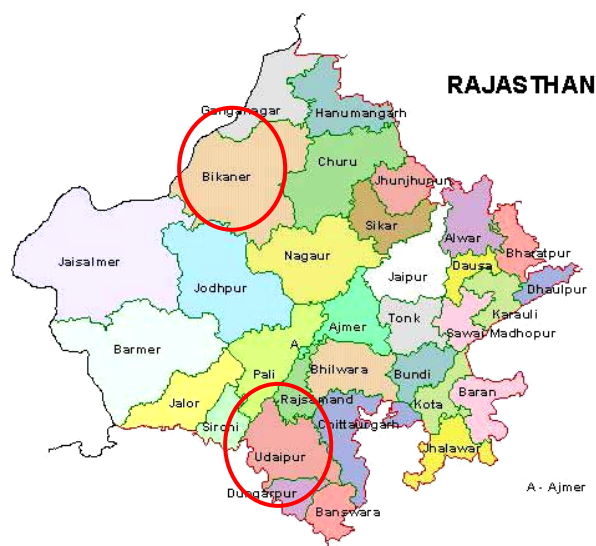
Implementation of the business correspondent (BC) model in a sustainable manner has been a challenging task for all of the banks. The Reserve Bank of India (RBI) has eased the situation somewhat by allowing the state and retail banks to charge “reasonable fees” for BC services. The objective of this research is to discover if customers are willing to pay these fees and if so, what is a reasonable amount?

This question has gained considerable importance because the BC model has not proved to be an economically viable option for financial inclusion for banks or business correspondents so far. The efficacy of the solution proposed by RBI in form of the fee structure still remains to be tested. This research provides insights about the client responses and reactions to the fee being charged for banking services through BCs.

This research is essentially a continuation of the “Cost Willingness to Pay” research conducted by *MicroSave* in the state of Uttar Pradesh during September 2010. The research area for this report is Rajasthan, and the focus is on delivery of saving bank accounts through the BC model. The report assesses the current challenges, and costs that savings account holders incur to transact at bank branches, and their willingness, or disinclination, to pay for a secure and convenient service closer to home. The findings can be a starting point for banks and others involved in rural policy to develop more informed cost and delivery structures for low-income households.

Area Profile

Located in northwest India, Rajasthan borders Punjab in the north, Haryana and Uttar Pradesh in the northeast, Madhya Pradesh in the east and Gujarat in the south. Rajasthan is the largest state in India in terms of area, with 33 districts, and 41,352 villages. Total population of the state according to the census 2001, was 56 million. The research was conducted in two districts of Udaipur and Bikaner, from southern and northern parts respectively, in 27 villages.



Udaipur at a glance	
Area	17,279 (sq kms)
Population	2.09 million
Literacy Rate	37.88%
Tehsils(Block)	11
Commercial Bank	152
Cooperative Banks	24
RRB's	39

Udaipur is one of the divisional headquarters of Rajasthan, comprising six districts administratively, and is a tourist hub. Its total area is 17,279 sq km, which is approximately 5% of Rajasthan’s total area. It has 11 sub divisions, including 2,500 villages.

Bikaner at a glance	
Area	30,247.9 (sq kms)
Population	1.67 million
Literacy Rate	57.54%
Tehsils (Block)	8
Commercial Bank	155

Bikaner is one of the desert districts situated in the north-west of Rajasthan. It is a tourist city and part of Golden Triangle Route. Its total area is about 27,244 sq km which is about 7.96% of the total area of Rajasthan. There are 923 villages in the district.

Source for number of banks: RBI website.

Market-led solutions for financial services

Research Process

Market Research Process

Training and Preparation: August 30 - Sep 4, 2010

- Designing CWP research design, methodology and plan.
- Finalisation of research tools (FGD guides and questionnaires)

Market Research Process:

Phase 1: CWP-Uttar Pradesh, September 6 to October 1, 2010; Complete

Phase 2: CWP-Rajasthan, December 13- 24, 2010

- Participatory Group Discussions with existing bank clients
- Individual interviews with customers and bank staff, and opinion leaders

Analysis, Consolidation and Report Writing:

December 27 - 31, 2010

This section presents research objectives, sampling process, sample and definition of terms used in the report.

Research Objectives

- To assess costs that households currently incur to use banking services for savings accounts.
- To understand the process of transacting at the bank and determine challenges involved.
- To establish the value (or lack of value) these households see in a BC model.
- To gauge their willingness to pay for the services the BC model would offer.

Specific questions include:

- How do respondents currently transact at the bank branch—size, frequency, nature of transaction etc.?
- What is the overall cost of a visit to the bank branch (direct and indirect costs)?
- How far does each respondent travel to his/her branch? What distance is judged “too far”?
- What other deterring factors are involved in branch visits?
- What is the general response to the BC model?
- Who is willing to pay for this convenience?
- What are their expectations of BCs if they pay a service fee?
- For those who would not pay for this service, what reasons do they cite? (If undecided, what questions and concerns need to be resolved?)
- If accounts with lower initial deposits cost a small fee to open, what should that fee be?
- What qualities would they seek in a BC?

Research Method

The *MicroSave* research team conducted 53 sessions with 190 clients in 27 villages. The team used the following tools for data collection:

1. **Focus Group Discussions:** Since the BC model and willingness to pay for BC services will hinge in large part on a village’s collective acceptance—or rejection—group discussions are particularly helpful in gauging overall attitudes, concerns, and indicators of future behavior.
2. **Cost Mapping:** This tool helps us in mapping various activities involved in the banking process, by the respondents, and identify the time involved at each step.
3. **Willingness to Pay (WTP):** This tool helps arrive at the maximum price individuals or groups might be willing to pay for proposed BC service.

Sample Details

Tool	Number of sessions	Respondents Covered
Focus Group Discussion	39	
Cost Mapping Tool	13	
Willingness to Pay	51	
Total Sessions	53	190

Sampling

The team used random purposive sampling of locations and service providers to reach bank clients. (Purposive sampling is necessary when there are a limited number of qualified respondents in an area). The team conducted interviews and group discussions with bank account holders who reside at varying distances from their branches in order to find if there exists a pattern in challenges/costs and willingness to pay with changing distance of banks from the village.

Disclaimer

Qualitative research is designed to look beyond the percentages to gain an understanding of the customer's belief, impressions and viewpoints. Gaining such insight into the hearts and minds of the customer is best acquired through tools like Focus Group Discussion and Participatory Rapid Appraisal with smaller, highly targeted samples. Qualitative research is not statistically representative, but is much more appropriate for research that seeks to understand complex human financial behaviour.

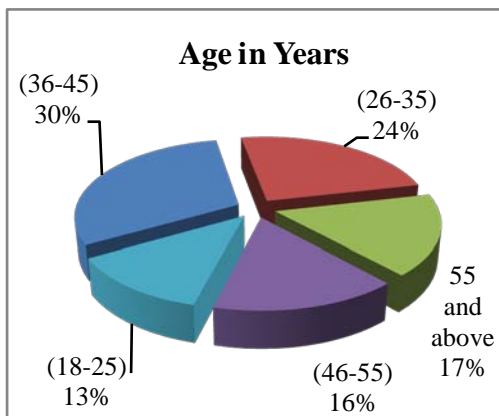
Graphic Presentation

In this study, responses of the research questions have been presented in two different ways – in some of the questions, individual responses have been captured; however, in other questions consensus responses from the group as a whole are captured. Individual responses are presented for the questions related to the respondent's profile, such as age, occupation, education and ownership of bank accounts etc. For the core research questions, group response is presented, as during a group discussion, it is very difficult to capture individual responses on the core questions. Such responses are captured only when a majority of group members reach a consensus. While presenting the findings, we have shown the percentage of respondents for responses captured from individual respondents and percentage of sessions, when responses are captured from a group.

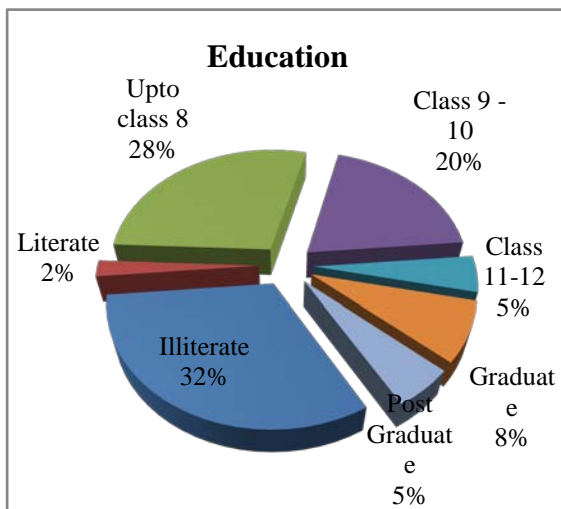
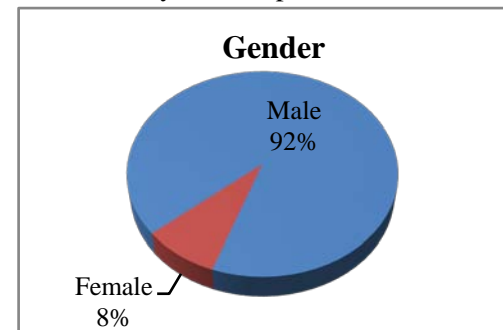


Profile of Respondents

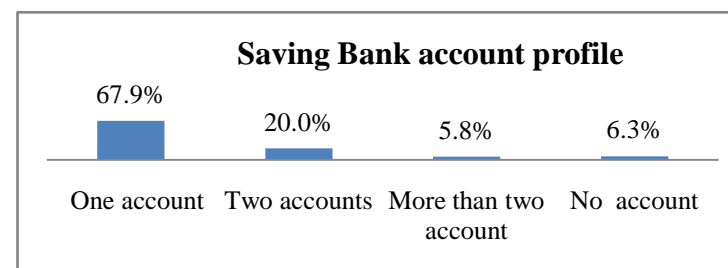
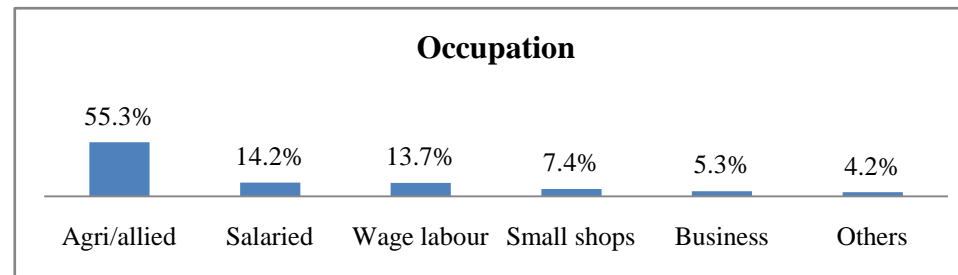
Thirty percent of the respondents are in the age group of 36-45 years, and an additional 24% are in the age group of 26-35 years. Seventeen percent of the total respondents fell in the oldest age group of 55 years and higher. Close to 90% of the sample are male. Females had very little exposure to banks and banking in the research area and thus were not included in the group discussions.



Fifty five percent of the respondents are involved in agriculture/allied activities, which is the major source of livelihood, followed by 14% who are in salaried service, both government and private. This includes *anganwadi*¹ workers, primary school teachers, factory workers, etc. Fourteen percent of sample is employed in wage labour; this includes National Rural Employment Guaranty Act (NREGA) workers and agri-labour. Seven percent of respondents run small shops such as tea stalls, grocery and vegetable vendors, 5% of the sample are self-employed in businesses such as tailoring and carpentry and 4% of the respondents are employed as drivers, social workers, household maids and students.

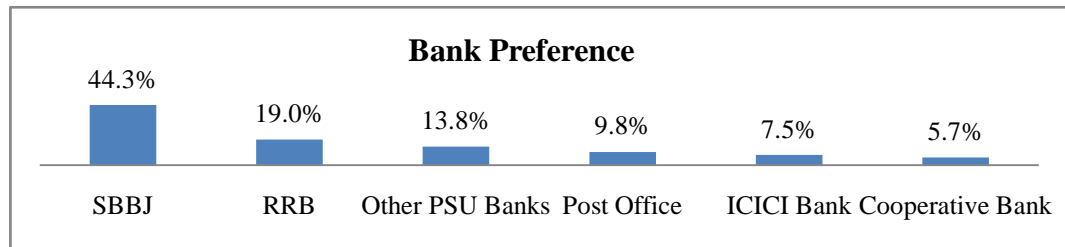
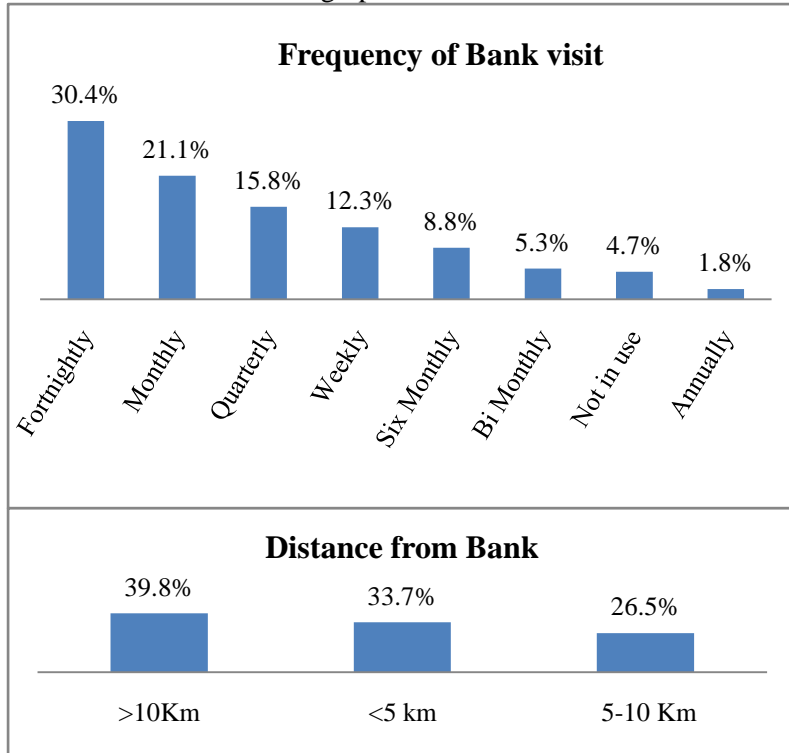


Close to 70% of the sample has at least one bank account, be it a no frills (used to receive NREGA payments), pension, recurring deposit (RD), or a standard savings bank account. Twenty percent of the respondents have two accounts. This category includes respondents who have a no frills account plus another account at a bank branch near their residence.



¹ Anganwadi: please refer to <http://en.wikipedia.org/wiki/Anganwadi>, accessed Jan 7, 2010

Close to 40% of the sample live more than 10 km away from their bank branch, followed by 34% of respondents whose bank location is less than 5 km. Twenty seven percent of the respondents travel between 5-10 km, to access banking services. 13 respondents could not come up with any clear response, and has not been include in the graph.

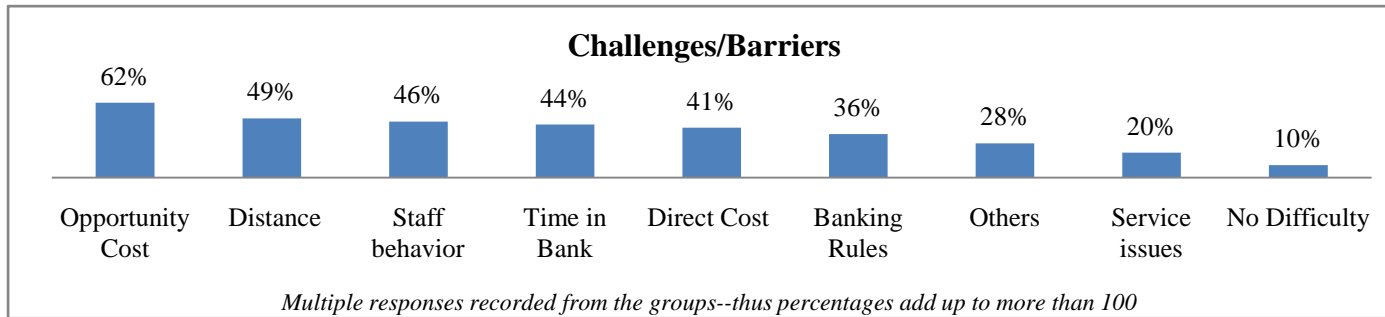


A few respondents in this category also have post office accounts along with their bank account. Thirty percent visit their bank branch every fortnight. This is the most common frequency of visit, driven in part by the NREGA payment account holders who receive their NREGA wages on a fortnightly basis. This is followed by monthly visitors, who come to the bank to make their recurring deposit or time their bank transactions to coincide with their monthly grocery purchase from the market. Twenty seven respondents could not cite the frequency of their visits and their responses have been dropped from the graph.

Majority of the sample have bank accounts in State Bank of Bikaner and Jaipur (SBBJ), which is also the lead bank of the state. Nineteen percent have their accounts in Rural Banks.

Challenges and Barriers in Accessing Bank Accounts

This section presents the findings and customers’ perspective on the various challenges and barriers that bank customers face in accessing bank accounts. The percentages in the bar graph below present the occurrence of challenge in a FGD session.



1. **Opportunity Cost:** Indirect loss in the form of loss of time, and monetarily in the form of loss of wages, as well as pending household chores, is a major deterrent for the respondents to access banking services. This was noted as a challenge in 62% of the 39 FGD sessions conducted. Most customers

on an average travel, 20-30 km, for which they have to start in the morning, and are able to return only much later in the day, using up the entire day. Thus, during the banking day, the daily wage labourers have to forego their wage for that day, which is in the range of Rs.100-300. A camel pushcart vehicle owner who earns Rs.700 in a single day has to forego this sizeable amount when he visits the bank. Women are unable to attend to their children and their livelihoods. Neglecting their cattle or not being able to feed them for the day of the bank visit causes a loss of 2-3 litres of milk per day, translating into a monetary loss of Rs.30-40 per day per head of cattle.² Customers bear these indirect costs for one single day accessing banking services. The perceived loss these factor is the main deterrent for respondents from accessing the banking services. In times of emergency, they are forced to hire private vehicles

“Gadi time pe milti nahi, bank yatoh band hojatahaiya lunch time ho jata hai...bhatakna padta hai”

(We don’t get conveyance on time as result we reach either when banking hour over or at lunch time)

“Ab nau baje bas pakadni hai to bhukhe pet raho din bhar”

(If I have to catch the 9 am bus, I will have to remain hungry entire day)

at a cost of Rs.400-500, a big deterrent for them.

“Door hone ke kaaran log katrate hain khata kholne mein.Subah paanch baje uthna padega, kaam niptake ,9:30 tak ghar se nikalna padega.Kabhi- kabhi nashta bhi nahi karte hain,bank ke andarka kaam sahi nahi hai, bahut time lagta hain”

(People hesitate in opening bank account. We will have to wake up at 5am, complete household work by 9:30am. Sometimes leave without breakfast, bank working style is not good, it takes too much time)

2. **Distance:** Travelling long distances to reach bank branch came as the second most challenging factor in 49% of the total FGD sessions. Respondents have fewer options except public mode of transport like bus, jeep – with low frequency per day. If one misses the single bus for the day to the market place, then walking to a market or rescheduling the visit are the only options. In particular, women avoid going to banks specifically for this reason, as they fear for their safety in these long travels. Further, at times respondents are forced to go hungry as they

²Dairy is a prominent activity in villages of Rajasthan. They sell milk to the vendors who collect milk from multiple places.

have to travel long distances and may not come across any food stalls/shops on the way. Travelling long distances causes time loss, which exacerbates the opportunity cost involved.

3. Staff Behaviour: This came as the next deterrent from accessing banking services, and came as a response in 46% sessions of total FGD sessions. Respondents say that staff close the counter sharp at 2:00pm, and do not give any consideration for a person who reaches by few minutes late. Bank staff is not always willing to provide in filling up the deposit/withdrawal forms. A few respondents cited lack of cordial behaviour of bank staff, which dissuades them from going to the bank branches.



“Computer kharab nahin bhi ho to bhi kehte hain ke kharab hain” (Often even when the computers are not down, they would still say computers are not working – come back tomorrow)

“Linon mein lago to do ghante tak khade rehte hain” (If one stands in queue it could be two hours to reach the cashier)

4. Time in Bank: Forty four percent of the total FGD sessions have respondents who avoid visiting bank branches owing to long queues and crowd. This they say takes anything between half an hour to five hours, which is the single most factor in causing time loss and delay in banking transaction. In many cases, by the time one reaches the cashier counter, either the banking hours are over, or the staff at the counter is out on lunch, which makes the entire effort of standing in queue futile. Limited numbers of staff and slow response time of staff, cause undue delay and long queues at the cash counter. Also one single branch caters to 8-10 villages at a time, which also results in long queues. During NREGA payout days, the branch gets overcrowded, leading to long queues and loss of a full day of work for the respondents.

5. Direct Cost: This challenge was mentioned in 41% of the FGD sessions. Respondents depend on public mode of transport, which involves expenses. This coupled with refreshment costs adds further to the direct cost for travel to bank branch. This amount is something which is unavoidable, and has to be borne by all – whether the bank visit clubbed with other activities like marketing or visiting friend, or not. As the bank branches are at distant locations, this

expenditure becomes unavoidable. These costs are even more of a burden when one considers that there is no guarantee that one's work at the bank will be completed within one visit.

6. Banking Rules: In 36% of the sessions, respondents cited banking rules as a barrier to using banks. For instance, fulfilling the requirements of 'Know Your Customer' (KYC) norms for documentation to open an account can often be time-consuming. One has to get the approval of *tehsildar* or *patwari*,³ to open a savings bank account, which is a time consuming activity. Farmers cited long lists of documents along with land documents, to get the approval for Kisan Credit Card (KCC) loan. This coupled with the mandatory requirement of a guarantor, further makes the process cumbersome. A few respondents also dislike the low rate of interest offered on the savings account, which is far lower than the normal rate of lending, which gives better returns in the

"Bhai sahib aap hi sochiye, agar naregaka 200 Rs. Ka payment lene bank jaanpad jayee, to aadmika 250 Rs. to aanejaane me hi lag jayeeega to isme to ulta 50Rs. dene pad jayven – auraap bank jaane ki baat karte hain?"

(One of the respondent explaining, the direct cost implication - If I have to get Rs.200 payment of NREGA and the travel costs me Rs.250, it is Rs.50 loss for me and you ask about going to bank?)

village. High minimum balance requirements to open savings bank

"Account open karne mein duniya bhar ke kagaj lagte hain.logo ke pass hote nahi hain"

(There are so many papers required for account opening, not everyone has so many papers)

7. Service Issues: This is cited in 20% of the total FGD sessions. Respondents note the out-of-service ATM machines and non availability of cash at bank branches, as some of the service related factors, which discourage them from going to banks. When these event do occur, the direct cost incurred to reach bank, goes to waste. Furthermore, inadequate staffing also slows down the process, leading to long queues and time loss.

Others: In many cases, respondents arrive at the bank branch only to find out that the branch is closed due to a bank holiday, causing waste of time and money for the day. A few respondents fear for the safety of their cash, owing to long distance of the bank. Respondents also see lack of ample space and waiting rooms at the bank as a barrier to banking.

"Bhagwan kare manne bank bheje hee na..manager sune ko nee., itte jegah sign kare pade hai, apad dukh door hokee nahin"

(One of the respondents explaining the staff behaviour issue: I pray to God that I shouldn't have to go to the bank, the manager does not listen, there are many places where one has to sign; and our grief are never addressed)



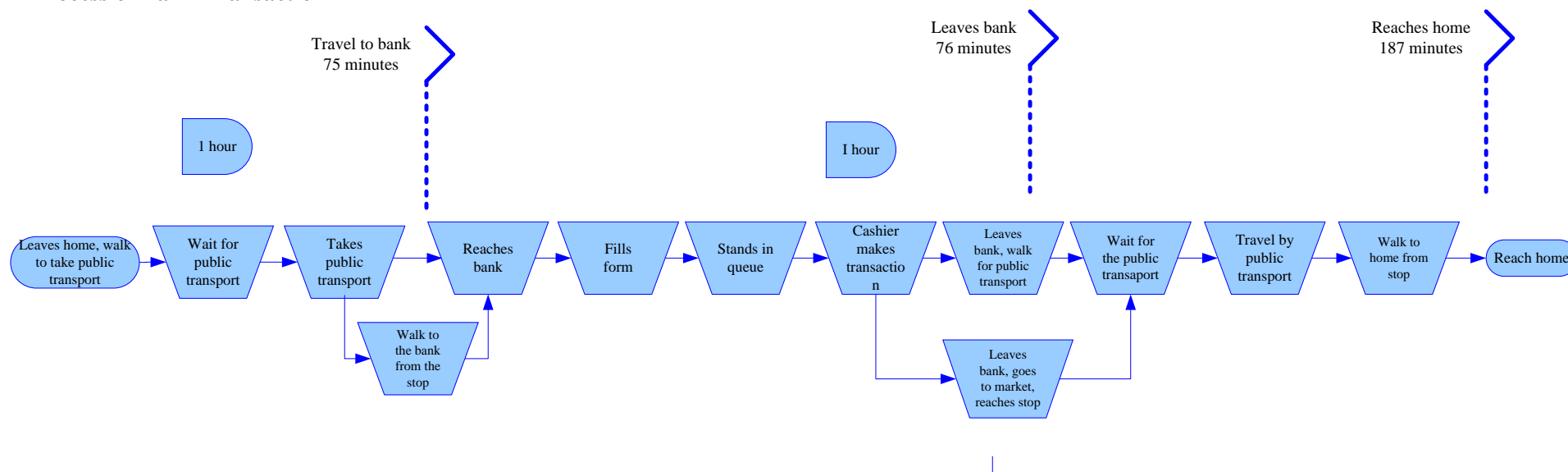
³Tehsildar, patwari: These are the official posts of district administration at Tehsil level; http://en.wikipedia.org/wiki/Village_accountant, accessed Jan 7, 2010

About 3% of the respondents cited no difficulty in availing banking services.

Cost Mapping

The map below presents the generic map of completing one banking transaction in the research area. It also explains the time consumed in the processes. The section below discusses the direct and indirect costs incurred by the respondents in conducting a bank transaction..

Process of Bank Transaction



Process/Step	Average time taken during the process (estimates) ⁴
Respondent leaves for bank and: <ul style="list-style-type: none"> - Walk to take the public transport - Wait at the public transport stop - Takes public transport to reach the bank branch - Walks from public transport stop to reach the bank 	<ul style="list-style-type: none"> - Walking to take the public transport: 15-17 minutes - Waiting for public transport takes around 45-60 minutes. The delay in this step happens due to late arrival of bus. - Travelling time in the public transport: 40-50 minutes, as the majority need to travel more than 10 km to get to the bank branch. - Walking from public transport stop to the bank: 10-15 minutes

⁴Average time taken for each step is calculated by, dividing the total time mentioned by respondents in all such sessions wherein that particular step was mentioned, by number of such sessions.

<p>The other options that come out in this step is using a motorcycle or cycle or just walking all the way to bank. These options come out only in 1-2 cost mapping sessions. Hence not included in the map.</p>	
<p>S/he reaches bank branch and...</p> <ul style="list-style-type: none"> - Fills in the deposit/withdrawal form - Stands in the queue and wait for his/her turn - Cashier completes the transaction 	<ul style="list-style-type: none"> - Filling the deposit/withdrawal form: 5-10 minutes - Waiting in the queue: 40-50minutes - Time taken by cashier in completing transaction: This varies depending up on the profile of customer. Primarily two time ranges come out one 5-15 minutes, other 100-150 minutes. The former are mostly savings bank account holders, the later have NREGA payment account. - The extended time for NREGA account holder reflects as delay in transaction for non-NREGA account holders. The NREGA customers do not perceive this as a delay but as actual time taken in the process.
<p>S/he leaves bank and...</p> <ul style="list-style-type: none"> - Goes to market to buy household items. - Walks to the public transport stop - Wait for public transport - Return back home by public transport 	<ul style="list-style-type: none"> - If s/he goes to the market after the bank, on an average it takes around 2 hours to finish their work in the market. - Otherwise, most customers directly reach the bus station. Waiting for the bus – all the villages have a set of buses running, at the public transport stop. On average, one has to wait for around 2 hours to get the bus. - It takes around 45-50 minutes to travel back to the stop by public transport and further 15-20 minute walk to home.
<p>Respondent reaches home from public transport stop</p>	<p>Same as travel estimates above</p>



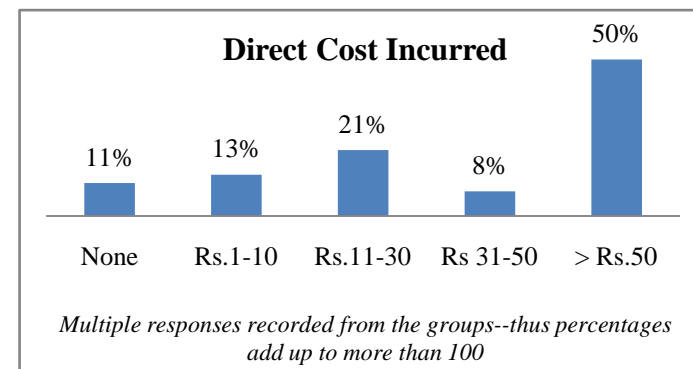
Direct cost

a) Transportation: Going to bank is an expensive affair for the poor people. In around half of the sessions, bank users incur a cost of more than Rs.50 in reaching to the bank. Owing to this fact, the main direct cost is the transportation cost that poor people have to incur in reaching the bank.

“Bamanwali jao toh 50 ki patti aur lunkaransar jao toh 100 ki patti to chale hee jati hai !” (If you go to Bamanwali then Rs.50 and if you go to Lunkaransar then Rs.100 are certain expenses)

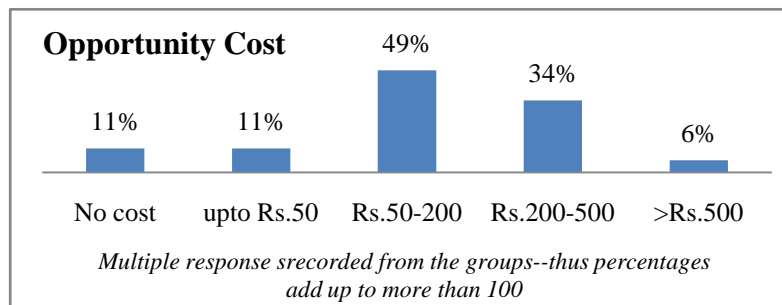
b) Expenses on refreshments: In four sessions, respondents mentioned that they usually spend money on snacks and intoxicants during their visit to the bank and en route home from the bank. The refreshment cost ranges between Rs.20 - 50. These costs could have been avoided had they not visited this distant bank branch.

c) Shopping in the market: In five sessions, it was mentioned that respondents visit nearby markets after completing the transaction in the bank. They spend some money shopping for household items which, they claim, would not happen if they had not gone to the bank.



Indirect cost

a) Opportunity cost: Loss of day’s wage is a cost that many account holders bear in going to the bank. Wage labourers feel the opportunity loss most keenly, as the full or half-day at the bank leaves them no time to work or look for work.



From The Field Notes

There is only one bus from *Makarasar* village to *Lunkaransar* where the bank is located. The bus is at 10:00am. Similarly the same bus returns from *Lunkaransar* at 3:00pm. Almost the whole day is lost by the time they come back home. Hence people who work in NREGA lose Rs.100 and during agriculture season (October to January) they lose Rs.150 per day. Otherwise also people fail to feed their cattle because of which cattle gives less milk worth Rs.50. The driver who doesn’t go to work incurs a loss of Rs.250 – his daily earning.

“Kam se kam 4-5 ghante kheti kar lete toh aadhe din ka kaam ho jata” (If we work on field for at least 4-5 hours we finish half days work – respondents on how the time spent in bank is a loss)

Bank jaane ka matlab overtime ho jayega” (One of the respondents explaining, that after coming from the bank, they will have to spend a extended day of work, even after 5pm, which will be like a overwork for them)

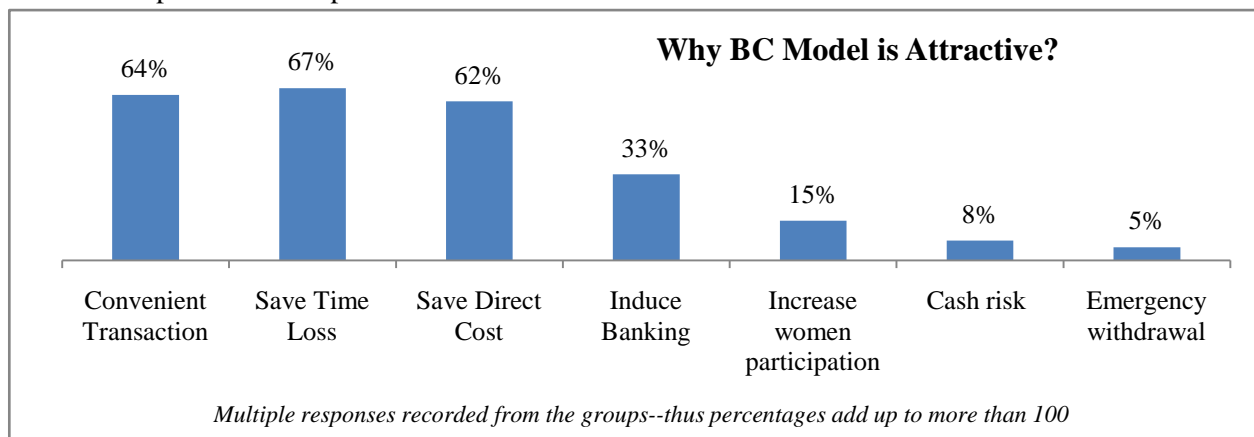
Concept of BC - Reactions

In general, the model received positive feedback. Incidentally, prior to the introduction of the BC concept, respondents were asked to suggest ways to alleviate some of their problems with using banks. Overwhelmingly, respondents argue for banks, which are closer to their location. Thus, the BC model that brings banking to the doorstep of the client appears to match the preferences of potential users of the BC model.

Attractive Features of BC model

1. **Convenient Banking:** With the BC model, banking becomes convenient. Various factor that contribute to convenience are:

- a. **Proximity:** One would not have to worry about catching the bus in the morning – one could walk to BC point.
- b. **Easy processes:** Bank processes and layout⁵ are so complex to understand and bank employees’ behaviour so bad that it becomes difficult to use banks’ services. By contrast, the BC agent would be someone customers know and can talk to without fear or hesitation.
- c. **Convenient for those who are not literate:** Illiteracy makes bank processes even more complex. With the BC there would be no issue of finding someone to fill form and telling the correct person in the bank to go to for deposit/withdrawal.
- d. **Quick processes:** The usual time taken for transactions at the bank is high as the branch opens for short duration and many people come from the surrounding villages, thus making the bank crowded. With village-based BCs the crowd will be less and it will open for longer duration also. Thus, the transaction process time will automatically be less than bank.
- e. In addition, the BC system would be convenient because it would be easy to contact the BC for all bank-related transactions; and people would not have to go without a proper meal for the part of day spent going to the branch.



“Samay aur paise dono ke bachat ho jayege, loog bhee jyada judne lagenge” (This model will save both money and time, thus more and more people will start using this service)

2. **Save Time Loss:** In terms of attractive features, the biggest and perhaps most important to customers is that they would be saving time using the service. Currently, an entire day of wage/income is foregone for banking transaction. As noted above, this comes to around Rs.100 for NREGA workers, about Rs.300 for skilled labourers and up to Rs.700 for a camel pushcart. Time and money are very inter-related. When they save time from

⁵ Including choosing the right window, filling the form correctly etc.

banking, they have more time to invest in some income generating activity, in taking care of cattle, agriculture, and house repair that indirectly increases the income of the household. Other non-money related benefits include women being able to attend to household chores, along with taking care of their children and livestock. Men will no longer be required to leave their agriculture or allied dairy activities unattended, and travel long distances to bank. The shopkeepers will not have to bear the loss in sales of Rs.200-300 for the 3-4 hours when they shut their shop to conduct banking transactions.

3. **Save Direct Cost:** They save direct cost in travelling to bank with the BC facility available in proximity. As mentioned earlier, more than half of respondents travelled more than 5 km to reach the bank. A proximate BC would save the cost of bus fare, which is in range of Rs.20-50, in each direction. Also the refreshment cost that is in the range of Rs. 30-40 is saved. The direct costs involved are explained in previous section.
4. **Induce Banking:** Respondents believe that a BC will induce more banking thus encouraging a savings culture, and bringing more users into a bank's fold. This is particularly true for many potential customers (especially old age customers), who are averse to long travelling long distances to access banking facilities. The BC also promotes small savings: respondents mention that it will be economically viable to save Rs.100 at the BC (it does not require any additional cost of travel or indirect cost). Also the money kept idle in house always runs the risk of getting spent, stolen or societal pressure to lend to relatives/friends – who may/may not repay the loan. If the money will be at the bank these risks are reduced – hence this motivates them to open account even more.

“Ye suvidha gaon mein hogi to 20000 main jama karonga abhi or 5000 meri lugai jamakaregi abhi”
(If the facility opens , I will deposit Rs.20,000 and my wife Rs.5,000 first of all)



5. **Increase Women's Participation in Banking:** distance and time it takes to reach the bank are major deterrents for women to use banking service. As a BC provides the service close to or within the village, it will be helpful for women wishing to use bank accounts. Respondents believed that if women start using bank accounts, then the saving base of their household would increase because they also believe that women are more disciplined savers. Also, if the male of house is absent, the female will not have to look to others for help to access banking services.

6. **Emergency withdrawals:** For various emergency cash needs, the BC agent could be contacted. This implies that customers will not have to worry about travelling to the bank during emergencies (which may not be possible) or asking for credit in their village. Currently, they are forced to take credit within village, even though there is money in their account at the bank.

Farmer respondents who purchase agriculture inputs in cash, were particular to note that if the BC is nearby, they would be able to purchase agriculture inputs such as seeds, fertiliser, as and when they require them since they will be able to take out the required cash from nearby BC point and will not need to go up to the bank that results in loss of one day's work. Earlier, the farm activity used to come to a halt, as they had to leave the fields unattended.

Unattractive features of BC Model

1. **Lack of Product Offerings:** Some respondents noted that plain vanilla products like no frills accounts that are designed only for the purpose of savings will see limited uptake from customers. First, such accounts do not meet a major requirement of potential customers of providing loan on agriculture, life cycle events like marriage and education. Secondly, informal channels like chit funds, inter village lending are common among villagers in Rajasthan. Respondents evince interest for other savings options like recurring or fixed deposit if these could be provided with the BC service. Respondents were also curious to know if KCC and NREGA services will be offered at the start of BC service.
2. **Cost Involved:** In some cases when respondents were asked about their willingness to pay for this service then, their perception of the service changed dramatically towards negative. They were not able to understand the logic of paying for a banking service which was available free of cost till date. Many others were still very positive about this model even with a price tag, because they could understand the value added which, according to them, was greater than the likely costs.

“Log sub contractor ke bajaye seedhe company dealer ke paas jana pasand karte hai, isliye yaha bhee log bank branch he jana pasand karege”
(People like to go to dealer instead of sub contractor, similarly people will like to go to bank branch instead of BC)
3. **Trust in the Service Provider:** The person providing the BC service has to be trustworthy, given that there have been incidences of fraud with agent models. Thus respondents could sense an inherent risk in using this service. However, the introduction of model by the research team included a phrase that articulates that the service provider will be someone whom both banks and users will trust.

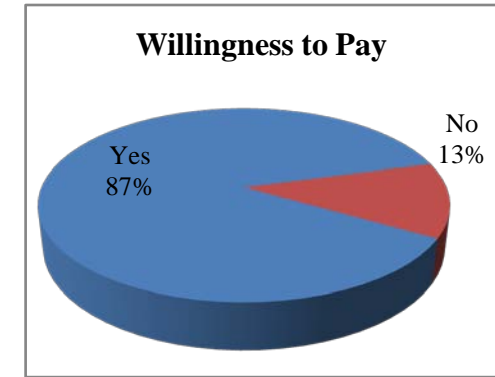
The Post Man in Dhawadiya village, Udaipur – A Proxy BC!!

The post point at *Dhawadiya* village acts as a banking point for villagers. First, he brings the money orders for various government benefit accounts. He does not ask for any fee, but is given Rs.5-10 most times. Respondents note that people think, “If we go to post office, we would spend Rs.20 – so we are happy to give him a tip”. The postman also helps villagers with depositing money at the Post Office. People give him money and the passbook, the postman returns the passbook every evening of the same day. He does not charge any money for this service.

There are other Post Office and insurance company agents who come to the village to collect deposits. The postman gets the largest deposits from villagers – as he enjoys better relationship with them. In the village, a *mahajan* also provides deposit facility and gives 1 % per month interest on the amount deposited with him. When asked why not everyone deposits with *mahajan*, the respondents noted that money was safer with a bank.

Will Clients Pay? - Willingness to Pay

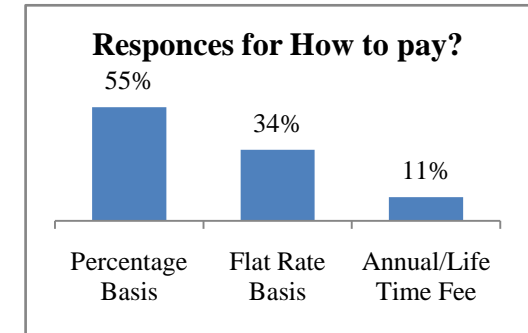
A majority of the people interviewed were willing to pay a small fee for the services of a BC. Although in most of cases this decision was highly sensitive and closely related to the price currently paid. Only 34% of the respondents had access to a bank branch within a radius of 5 km. Thus a majority of the people in the areas travel to long distances to reach bank branches resulting in loss of time and money. Moreover the availability of transportation facilities in the rural area was poor. Thus many people had to wait long hours for a shared taxi or bus, resulting in wastage of a lot of time, often a whole working day.



The motivation to save this cost and perform banking transactions in a more convenient way had been the major driving force behind the willingness to pay shown by the respondents.

What and How Customer will pay

In almost half of the sessions of the groups who were willing to pay, most wanted to pay on a percentage basis (percentage of the transaction value). Most of these respondents were highly price sensitive and had more concerns for the economics of low value transaction through a BC. Among these groups, the majority believed that a fee of about 0.5%-1% of the transaction amount, per transaction, will be suitable for services of a BC.

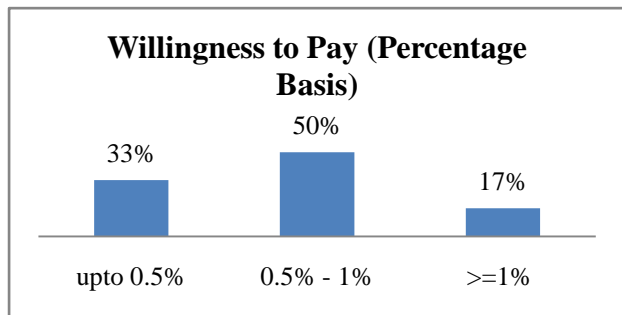


“Gadi ke liye 2-3 ghante bhi intezaar karna padta hai ... poora din kharab ho jata hai..naa ghar ka kaam kar paate hai na bank ka kaam ho pata hai”

(We have to wait for hours to get a taxi for each banking transaction, our whole day gets wasted we are not able to complete both household work and bank as well)

A large proportion of these respondents were not comfortable in being charged both on deposits and withdrawals. According to the majority of respondents it would be better if they are charged only on withdrawals and not on deposits. They foresee the fee on deposits as a major disincentive to making a bank deposit. Moreover respondents were used to making free deposits in all banks and NBFCs, thus they feel that it is inappropriate to charge them for making deposits.

Another one third of the groups who exhibited their willingness to pay were of the favour of a flat rate based system. Most of these respondents linked their willingness to pay directly with the cost (mostly direct cost, but sometimes including indirect cost) incurred in performing a bank transaction under the current branch-based system. Thus depending on these factors the fee people agreed to pay ranged widely between Rs.1-25 per transaction for amounts ranging from Rs.100-10,000 (in few exceptional cases even replies up to Rs.50 per transaction were recorded).



In around 11% of the groups willing to pay, recommended annual fee/lifetime fee as a better method of charging fee for BC services. The major reason behind these respondents wanting an ‘annual fee’ based pricing structure was:

- A per transaction based payment system would result in being more expensive for them.
- In isolated cases people also proposed fee structure like a deduction in the interest rate provided by the bank to settle the cost of BC channel.

Reasons For Unwillingness to Pay

1. **Routine Visits to Bank Location:** Respondents say that irrespective of the proximity advantage of BC, they will still have to visit the market area. This is because a number of their needs, (including agriculture input purchase, grocery, cloth purchase, meeting relatives, visiting village doctor etc.) are not fulfilled in the local village market. Hence they prefer to have a banking relationship with their current banker, who is already present in the same market. Thus even if BC comes at a close location, they cannot avoid visiting market locations, and avoid direct travel cost. So clubbing banking with other activity is an attractive proposition for these people.
2. **Comparison with Other Savings Service Providers:** Major reasons for non willingness to pay for BC services was based on the existing banking service being offered free of cost by the government and other savings service providers like Sahara.⁶ Presently there is no charge being levied by either banks or other private NBFCs for their financial services. There is also an extensive prevalence of private sector companies that offer doorstep savings services at no additional cost. Thus services of a BC provided little additional benefits over the existing range of financial services.



“Paisa jama karne me agar pachas paise bhee katta hai to bhee ruche nahi bachege bank janeke”
 (Even if a token amount is charged for deposits, then too people will lose interest in visiting bank branches)

⁶Sahara India is registered as a Residuary Non Banking Financial Company with RBI which can accept term deposits from the public. As per RBI notice dated June 4, 2008: Sahara will have to stop deposit activities starting June 30, 2011; http://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=18452

3. **Alternatives Available for Bank Visits:** Some respondents say that, in spite of the problems posed by the current setup, they would prefer status quo to paying for BC services. This response came from areas where respondents' perception of the opportunity cost of the current setup was low – respondents entrusted their banking transactions to their neighbours/relatives who travel frequently to the market. These respondents hand over the filled up form and the amount along with their signature, and their neighbour/relative completes the transaction for them. This proves to be a huge advantage for the respondent since it reduces her/his costs and saves time. These respondents are able to deposit money in a hassle-free manner. For such respondents, the BC model does not seem to be attractive.



“Dakkhana bhi hume suvidha de raha hai. Zero balance mein khata khul jata hai, byaz bhi milta hai aur koi charge bhi nahi lagta....agar bank KCC bhi nahi dega, laon bhi nahi dega upar se charge bhi lagayega toh voh kharch hum kaise vehan kargenge?”

(The post office also gives banking facility, they open zero balance account, give interest as well ... now if this BC will not provide KCC and loan facility and will charge fees, How we will be able to bear the cost?)

Conclusion

While respondents are able to understand the benefits of a BC-like facility, many of them feel that such a service should be free since the government is propagating this service for the benefit of the poor. They club BC service with any other of the government social security schemes, and hence they would not like to pay. Further, their expectations, in terms of the range of services available from the BC, are quite high. They want all the facilities of bank including social security payments and remittances. They state that a BC agent based savings only account would not be worth paying for. The most attractive feature of the BC model to them is the proximity of banking facility that increases the banking behaviour and reduces the cost of banking – direct and indirect. In terms of willingness to pay, the responses vary from payment options flat rate to percentage basis to hybrid - a mix of flat fee on a range of transaction amount. The overriding factor in all the discussion comes out – whether to pay for a service, which is free at some location, and that fee cannot be high so as it is a considerable portion of transaction amount or in some cases the direct cost they incur.

To sum up:

1. **Understanding the concept:** A major factor that influences the usage of BC and subsequently payment of a fee depends on how well the users understand the concept, gain trust on the service and perceive benefits of the service. This asks for investments in financial literacy and BC promotion activities.
2. **Bundle of services:** A standalone savings account facility (i.e. deposit and withdrawal) is not the key demand of current bank customers. While banks are used mainly for loan and government benefit payments for majority, the fixed and recurring deposit services could also be of interest for these customers. The BC model will gain quicker and higher penetration and popularity if it provides more product options.
3. **Fee to be charged:** While the fee has to vary with the transaction amount and number of times a customer uses it, the calculation of fee must be simple. From the various discussions and options, zeroing in towards some fee structure like 1% of transaction amount up to Rs.1,000 transaction, 0.5% of transaction amount for Rs.1,000 to 5,000 (subject to a minimum of Rs.10) and fixed Rs.25 for higher amounts for withdrawals could work with customers.



Case Studies

This section presents case studies drawn from field visits during the period of research in the state of Rajasthan. The studies focus on particular issues with banking and perspective of bankers on cost that customer incurs and willingness to pay for BC services. One particular case study brings out how the concept of a mini bank is similar to concept of BC, and whether users of mini banks will switch to BC.

Name	Asha Ram
Age	35 years
Education	10+2
Occupation	Agriculture, Grocery Store
Monthly Income	Rs3000
Savings Account	No
Village	Amarpura, Khelsar, Udaipur

Case Study 1: Asha Ram

Asha Ram does not have a bank account at present. He wishes to open one to receive credit facilities available to farmers and for savings. The existing bank holders in the village use bus and motorcycles to reach the bank. The average cost incurred to travel by bus to the bank is Rs.5. He says not everyone has a conveyance to reach bank and waiting for busses sometimes takes up to two hours. He thinks a bank in proximity would be good. Many people will open accounts if this happens.

“Time bach jaayega aur log paise ghar par nahin rakhenge” (The time will be saved and people will not keep money in homes).



When asked about paying fees, he says this is not fair and compares this to paying bribes at government offices to get favours. He mentions that banks already have a successful business model and they should not charge more.

“Bank to benefit legi, jama karne par kam byaz deti hai, loan par jyada byaz leti hai” (Bank always takes benefits, on deposits give less interest and on loans charge high interest).

“Agar sabke bare meinsoche to kuchbhee charge nahinlaganachahiye”.
(If we consider everyone then the banks should not charge anything)

Asha Ram also makes it clear that until there is a regulation from government on this, nobody will pay any fees. On introduction of RBI’s directive and clarification that the high cost incurred by banks to run the BC model, and that this prevents banks rolling out more BCs, he says that people could pay one percent on either deposits/withdrawals. Later he modified this to one percent up to Rs.5,000 withdrawals and half percent for a transaction of more than Rs.5,000 .

For a BC service people will pay Rs.50 easily says Asha Ram. He notes Rs.100 is too high a fee and that Rs.50 is reasonable, since people have to go to the bank one or two times for transactions.

Case Study 2: Mini Bank vis a vis BC and Mini Bank Usage!

What is a Mini Bank? - Mr JamunaLal, Sarpanch, Cheerwa Gram Panchayat, mentions that farmers and small farmers face various difficulties in getting credit from banks. There is lot of paper work involved and the systems are complex to both execute and understand. These factors force farmers and small businessmen to use services of brokers and thus incur huge costs. The concept of mini bank arises from this reality. The idea is to present banking facilities closer to the village, with simpler processes and selected products. A mini bank thus is an extension of regular bank branch but on smaller scale catering to clients as *panchayat* level. Characteristics of a mini bank:

- The persons at the branch are local or from nearby villages.
- The formalities in terms of paper work are minimal.
- Customers are not required to move around to and within a bank branch. Customers can tell their specific requirements to the official at the mini bank, and he/she guides them accordingly and asks the customer to come later if required.
- In case the head of household is not available, the ladies in the house can go to deposit repayments or savings.
- In the times of natural calamity, the mini bank conducts the survey and gives the recommendation to the head offices. The whole process takes very little time.



Though the mini bank concept focuses on managing credit requirements, government benefit payments, and salary payments of government employees in the village, customers also deposit money with the mini bank. In Cheerwa village the bank has tied up with the local fertiliser cooperative and the payments for respective seed, fertilisers have been linked to the bank.

BC vis a vis Mini Bank – Compare and Contrast!

1. The person providing BC service has to be trusted and behave well with customers or nobody would go to him.
2. The mini bank provides credit facility, whereas a BC can only act as facilitator in the process, that too when approved by the bank.⁷
3. The BC will provide quicker service than mini bank. Also the time availability of BC is more than the mini bank where the office hours are fixed.
4. The BC service provider will be from the village, whereas the mini bank person is local but not necessarily from the village.
5. The BC person will have to be more careful and will be under strict vigil of villagers. “*BC ulta seedha nahin kar sakta, nahin to ungli uthegi!*” (A BC would not do anything wrong for his reputation/image in the village). For complaints against a mini bank staff person, villagers will go to the bank.

⁷ For example, FINO helps its clients in accessing bank loans, <http://fino.co.in/Loans>,

Case Study 3: A Bank Manager Speaks

Mr. Devendra works as an assistant manager in the mini bank situated at Cheerwa village. This branch has around 7,000 accounts of people from three *Panchayats*: Cheerwa, Kaishpuram and Rama which lie in a radius of around 10 kilometres from the branch.

According to Mr. Devendra only about 450 accounts of the total of 7,000 accounts with the bank branch were voluntarily opened for purpose of savings, while rest of the accounts were opened with intention of getting some profit from the various government schemes. Even among these 450 accounts there are only about 100-150 accounts which are active. According to the bank manager the prime reason for such minimal usage of saving bank accounts is the low income of the daily wage earners which comprise the majority of the accountholders. This class according to the bank manager is more interested in getting higher returns, which are offered by private companies like Sahara, thus they seldom use bank to deposit their savings.

According to the bank staff, the main revenue earning product of his bank branch is fixed deposits. There are almost 200 in number in his branch providing almost the entire float of his branch. The accounts opened to receive NREGA payments (which are the majority of accounts with the branch) typically maintain a balance of only Rs.100. The branch also has very cautious in lending and thus has low credit portfolio.

- According to the bank manager BCs if appointed will be very helpful in increasing the reach and business of banks. He will have more time and connections in remote areas, which will be helpful in marketing banking services.
- The challenge according to him will be in making the customer pay for this service. According to him, the people in his area will have very little propensity to pay for such a service. This is because they have been made use to getting benefits and free services from banks, and it will be very difficult to break this expectation/habit.



Case Study4: Bhagwati Lal

Bhagwati Lal goes to bank once every week for a typical transaction of Rs.5,000-10,000. He finds crowd at the bank discouraging, and he also often faces technical issues of internet failure at the bank branch. He mentions that it will be good if a facility of banking is available in the village. The most attractive

Name	BhagwatiLal
Age	40
Education	2 nd
Occupation	Agriculture, Grocery Store
Monthly Income	10,000 Rs
Savings Account	1
Village	Dhawadia, Palodra, Udaipur
Distance of Bank branch he uses	3 km



factor for BC service is quick service and a banking facility close-by. When discussing whether people will be willing to pay a fee for this service, he seems sceptical - “Bank jaane mein bhale he 20 Rs. lag jaay, nayi suividha par log fee nahin denge!” (Villagers will prefer to spend Rs.20 to go to the bank than paying a fee for new service).

His opinion is based on the fact that any new service would first need to build trust with the users. He wonders whether people will actually pay for banking, which is different from the current practice.

He further added that village dynamics and caste factor could be an issue in successful operation of such a service in the village. He reminisced past experiences of a hospital and ICICI bank

facility of cattle loan in the village, both of which fell apart as influential people in village tried to bend

rules.

When asked if BCs used effective marketing to create the same trust that banks enjoy, would the situation be different? Bhagwati Lal mentions that “We could pay 0.5% of transaction amount on both deposit and withdrawal transaction”. He again reiterated that people would pay only if they understand the idea.



“Mera paisa, main jamakarun, aur main hee fees bheedoon?”
(My money, I deposit and I give fee too?)

Case Study 5: Mewar Gramin Bank, Bamanwali, Bikaner

Mewar Gramin Bank (MGB) located in Bamanwali, covers 12 villages in radius of 15 km. The bank is open for six days a week, with Saturday office hours until 2:00pm. Normal working days run from 10:00am to 2:00pm. Two staff members manage the customers, and the operations. The bank has a deposit base of Rs.28 million, and a lending base of Rs.22 million. The key activity of the branch is NREGA payments, KCC Disbursements, including savings bank accounts, SHG accounts, and tractor loans.

Issues with the Bank: The bank, with just two staff members, is unable to manage the inflow of more than 1,400 NREGA payments every month from more than 12 villages. In addition, during the days of this NREGA activity, the other customers for fixed deposit, SHGs etc. are affected, and not served properly. Also, the cash transfer is made manually from Lunkaransar, in a suitcase, which (according to the cashier) is highly risky. During this time, the bank closes sometimes before 2:00pm, which causes a lot of customer dissatisfaction. Mr. Anil Singh says that NREGA accounts are a big headache for them these days, as they do not get any cooperation from the *Gram Panchayat*, and many errors keep coming in the list, for which they have to face the wrath of the villagers, who want the payment in no time.

Recently the bank workers union opposed the opening of NFA accounts, as this is an extra work burden for the staffs; also they do not get any extra benefits for opening of NFA accounts. Currently, the opening of NFA accounts has been stopped. Mr Anil Singh wants incentives to be linked to NFA account acquisition, to make it more attractive for the bank staff.

Views on BC Model: Mr. Anil Singh says this will be good for the customers, as this will save their travel cost, loss of wage and time for the day. Mr Singh raised few concerns as well:

- There will be cash management issues: how and when will the BC agent will come to branch for cash collection, to make deposits etc., as the branch is closed by 2:00pm, and public transport is limited.
- There will be security issues, of cash transfer, between branch and BC location.
- That people are used to coming to the branch, hence how will this concept be accepted?
- He was not very comfortable of charging the customers for any BC facility.



Person Interviewed - Mr Anil Kumar Singh
Age - 40Yrs
Designation - Cashier/Accountant
Years of Experience - 23
Education - B. Com