

Exploring Dormancy in No Frills Saving Accounts in Rajasthan

Akhilesh Singh, Anurodh Giri, Priyank Mishra, Raunak Kapoor, Sachin Bansal, Sharad Bangari



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List of Commonly Used Abbreviations

Abbreviations	Expanded Form
NFA	No Frills Account
SBBJ	State Bank of Bikaner and Jaipur
MGB	Marwar Grameen Bank
NREGA	National Rural Employment Guarantee Act
RRB	Regional Rural Bank
MFO	Microfinance Organisation
NGO	Non Government Organisation
BC	Business Correspondents
FGD	Focus Group Discussion
PAR	Product Attribute Ranking
PI	Personal Interviews

INTRODUCTION

No Frills Accounts and ‘Financial Inclusion’

In 2005, the Reserve Bank of India (RBI) encouraged banks¹ to make **No Frills Accounts** “accessible to vast sections of [the] population”.² No Frills Accounts (NFAs) are basic, low-cost bank accounts for transacting and saving money. The documentation and KYC (Know Your Customer) requirements necessary to open such an account are markedly less onerous than for normal bank accounts, and balance requirements and fees are either waived or minimal.³ NFAs are primarily intended for individuals without bank accounts who need security and reliability for payments and savings.

The RBI’s circular, entitled ‘**Financial Inclusion**,’ covers “...*the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost*”.⁴

Offering poor people safe and affordable financial services has been an important priority in India for many years. NFAs are simply the latest in a long line of similar government initiatives. The term ‘financial inclusion’ is new, however, and marks a convergence of Indian thinking with international trends. NFAs are India’s contribution to an array of such accounts in other countries.

Britain introduced basic bank accounts in 2004 and in four years, households without bank accounts fell from around 3 million to less than a million. Mexico has legislated to compel banks to offer entry-level bank accounts. Pakistan has had “basic banking accounts” since 2006, and South Africa’s “Mzansi account”, launched in 2004, has attracted 6 million account holders.⁵ France, Chile, Spain, Benin and the Ivory Coast, among others, have sponsored comparable accounts through non-banking groups, cooperatives, and specialised state financial institutions.

“Financial inclusion” defines them all and derives from “social inclusion”. The idea behind all forms of inclusion is a new approach to both the problems and the politics of poverty, deprivation, and social isolation.

Financial inclusion and microfinance

The successes of microfinance and its international recognition have also helped financial inclusion. Microfinance has “proved that the poor are bankable” (in the words of Muhammad Yunus) and that financial services for poor people can be both popular and profitable. The revenue potential has attracted many new players, and allowed microfinance to have a place in the established financial systems of many developing countries, including India. Public and private banks now underwrite microfinance institutions (MFIs), international capital has flowed in, and these microfinance groups are beginning to tap capital markets via IPOs and admission to the Bombay stock market. .

¹The note went to ‘Scheduled Commercial Banks’: this means most banks (the state-owned State Bank of India and its eight associates, the 19 nationalised banks, 45 foreign banks, 32 private sector banks, and the co-operative banks). The regional rural banks (RRBs) were excluded from this initial advice, but were included in subsequent financial inclusion policies.

² Reserve Bank of India, [Circular on Financial Inclusion](#), November 2005

³ For specific NFA criteria and how banks differ in their application of these criteria, please see Annexure 1

⁴ Recommendation of the Committee on Financial Inclusion, January 2008

⁵ See ‘[The Mzansi Bank Account Initiative in South Africa: Final report](#)’, Bankable Frontier Associates, (commissioned by the FinMark Trust), March 2009

Microfinance has also grown beyond its initial focus on credit for micro-enterprises. Where legislation allows, MFIs now offer savings, insurance and remittance services. These bring microfinance ever closer to the vision of financial inclusion. The authors of *Portfolios of the Poor*⁶ define the three important challenges facing MFIs and their clients as follows:

- Managing money on a day-to-day basis,
- Coping with emergencies, and
- Building sufficient capital (through loans or saving) to buy assets and pay for life-cycle events.

To achieve these goals, the *availability of appropriate financial tools* is just as critical as the *delivery of specific financial services*. Easy ways to deposit even small sums of money encourage savings. Flexible insurance policies encourage planning ahead for health and other emergencies. The microfinance community now recognises that for people to manage money capably, they must have the right accounts, tailored very specifically to their needs. Those needs encompass better coping strategies for illiteracy, inconvenient bank branches, irregular income, health problems, personal emergencies, and reliable protection for assets, however small. The test of India's No Frills Accounts will be how effectively they can address these and other issues.

Dormancy

The goals outlined above have limited meaning, however, if NFA customers open accounts and then do not use them, or use them in limited, infrequent ways. The issue of 'dormancy' - which in a general context also includes infrequent use or withdrawal only - raises questions for financial inclusion longer term. India reports⁷ unusually high levels of minimal account activity and unique use. Will the business correspondent model and mobile banking interfaces encourage more customers to actively use these accounts? Are No-Frills Accounts the wrong offering? Or, is dormancy merely an initial and unavoidable aspect of customer adoption which will disappear in time? In this report, and in similar analyses in other regions, *MicroSave* attempts to define both the problems and possible solutions.

⁶ Collins, D., Morduch, Rutherford and Ruthven, "[Portfolios of the Poor](#)", New Jersey, 2009, and New Delhi 2010

⁷ Most notably Kochhar, Sameer, "[Speeding Financial Inclusion](#)", Skoch Foundation, 2009

SUMMARY AND CONCLUSIONS

The study team

MicroSave conducted the Rajasthan portion of NFA dormancy research in July-August, 2010. The study team, led by Akhilesh Singh, included Anurodh Giri, Priyank Mishra, Raunak Kapoor, Sachin Bansal and Sharad Bangari.

Study Outline

MicroSave's principal objective for this study was to explore the reasons behind the reportedly⁸ high rates of **dormancy in No Frills Accounts** (NFAs) in the state of Rajasthan. A secondary objective was to understand why Rajasthan NFA customers generally limit their account use to withdrawals of government benefits only- and why NFA savings are not more appealing. The first phase was conducted at various locations in U.P. and Delhi with detailed findings⁹. In earlier studies,¹⁰ *MicroSave* has analysed this problem from the banks' and microfinance institutions' points of view - focusing specifically on their business correspondents in rural areas. (In the BC model, banks and MFIs recruit and train local representatives to act as their agents for customers without easy access to branches.) In this study, however, looks at both banks and customers with a focus on customer motivations: why people open NFAs, how they perceive these accounts, and most important, why so many only use them to receive government payments and appear disinterested in NFA savings and other services.

Background

Indians have opened approximately 50.6 million NFAs with balances of Rs53,680 million (Rs53.68 billion) in the past five years.¹¹ They opened these accounts mostly at local bank branches, but also via business correspondents, and in some cases, via mobile and other remote technology enablers. A 2009 Skoch Foundation report indicates that only 2.77 million (11%) of these accounts are currently active.¹² For too many, the fundamental objective of an NFA - easier, inexpensive access to banking - is not working. Or at least not yet. This new *MicroSave* study is designed to assess the underlying reasons for these discouraging results so that policy makers, bankers, and other stakeholders can revisit these accounts in order to improve their chances for success.

MicroSave has been involved with banks, business correspondents and technology providers for NFAs for the past five years. This is already a familiar and important research topic and one that we look forward to helping to resolve.

Defining “Dormancy”

The time period of inactivity that qualifies an account as “dormant” is open to interpretation. As there is no clear consensus for the present and “dormancy” has a somewhat elastic meaning, we will note in this study the duration of relevant activity/inactivity rather than impose yet another definition. (For RBI and individual bank definitions, please see detailed descriptions on page 12).

⁸ Kochhar, Sameer, “[Speeding Financial Inclusion](#)”, Skoch Foundation, 2009

⁹ The summary of the first phase NFA study is available at <http://www.microsave.net/static/content/nfrmi>

¹⁰ See for example India Focus Note 18 “[MFIs as Business Correspondents – To Be or Not to Be?](#)” and India Focus Note 24 “[Making Business Correspondence Work in India](#)” and India Focus Note 32 “[Making Business Correspondence Work - Crossing the Second ‘Break-Even’](#)” – all available on http://www.microsave.net/india_focus_notes

¹¹ “RBI Annual report 2009-2010”, most recent figures available, plus <http://www.thehindubusinessline.com/2010/07/06/stories/2010070651451900.htm>

¹² Ibid, Kochbar, Sameer, etc. Skoch Foundation

The Research Methodology and Sample

MicroSave draws from a variety of interview techniques for microfinance research, including focus group discussions (FGDs), product attribute ranking (PAR), and personal interviews (PI). In this study, we used all three with target NFA customers and bank staff.

In order to understand as wide a range of NFA customers as possible, we conducted the research in six districts of Rajasthan with account holders at: State Bank of Bikaner and Jaipur and MGB Grameen Bank; an MFO (Mitr); three NGOs (Astha, Urmool and Ibtada); and the post office. Our respondents also hold different types of accounts:

- NFAs provided and served directly by a nationalised bank, regional rural bank and by the post office,
- NFAs offered to the general public and to recipients of the National Rural Employment Guarantee Act (NREGA, [Annexure 3](#)), BHAMASHAH ([Annexure 4](#)), pensioners, and scholarship beneficiaries,
- NFAs managed manually by branch staff and via remote technology

The *MicroSave* research team interviewed 337 respondents in 62 sessions. This sample is not statistically representative of NFA account holders nationally, but is sufficiently large to provide reliable insights and a strong base for further work. However, while we refer to percentages throughout this report, it is important to note that, in order to understand the complex human financial behaviour and underlying perceptions, the research was qualitative in nature – the sample is not statistically representative.

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 to 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.

Respondents' Profile

The sample for this research includes a higher percentage of women (62%) and nearly two-thirds are in their prime working years (age range, 26-45). Approximately two-thirds are also illiterate (only one-fifth has completed class 8). The vast majority (86%) depend on agriculture or wage labour to earn their living.

Preliminary Findings

- **Reasons for opening an NFA.** In 94% of the sessions, respondents said they opened NFAs to receive NREGA payments. The majority of these respondents claimed they would not have opened the account without the NREGA payment incentive. In another 12% of the sessions, both NREGA beneficiaries and non-beneficiaries noted they also opened the account to save.

- **Were the reasons for opening the NFA fulfilled?** Almost all (87%) of the respondent answered ‘yes’ to this question - in large part due, once again, to NREGA and the satisfactory fulfilment of these payments via NFAs. Most respondents seem to appreciate the honesty and transparency of the NFA system; however, service quality remains problematic, especially for those customers who live and work far from bank branches.
- **First bank account?** For 77% of the respondents, the NFA is their first bank account in their own name; for 57% in this same group, it is also the first bank account in their household.
- **Levels of understanding.** NREGA recipients made up the largest share of NFA holders in all *MicroSave*’s focus group discussions (FGDs) and, as noted previously, the majority use the account only to receive the NREGA benefits. In only 38% of the sessions respondents are even aware that the NFA is saving account and in only 25% they are aware of the full potential - and drawbacks - of the account.
- **Frequency of transactions in active accounts.** In more than half of the sessions, respondents said they use their accounts to withdraw NREGA payment whenever it is credited - once or twice a month. In approximately 20% of the sessions, respondents keep a balance in their account, and withdraw as necessary, usually two to three times a month. Others opened an account, but have never used it. These respondents either receive no government benefits, or only have an account because someone influential persuaded them they needed one. (For more details, please see page 21).
- **Likes and Dislikes:** NREGA recipients enjoy the convenience and certainty of NFA payments. Previously, many received their government wages in unreliable, incomplete, and insecure ways. Other respondents (28% of the sessions) see NFAs as flexible and useful for small deposits and withdrawals. In 36% of the sessions, inaccessible bank branches are the principal reason to dislike NFAs.
- **Ranking of attributes.** Respondents were asked to rank attributes which mattered most to them for savings. Security of deposits ranks first, followed by convenience of the service, and then bank staff behaviour. (Not all respondents had a chance to rank product attributes. This may be an area worth exploring further to better understand NFA adoption and use).
- **Age of the Account.** Close to 80% opened their NFA two to three years ago (when NREGA made disbursements available only via bank accounts).
- **Accounts activity.** Almost all (94%) mentioned that their accounts are ‘active’ since they are using them once or twice a month for NREGA withdrawals. Only a few in 14% of the sessions mention savings deposits as part of their NFA transactions.
- **Reasons for limited account use.** In nearly half the sessions, respondents claimed they were unaware NFAs could be used for anything other than receiving government payments. In 29% of the sessions, they attributed limited account use to lengthy travel time to and from branches and long queues for NFA transactions. Slightly more often (31% of the sessions), respondents noted they do not have sufficient money to set aside for NFA savings.

Note:

NREGA recipients and their banking behaviour clearly dominate the findings outlined above. When RBI pushed the No Frills Account as a mandate, many banks in Rajasthan actively sought to collaborate with government social schemes in order to meet the necessary new account targets for financial inclusion directives. All

three regions of Rajasthan have huge numbers of NREGA workers, so a proportional number of NFAs and typical NREGA NFA use are represented in the research findings. Few in Rajasthan are using the account as originally intended for regular savings and other banking transactions.

Preliminary Conclusions

Opening a No Frills Account only to receive government benefits is not the gateway into the financial system that RBI intended. Our interviews indicate that for many poorer customers, NFAs are merely an imposed - and not universally convenient - means for withdrawing wages earned through NREGA, or for benefits in other government programmes. Even in this limited capacity, access to NFAs should be easier (not available only at a distant branch), and incentives to save should be more compelling. NFAs should also be perceived as irreproachably reliable and secure. The bank staff or BCs (agents acting as bank business correspondents) promoting them should be attentive and respectful. The current reality is that the long and expensive trip to branches, which have other, more important priorities and an overwhelmed staff, strongly discourages almost all modest deposits and NFA transactions. The branches do not promote or explain the benefits of small deposits and the NFA overall - perhaps because benefits are in fact minimal at present. In the same way that merely opening an NFA guarantees nothing for India's poor, the creating of such accounts and failing to offer viable and appealing services will do very little to further their financial inclusion.

BACKGROUND AND MARKET RESEARCH PROCESS

The Reserve Bank of India and the Ministry of Finance, among others, want commercial banks to work harder to facilitate financial inclusion. Nevertheless, scaling up the necessary bank systems and expanding branch and business correspondent services to enrol large numbers of customers are expensive and time-consuming procedures. Five years after the first RBI circular, there is a general frustration that the high hopes for financial inclusion and basic bank accounts are proving so difficult to reconcile with reality.

Estimates vary on the current number of basic No Frills Accounts¹³, but these figures are never completely current and less relevant than actual usage¹⁴. As noted in this report's introductory Summary, financial inclusion involves more active participation than simply opening an account to receive government benefits. Regular contributions to savings and longer-term asset planning and growth should be the strong focus for both customers and the bank representatives supporting them.

MicroSave has been working closely with banks, BCs, and technology providers since the inception of financial

This section outlines the background of the research work and the process adopted by *MicroSave* team in conducting the research.

Market Research Process

Training and Preparation: July, 2010

- Planning, design and tailoring of tools needed
- Training the team on *MicroSave's* Participatory Rapid Appraisal (PRA) methods

Market Research: through Jul-Aug, 2010

- Visit to six districts in Rajasthan
- Participatory Group Discussions with end clients
- Individual interviews with customers and bank staff.

Analysis and Consolidation

Consolidation and analysis of data were done during the week of 30¹ Aug-03 Sept, 2010.

¹³ The most widely accepted figures are those provided by RBI, 50.6 million NFAs, held by 59% of the adult population, with balances of Rs53.7 billion

¹⁴ BCs report that more than 80% of the saving account opened by their clients are inactive – Retreat report by College of Agricultural Banking(CAB) and ACCESS, May 2009

inclusion via the NFA and has published research papers (India Focus Notes and Briefing Notes)¹⁵ on the operational, strategic, and financial challenges involved. We remain strongly committed to the concept of financial inclusion and the progress possible through better understanding of customer and other stakeholders' needs. Not surprisingly, the needs of banks, business correspondents, agents, technology providers and the Indian government are not always compatible with the financially excluded population they hope to serve. The end result is a bank account that most poor people currently fail to understand or use.

In this report, *MicroSave* explores the reasons behind dormancy: branch locations and access to them, security and trust, and better marketing for an account too many still find unappealing

No Frills Account

To achieve greater financial inclusion, the 2005 RBI Annual Policy Statement advised all banks to make available a basic banking “no-frills” account. The proposed NFA would have either no or very low minimum balances and charges. RBI allowed banks to decide on other aspects of the account, such as restrictions on number of transactions, but advised transparency on all such policies. RBI also encouraged publicity in local media for the NFA: (Please see [Annexure 1](#) for more detail on the regulations and guidelines for No Frills Accounts.)

Objectives

The principal objective of this research is to understand the reasons for widespread dormancy or limited use (withdrawals only) in NFAs opened through public and private sector banks, RRBs and post offices.

This objective includes five specific issues:

1. Why people open NFA and whether or not the reason for doing so is fulfilled?
2. Why they use the account and how often?
3. How well they understand what else an NFA offers?
4. What they like or dislike about the account and what suggestions they have for its improvement?
5. What factors inhibit many of them from expanding the account to include savings and other financial transactions?

	बैंक	डायरेक्ट	प्राइवेट कंपनी
मुद्रा	2	3	4
सुरक्षा	1	3	4
उपयोग	1	3	2
दूरी	1	3	4
यात्रा	1	2	2

¹⁵ [http://www.microsave.net/content/technical-briefs-India-Focus-Notes-4, 6, 18, 24 and 32](http://www.microsave.net/content/technical-briefs-India-Focus-Notes-4,6,18,24-and-32) Briefing Notes [3, 6, 7, 12, 69, 73](#) and [76](#)

DEFINING DORMANCY

As per **RBI** circular no. RBI/2009-10/202 DBOD.Leg. No.BC. 55 /09.07.005 /2009-10¹⁶, savings and current account should be treated as inoperative /dormant if there are no transactions in the account for a period over two years. Further, in terms of Paragraph 24.2 (vi), for the purpose of classifying an account as inoperative, both types of transactions; i.e., debit as well as credit transactions, by customers as well as by third parties, should be considered.

Different banks have devised their own ways of classifying accounts as dormant. For example, **ICICI bank**¹⁷ classifies an account as ‘Inactive’ if there are no customer-induced transactions for 15 months in the account and ‘Dormant’ if there are no customer-induced transactions for 18 months. A customer-induced transaction is any credit or debit transaction in his/her account via cheque, cash or cheque deposit, withdrawal or deposit through an ATM, online transactions, or transaction by standing instruction, ECS and EFT.

As per the **State Bank of India**, an account in which there has been no transaction for one year is considered inactive and an account in which there has been no transaction for three years is considered dormant.

As per the **Union Bank of India**, in the interest of the depositor and the bank, accounts which are inactive for a considerable period of time will be held separately by the bank as a precautionary measure. Any withdrawal from this account will require the permission of senior bank officials.

Bank of Baroda does not give a period of in-operation after which the account is considered as dormant. Their policy reads: “We will tell you when you open your account, what period of in-operation of the account would render your account being classified as dormant /inoperative

¹⁶ <http://www.rbi.org.in/commonman/English/Scripts/Notification.aspx?Id=694>

¹⁷ <http://www.icicibank.com/Personal-Banking/account-deposit/savings-account/terms-conditions.html#tc8>

account. You will also be informed three months before your account is classified as dormant/inoperative or treated as unclaimed account and the consequences thereof”.¹⁸

HSBC classifies accounts as “inactive”¹⁹ if there is no withdrawal transaction in the account (e.g., withdrawal of cash at a branch/ATM, payment by cheque, transfer of funds through internet banking/phone banking/HSBC India ATMs, etc.) for a period of one year or more. System generated debits (charges, debit interest, etc) are not considered as “withdrawals” for classifying an account as active or inactive.

As per **HDFC Bank**, Savings and current accounts not operated for a continuous period of more than two years by the customer (excludes system-generated transactions such as credit or debit interest) will be treated as dormant.²⁰ The depositor can request the bank to re-activate the account.

NFA single-purpose use:

Unique activity - e.g., NREGA withdrawals only - is not noted by banks as a form of “dormancy”, but since it dominates respondent behaviour in this study, it needs closer attention. The reasons NFA customers choose not to extend account use to include regular savings and other transactions are important to understanding the underlying problems of inactivity and dormancy.

¹⁸ http://www.bankofbaroda.com/download/banking_code_sme.pdf

¹⁹ <http://www.hsbc.co.in/1/2/personal/bank-accounts/no-frills-savings-account/frequently-asked-questions>

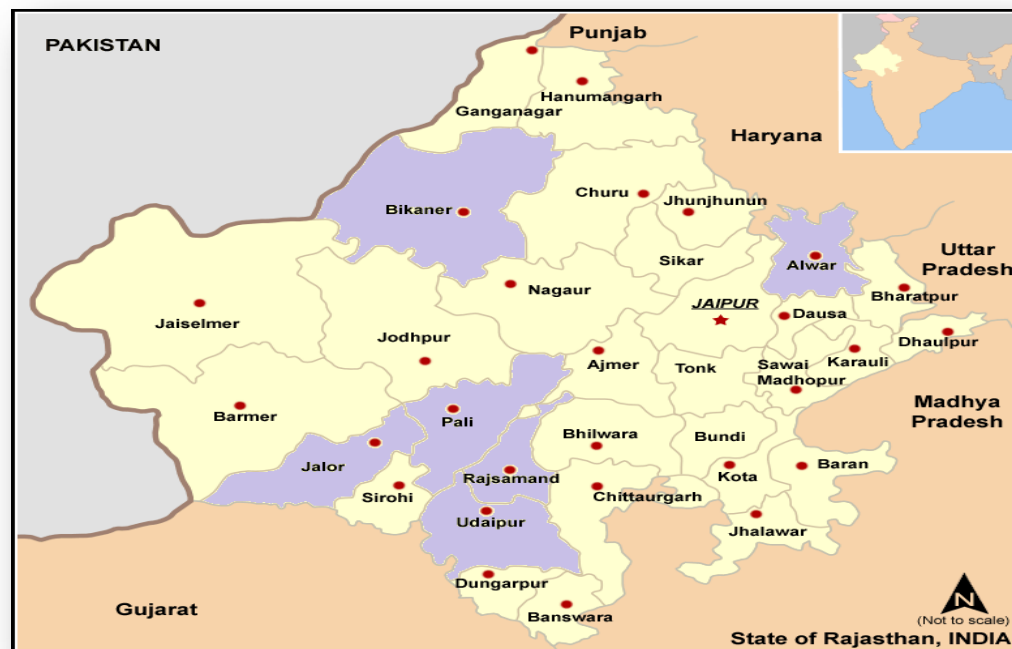
²⁰ http://www.hdfcbank.com/aboutus/citizens_charter/Dormant_Accounts.htm

SAMPLING STRATEGY

To comply with our research objectives (please see page 11) and to ensure a better understanding of the various issues and possible differences in single-use, inactive, and dormant accounts, *MicroSave* made an effort to include NFA customers across different geographies of Rajasthan with accounts from a variety of financial institutions.

Geographical diversification: the research covered districts in southern, north-western and eastern parts of Rajasthan.

Institution diversification: study participants are associated with commercial banks, regional rural banks (RRBs), and the micro-finance and non-government organisations (MFOs, NGOs) working extensively with people of Rajasthan.



Region	Place	Organisations Visited	Organisation Type
Southern	Udaipur, Rajsamand	Astha/MGB Grameen Bank/SBBJ	NGO/RRB/Bank
	Pali, Jalor	SBBJ/MGB Grameen Bank	Bank/RRB
Northwestern	Bikaner	Urmool Seemant Samiti/ MGB Grameen Bank	NGO/RRB
Eastern	Alwar	Mitr/ Ibtada	MFO

RESEARCH METHODS

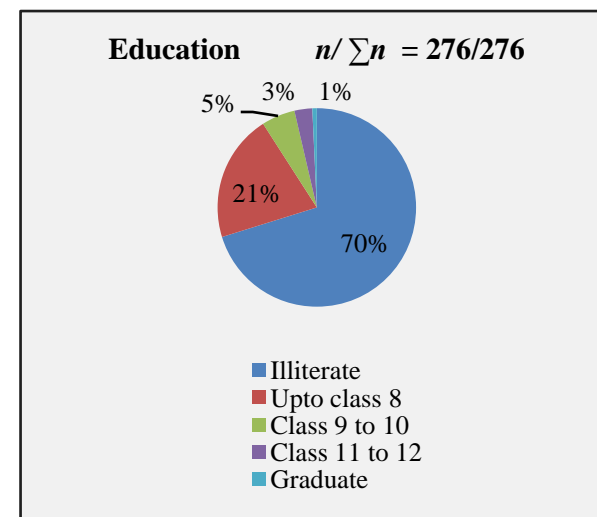
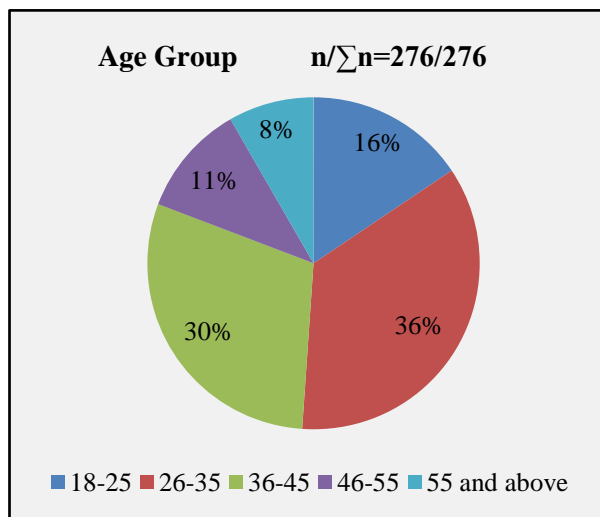
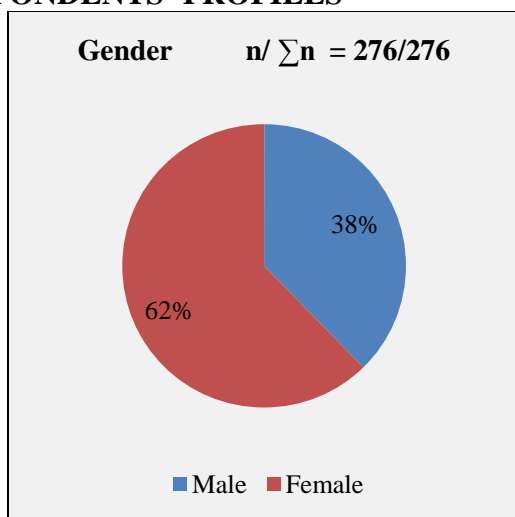
Research Method	No. of Sessions	No. of Respondents	Explanation
Focus group discussion	43	266	Focus group discussions (discussion guide attached in Annexure II) with NFA customers help assess how consensus opinions form and how these opinions affect NFA use or inactivity.
Product attribute tanking	10	62	Product attribute ranking is an exercise whereby customers prioritise and explain the relative importance of various characteristics they look for in a savings account.
Personal interviews with account holders	9	9	Individual interviews serve as an important counterpoint to focus groups. How each customer perceives and uses his/her account can be quite different from the group opinion.
Total	62	337	



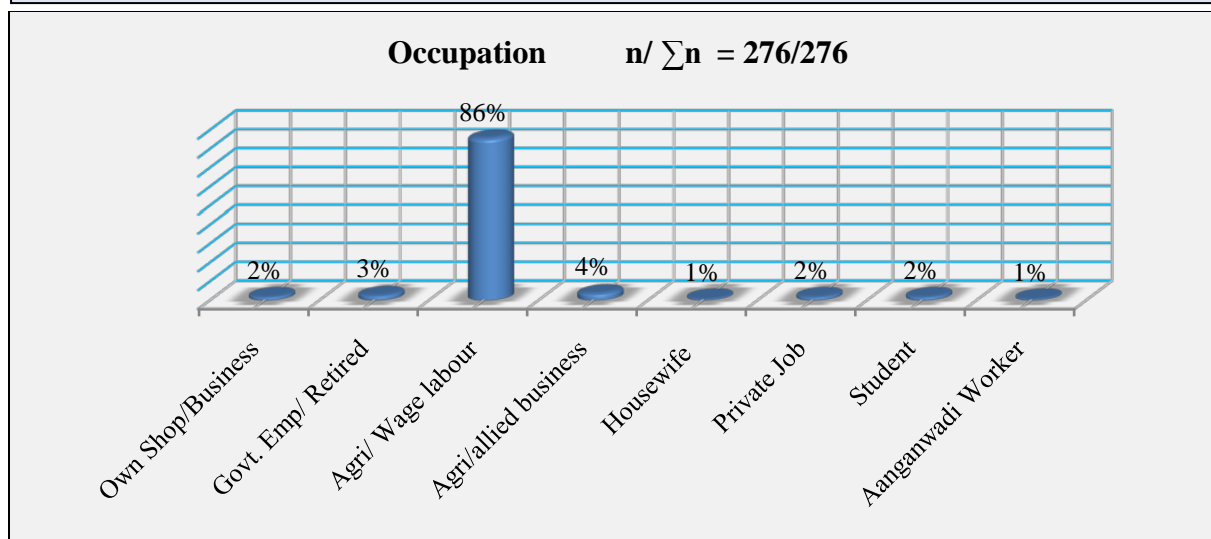


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RESPONDENTS' PROFILES



n - no. of respondent responded the question and $\sum n$ – no of respondent we have asked the question



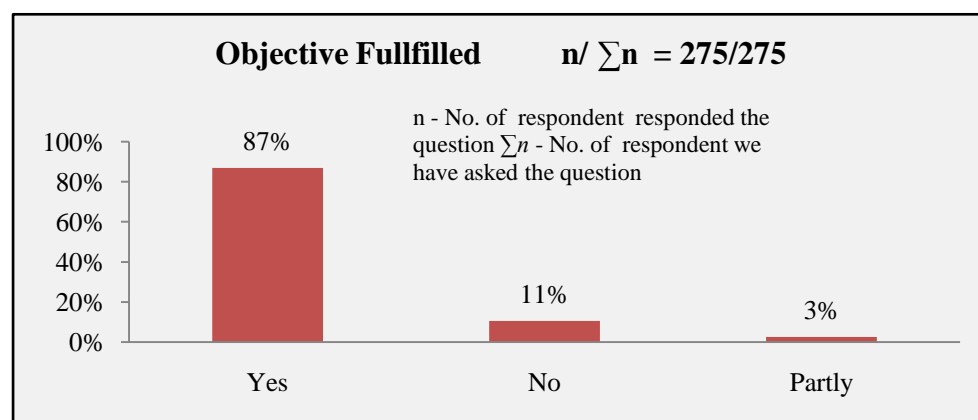
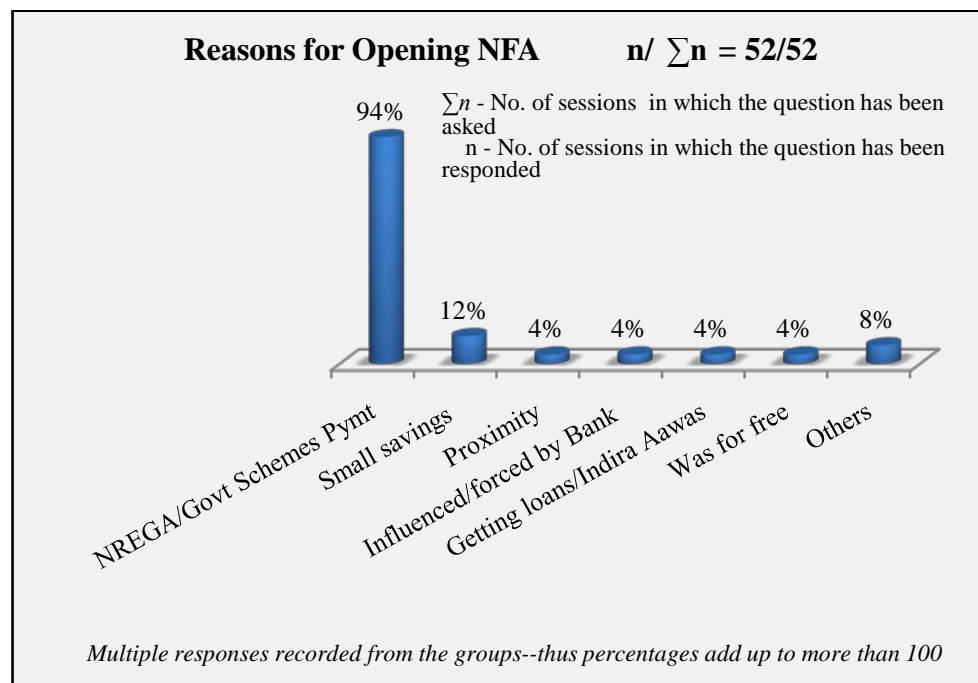
More females (62%) participated in this study than men.

Predominant age range is 26-45 (two thirds of the sample)

Illiteracy is the norm for this study (70%); 21% have a primary and/or middle level of schooling.

Most (86%) earn their living as agricultural or as daily wage labours. A small fraction (4%) are also involved in cattle rearing and other agriculturally-allied business.

REASONS FOR OPENING NFAs



In this study, the vast majority (94%) opened an NFA in order to receive their NREGA or other government payments—and in most cases, this needs to be viewed as “non-elective” since respondents claim they had no choice if they wished to continue their NREGA and other disbursements. Small savings were also cited by 12% as a reason for opening an NFA.

Most claim their objectives in opening the account have been met (87%), although the objective in almost all cases appears to be reliable receipt of NREGA payments.

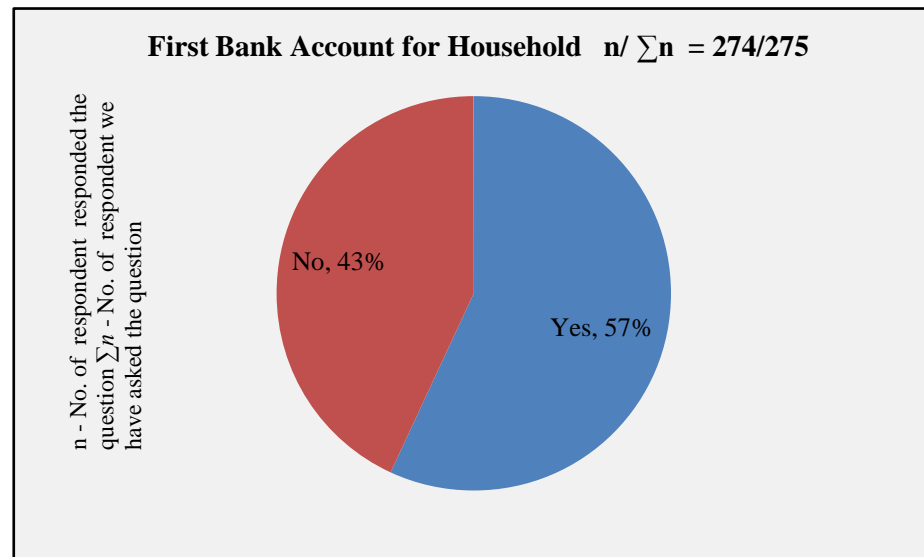
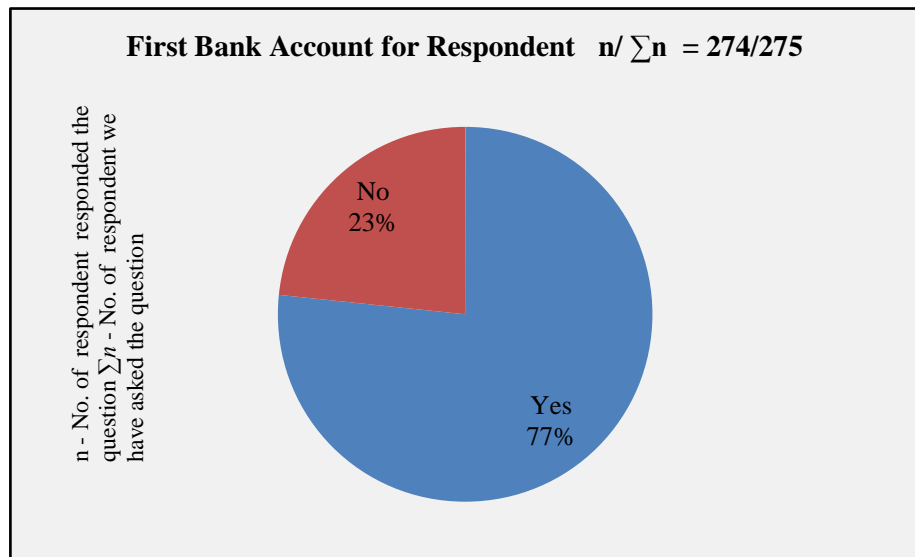
MOTIVATION OF PEOPLE BEHIND OPENING NFA

- **To receive payments from various government programmes.** The government has mandated recipients must have bank accounts for NREGA payments ([Annexure 3](#)), Bhamashah ([Annexure 4](#)), pensions (widow and old age), and educational scholarships. This mandate, combined with RBI's effort to promote NFAs as an important part of financial inclusion, have served as a strong incentive for banks and others to encourage these accounts with government-benefit recipients. Specific examples include Village *Sachiv/Meth* asked people to open NFAs for NREGA payments and Bhamashah, pension and scholarship scheme disbursement through NFAs.
- **To set money aside.** Smaller numbers have also opened an NFA to accumulate savings. These customers need a secure place to deposit on a flexible schedule and withdraw their savings as necessary.
- **To open a free account with minimal KYC requirements.** For some, the appeal of an NFA is that, unlike most other bank accounts, in most cases there are no initial fees and documentation requirements are notably less rigorous.
- **To achieve RBI targets.** In certain instances, banks under strong pressure to reach RBI targets for financial inclusion outsourced the account-opening process to external agencies to acquire the maximum number of new customers in the shortest possible time. (One example is SBBJ, Bhabhrana, Dist. Rajsamand, which used local agents to promote NFAs, paying Rs27.5 for each new account opened.)

“Bank me khata nahi ho toh tankhwaah nahi milegi isliye khata khulwaya” (If we do not have bank accounts then we won't get wages. That's why we got the accounts opened.)



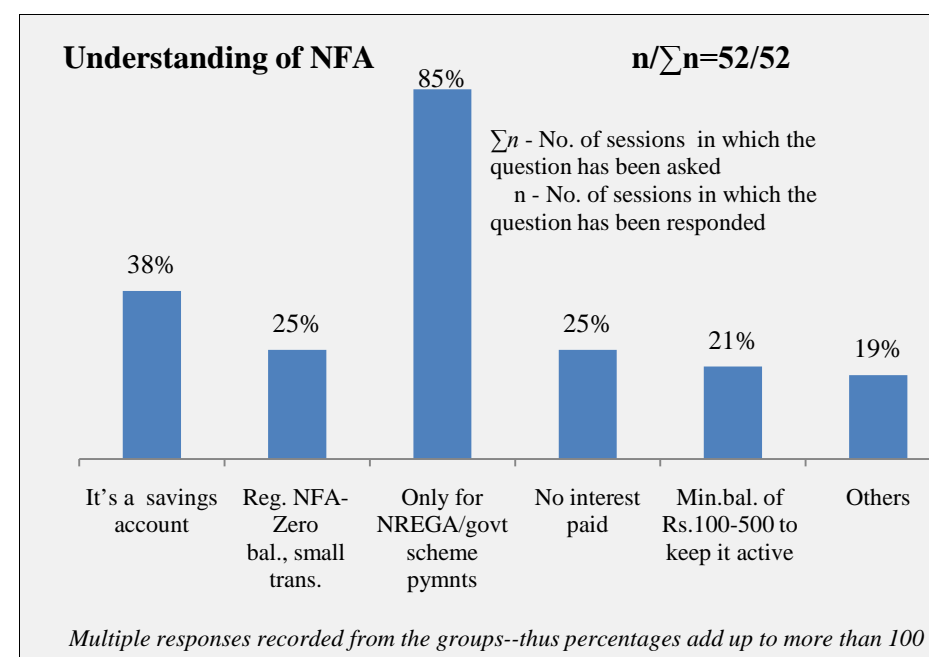
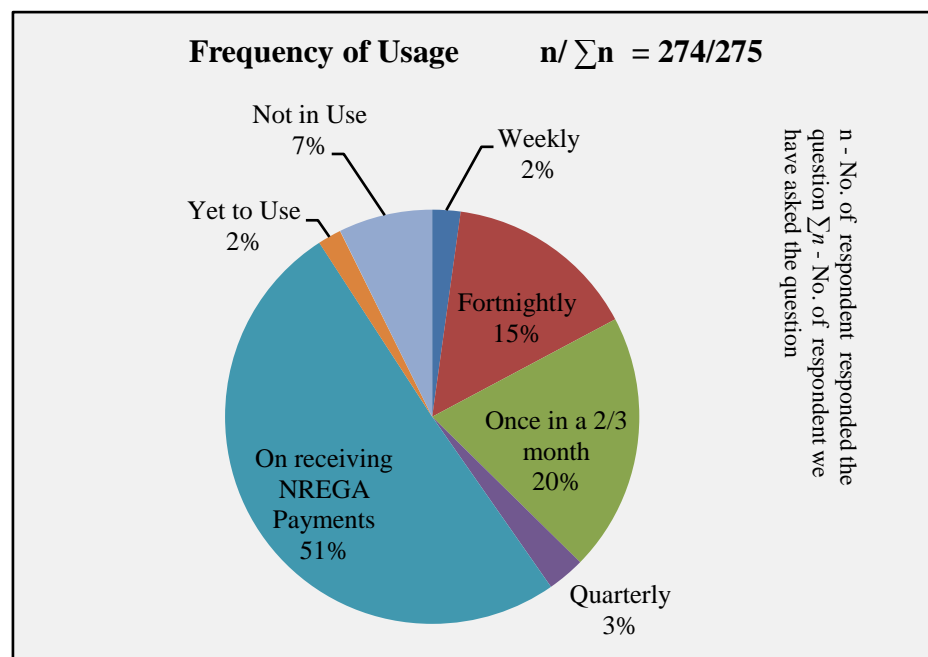
EXPERIENCE WITH NFA



Close to 77% of the respondents claim the NFA is their first bank account, and for 57% of this group, the first bank account in their household. As noted elsewhere, many only became aware of and opened an NFA due to the NREGA requirements.

“NREGA mein kaam kiya toh pata chala bank account ke bare mein. Usase pehle nahi pata thha yeh kya hota hai”. (Prior to working in NREGA, we were not aware what a bank account was.)

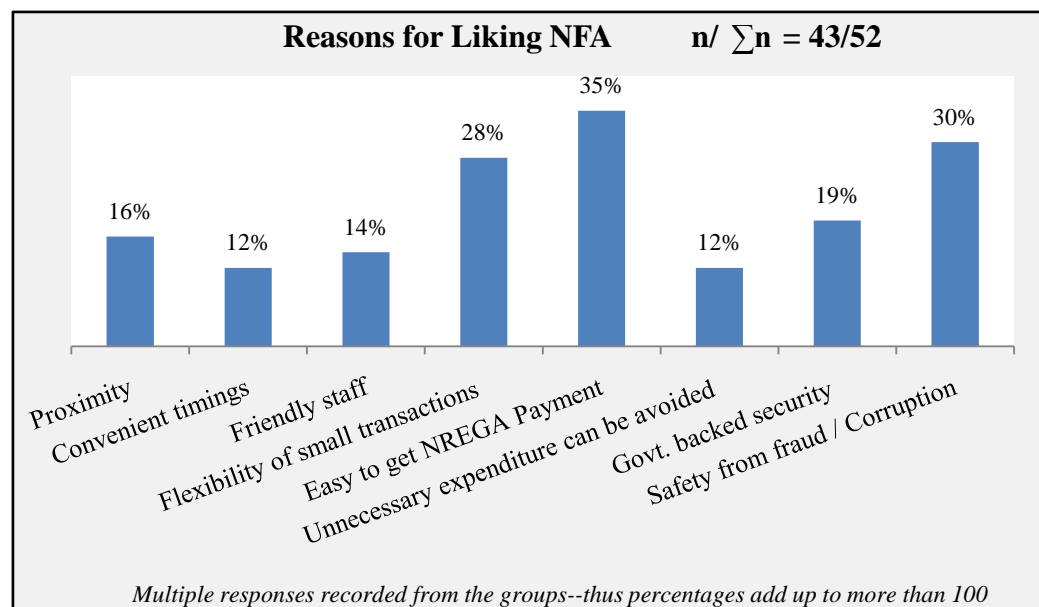




For frequency of use, respondents fall into two sets: those who visit the bank only to collect their NREGA payments; and those who visit for other regular banking transactions. NREGA-related transactions occur once or twice in a month. Of the remaining regular bank users, 15% use their accounts fortnightly, while another 20% visit the bank once every two-three months.

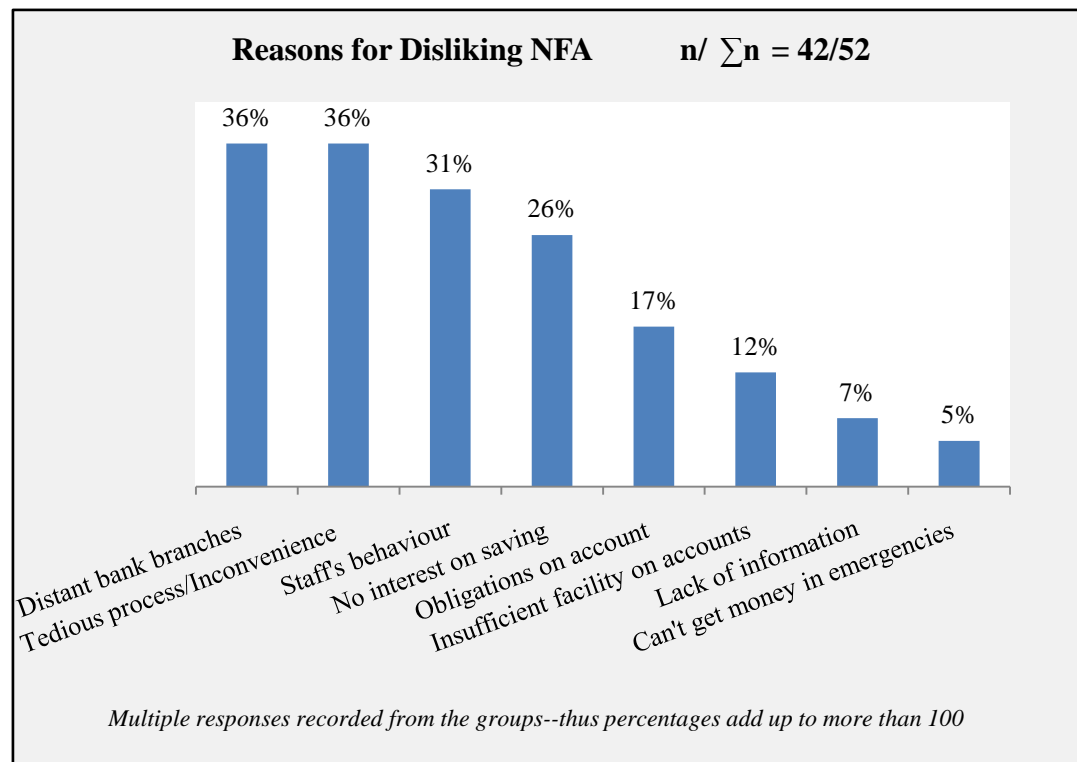
Respondents' understanding of NFAs: in 85% of the sessions, respondents perceive the NFA as the government-imposed means to receive NREGA and other payments. In 25% of the sessions, they understood NFAs can also be used for small value transactions. In 38%, respondents described it as a regular savings account. In 21% of the sessions, respondents claimed they had to maintain a minimum balance of Rs.100-500 to keep the NFA active. They also noted the NFA awarded very little or no interest, but they perceived it as safe.

- **“Bank ka khata nahi hai. NREGA ka khata hai”** (This is NREGA's account and not a bank account).
- **“Shuru mein bank me zero balance par khata khul jata thha. Ab woh log 500 rupiya jamaa rakhne ko bolte hain”** (In the beginning, we could open bank accounts at zero balance. Now, bank people ask us to keep a minimum deposit of Rs.500.)

REASONS FOR LIKING—AND DISLIKING--NFAs

Reasons for liking NFAs: First is the convenience and assurance of receiving the NREGA payment. Respondents also believe that routing NREGA payments through banks reduces the chances of fraud and corruption. They appreciate that their accounts are backed by the government and some understand that their accounts allow savings and payments. A small percentage appreciate that money in an NFA is less likely to be used for unnecessary expenditures.

- **“Bank ro paiso koi na kha sako hai”** (No one can run away with the bank’s money)
- **“Jab bhee tankhya aati hai to apne aap jama ho jata hai, varna pehle agar hum kabhee nahi mil pate thee paisa baante samay to fir thankya lene bahut door jana padta thaa”** (The salary comes automatically in the account and remains there. Otherwise, earlier, if I missed the day of salary distribution, I had to go far away to recover that salary)
- **“Bank me paisa rakho to bacha rahega nahi to kharch ho jaayega. Ghar me to kharch ho jaate hai bank me bacha rahta hai”** (If saved in bank, the money remains intact. Otherwise, it will be spent)
- **“Bank manager bahut acche hain. Hum log ko bachat karne ke liye samjhaate hain. Par hum log ke paas paise nahi hain bachat ke liye”** (The bank manager is very nice. He encourages us to save.) money in the account. But we don’t have money to save.)



Reasons for disliking NFAs: First are inaccessibility and loss of time and money for all respondents who live more than 3-5kms from their bank branches. Other reasons include:

- Tedious bank processes,
- Rude staff behaviour, and
- No interest paid on NFA savings.

- “50 rupiya jama karane jao aur 100 rupiya kharcha karo” ([I] spend Rs.100 to save Rs.50)
- “Byaz bada kam aawe, 5-6 rupiya byaz mile itne mein toh chay bhi na aaye” (Interest is very less, in Rs.5-6, you will not even get tea)
- “Bank me sahib log ke paas time nahi hai, who log gussa karte hain agar bheed pahuch jaati hai” (Bank officials don’t have time. They get angry if a large crowd of people comes to the bank for transactions.)
- “Bank wale diary me entry nahi karte hai kahte hai 5 saal ke baad karenge. Bank wale balance bhi nahi batate hai” (The bank staffs do not make entries in passbook and say that they will do after 5 years; also they don’t tell us the balance amount.)
- “Kuch Byaz mile to paise chode janta” ([People] would leave some money in the account only if they get some interest.)

CHALLENGES FOR FINANCIAL INSTITUTIONS

Five years ago, RBI noted Indian banking practices were excluding the rural poor, rather encouraging their participation, by requiring minimum balances in accounts and levying charges these customers could not afford. RBI's solution was a basic “no-frills” account with no or low minimum balances and charges. Despite this initiative, a 2009 Skoch Foundation study reported that only 11% of the (then) 25.1 million NFAs were active.²¹ The high levels of inactivity or dormancy show no sign of diminishing. Both the government regulators and the institutions they oversee must now address these issues if financial inclusion in general and NFAs in particular are to survive and expand. As noted previously, most Rajasthan NFAs covered in research were opened to insure full, secure payments for various social benefit government programs. These welfare schemes are using the network of State Bank of Bikaner and Jaipur (SBBJ), MGB Grameen Bank (promoted by SBBJ) and India's post offices for payments to their beneficiaries.

Challenges include:

- **Maintaining high cash balances:** NREGA payments compel most branches to have more cash on hand than their normal limit allows. This not only presents security risks but also, as the branch manager of SBBJ, Jhajju dist. Bikaner notes, ‘idle’ cash means banks have less to invest which in turn affects profitability and annual performance targets.
- **High volume for low-value transactions:** NREGA customers are numerous and they visit their branches regularly to withdraw small sums and to make account inquires. From the banks' perspective, servicing this clientele, who bring little or no benefit to their retail banking operations, is a burden. Most branches are unclear how best to manage the poor cost-benefit ratio.
- **Low/no float or working capital:** As the saying goes, the juice should be worth the squeeze. The profits realised from the NREGA accounts are far less than the effort necessary to maintain them. The two items noted above are included in the high cost of NFA maintenance. The full payment withdrawal, common among NREGA recipients, means the bank also has far less capital to work with than most accounts normally provide.

²¹ Kochar, Sameer “[National Study on Speeding Financial Inclusion. Key Recommendations](#)”, Skoch Development Foundation, India, 2009.

Challenges for Regional Rural Banks:

- **Commercial viability:** RRBs receive no fees for servicing NREGA accounts. In Rajasthan, while the NREGA fund is credited with SBBJ on a periodic basis, responsibility for actual disbursements lies with subsidiaries like Grameen Bank. As a result, SBBJ enjoys intervals of substantial cheap capital while Grameen and others must deal with the cost of maintaining accounts which are often emptied as soon as payments arrive.
- Automating all government payment flows could save the Indian government up to U \$22.4 billion annually, estimates a recent CGAP-Gates report,²² almost 10% of the total payment flows between the government and Indian households. These savings would cover the required investment within the first year - but these estimates do not necessarily apply to the regional banks and their costs noted below.
- **Overburdened staff:** Many of the RRBs in Rajasthan manage a high volume of NREGA accounts for surrounding villages with limited branch staff and resources. Since many NREGA clients are illiterate, bank forms are often incomplete and inaccurate or simply ignored as branch staff do not have time to help each customer. Bank officials estimate that close to 10 working days each month are ‘wasted’ servicing NFA clients—and as a result, customers with higher potential and their regular business suffer.²³
- **Tarnished Image:** Due to these and other difficulties associated with NFAs, many banks feel their quality of service has been seriously compromised. Branch staffs become frustrated with impossible workloads and customers, in turn, complain about the rude treatment they receive. Unnecessary arguments are quite common.

Word from a Branch Manager

The bank has itself asked for the trouble. The main banking work remains pending for ten days, we don't have benefit from NREGA rather there are losses of stationary and sometimes even staffs have to pay Rs.200-500 from their pockets. NREGA is like bee hive, where bee will come to sting us, if we will work around them. Initially, we were very enthusiastic about NREGA for the reason of women empowerment and used to open late nights. This became troublesome afterwards because we had to call police for security purposes.

“Bank ne bimari mol le li hai..10 din tak bank ka kaam thapp rehta hai...NREGA se koi fayda nahi, stationary ka bhi nuksaan...Itne lafde mein staff ke bhi Rs.200-500 lag jaate hai..NREGA madhumakhi ka chatta hai madumakhiyan aayengi hee aur dank maarengi...Shuru mein hum josh mein thhe...mahilaon ka fayda samajh ke der tak bank khula rakhthe thee magar baad mein mushkil badh gayi..Raat ko police bhi bulani padti thi suraksha ke liye...!”

²² [“The Cost-Benefit of Electronic Payment Systems: the Case of India”](#),| CGAP Technology Blog, Sarah Rotman, 20 January, 2011.

²³ This information derives from discussion with RRB managers and was also observed during the field visits

Challenges for Post Offices:

- **Lack of technological infrastructure:** The post office encourages NREGA customers to withdraw all their wages each visit and to open a separate account for savings. The post office staffing problems are worse than bank branches and almost all transactions are still recorded manually. Until post offices have computers and IT support, delays and limited use of NFAs will remain the norm.
- **Lack of liquidity for large transactions:** In rural areas, post offices have low overnight cash limits and cannot authorize large withdrawals. Delays are common and most NFA customers prefer to bank elsewhere if large transactions are involved.



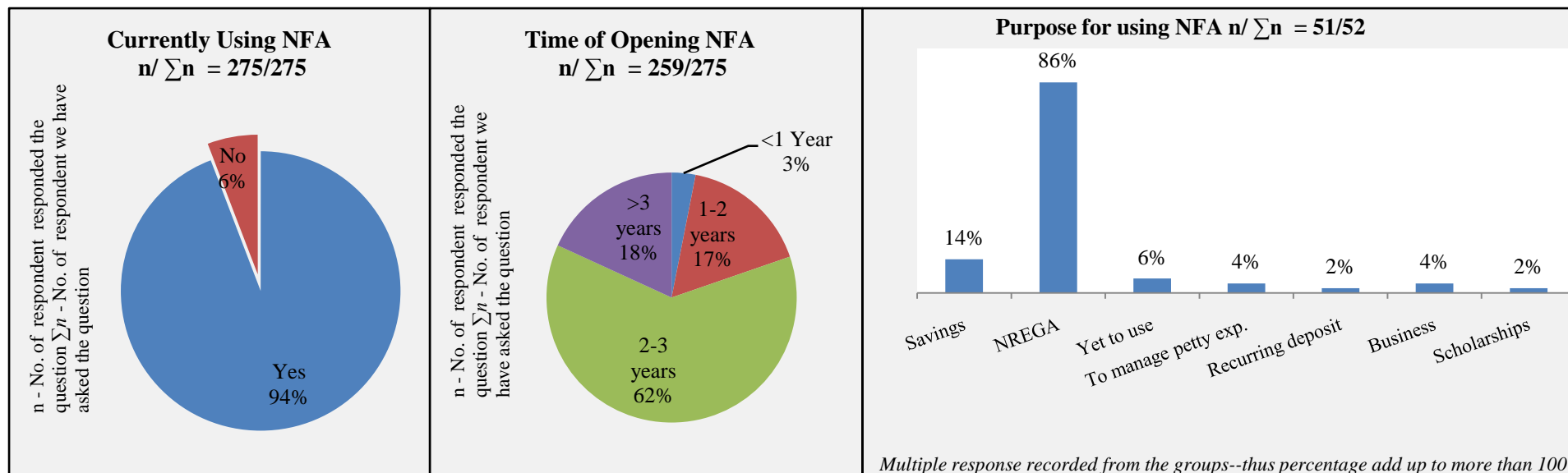
Staff Interview, Post Office Jhajju

Mr Kailash Bhargava has headed the Jhajju post office for more than four years now. According to him, his post office has approximately 2,500 savings accounts and 1,500 NREGA NFAs. His monthly transaction volume is around 6-7 lakhs for savings accounts and rises to around 20 lakhs with NFAs included.

When asked why few people in rural areas choose post office accounts, Mr, Bhargava suggests the main problem is delays. The processing of interest on savings is done at the Bikaner post office as Jhajju has no computers or IT support. This can take four to five days and customers become impatient. For recurring-deposit account holders, there is often a delay of more than five days after the maturity period. Another deterrent are the limits on cash withdrawals. All rural post offices have cash-holding restrictions and are unable to accommodate customers wishing to make large withdrawals.

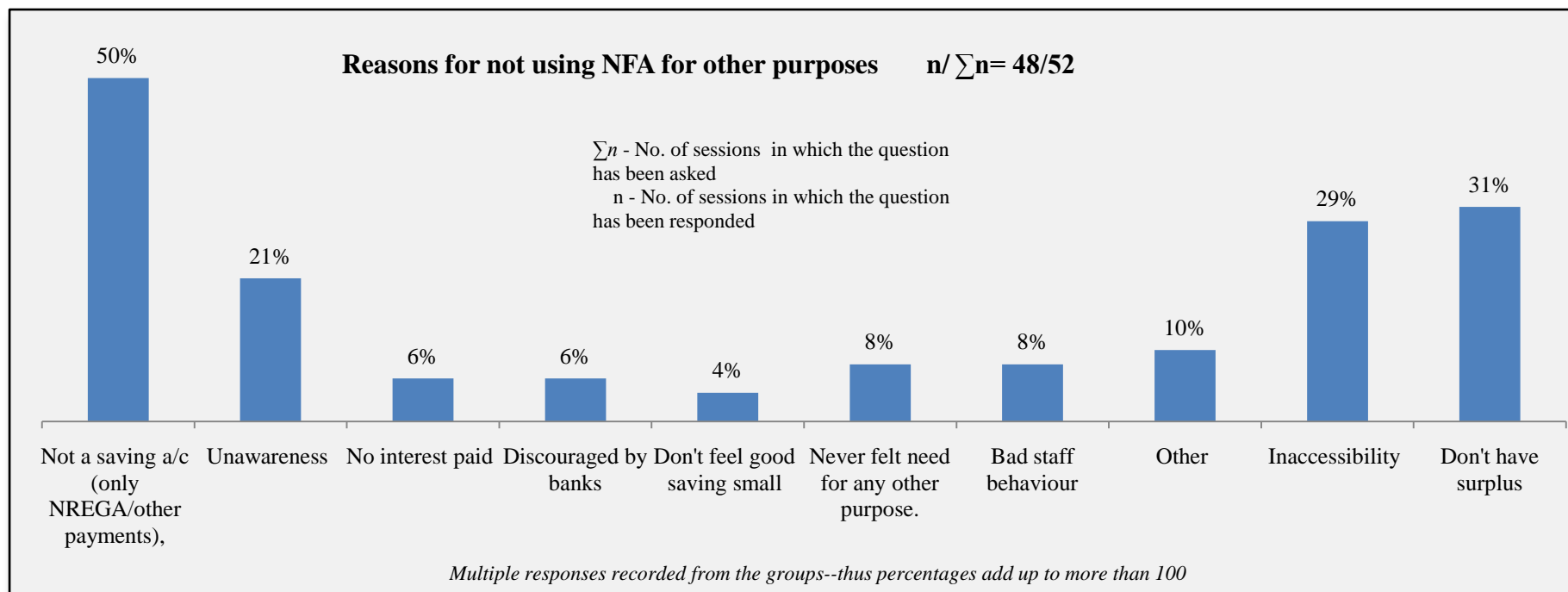
For NREGA accounts, the post office has made a rule that people must take out all the money which comes in as wages. They can set aside sums for savings and other needs in separate accounts. Mr, Bhargava explains this system is easier for his very small staff and their manual accounting. The post office gets a commission for operating NREGA accounts, but the volume has become unmanageable. His current plan is to reserve three days for NREGA customers only, and then focus the three remaining business days on his other account holders. .

DORMANCY IN NFAs



Almost all respondents (94%) confirm they are currently using their NFAs for at least one purpose and close 80% have had their accounts for more than two years. The most common use is for NFAs is receipt of NREGA wages. A small segment uses it for savings or to receive student scholarships, or widow and old age pensions.





As explained in the earlier graph, most respondents only use NFAs, to receive NREGA payments. The majority do not use it for savings or other purposes because approximately half are unaware that other services are available and a third claim they do not have a surplus to save in banks. For this group, distance from branches is the key deterrent. Potential savers lose more than they can set aside in travel and other costs incurred in a bank visit.

- **“NREGA khaate me paise jamaa kar sakte hain ke nahi iski jaankaari nahi di kisi ne”** (No one told us we can use the NREGA account for depositing money as well.)
- **“Itna bachta hee kahaan hai jo bank me jamaa karein”** (We don't save that much to deposit in the bank.)
- **“Agar hum itne duur dus rupaye kharch karke bank jayege to firr humare bakriya bhuke reh jayege, unko kaun dekhega.”** (Who will look for the feeding of their animals if they go to the bank which is situated so far?)
- **“Paise bachaane ke liye peit kaatna padta hai. Aise bachat nahi ho sakti”.** (One has to do savings by cutting from day-to-day expenses.)
- **“Paise kee bachat kaise karein. Jinse loan liya hai unko chukana bhee toh padta hai”.** (How can we save? We have to gather money to repay the loans.)

REASONS FOR NFA INACTIVITY

Banks and other financial institutions:

- **Increased work and pressure:** NREGA payments via NFAs have created a tremendous increase in workloads and time pressure in rural branches, especially those which serve a wide radius of surrounding communities. The overwhelmed branch staff has no time to service other account holders, including those with much higher bank balances.
- **Misdirected intention:** Many rural banks only open NFAs to fulfil their RBI requirements for financial inclusion. During the study, *MicroSave* researchers noted little or no effort to motivate NFA customers about the various account features. In fact, customers are discouraged from saving in their NFAs. In at least one instance a would-be depositor had to open a separate account.
- **Inaccessible branches:** For many rural NFA customers, branches remain too far away for easy or affordable banking. A day of lost wages and travel costs discourage customers from using their NFA for anything beyond government payments. Until branches expand their rural network, or mobile and other branchless-banking technology can facilitate access for the customers in remote locations, the current situation is unlikely to improve.
- **Inability to customise:** The government banks lack flexibility to customise their account offerings to meet their rural customers' needs. Residuary Non-Banking Companies (RNBCs) such as **Sahara India** Financial Corporation Ltd. Sahara can offer the flexibility of small deposits and door-step collections. Until banks can do the same, many poor people will choose other options.
- **Weak Promotion:** Most banks and other financial institutions involved have never sold NFAs as a savings account for low - income customers. They have opened NFAs in bulk to accommodate government payment programs with little or no mention of *Sachiv/Meth*, or other potential uses for these accounts. Until banks decide the NFA should serve as more than a G2P, government money transfer system, customers have no reason to perceive or use the account differently.

Customers:

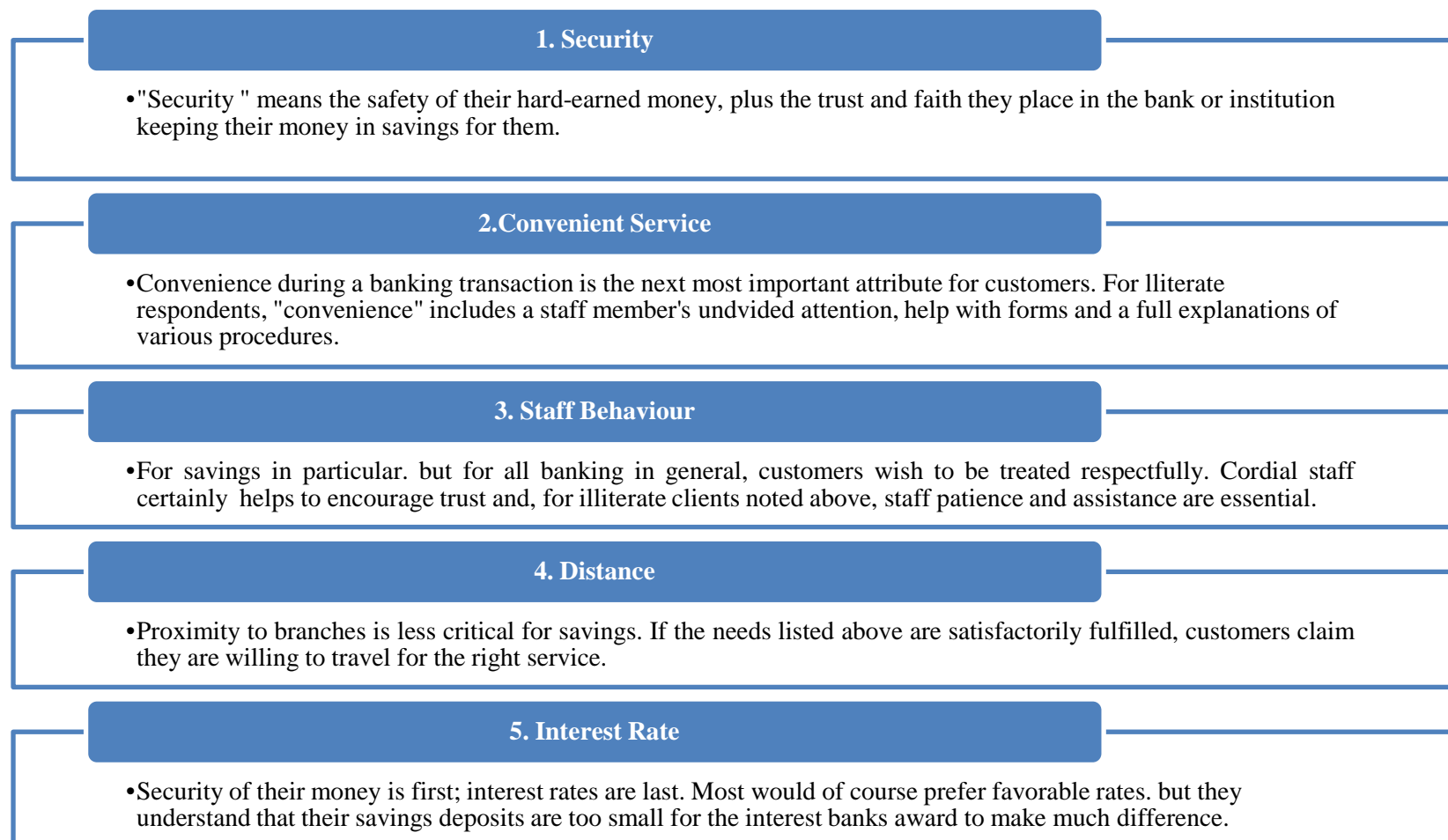
- **Misinformation:** The predicament of customer ignorance of NFA savings and banks' unwillingness to promote these and other features is detailed above. In some instances, this situation is further complicated by banks paying NREGA wages in multiples of hundreds and keeping the surplus amounts as a balance in the account. Respondents believe in this instance they will get the entire amount after five years when, they claim, the NREGA program will close.
- **Self Help Groups.** One of every two respondents interviewed belongs to some kind of formal or informal self help group. They deposit a monthly amount ranging from Rs.50 to Rs.500 and take loans from the group whenever required. The interest they pay for this service ranges between Rs.1 to Rs.3 per hundred per month. This interest only adds to the group capital. Connecting to the group is easy because of members' similar profiles and hence better understanding of the operations. SHGs provide services the banks cannot, including:
 - **Accessibility:** Doorstep and local village service for deposits and loans at no cost or a fraction of the cost of a trip to the bank
 - **Interest:** Rs.1-3 per hundred per month
 - **Loans:** Readily available on demand

- **Better returns / Inter-lending/ Beesis:** In other instances, respondents prefer to lend to neighbours or relatives at an attractive interest rate (of Rs.2 to Rs.3 per hundred per month) rather trying to save money in an NFA with no or very low interest rates (3.5%). *Beesis* groups²⁴, also prevalent in the region, offer participants credit as needed, plus higher returns on savings.
- **Moneylenders:** In the southern part of the Rajasthan, respondents arrange loans via local moneylenders. If there is not already a relationship of trust, the borrower pledges tangible assets. The moneylenders charges between Rs.3 to Rs.5 per hundred per month.
- **Illiteracy:** Respondents with no or very limited schooling hesitate to work with banks due to the difficulties involved in signatures and filling out detailed forms.
- **Embarrassment in small savings:** Poor respondents feel ashamed of making only small deposits of Rs.100/200 in their accounts. Their impression is that only larger amounts of Rs.500/1000 are appropriate for bank savings.
- **Insufficient surplus:** After settling their daily expenses, many claim they have too little is left to deposit in a bank account.
- **Discouraged by banks:** Bank officials do not appear to actively encouraging their NFA clients to visit the bank more often in order to save small amounts. Some have even limited NFA transactions to certain days in a week so customers are unable to access their accounts whenever needed.

²⁴ *Beesis* are accumulating savings and credit associations (ASCAs)

PRODUCT ATTRIBUTE RANKING

Product Attribute Ranking helps clarify which characteristics customers consider most important when choosing a savings account or service. *MicroSave* researchers asked 62 respondents to first come up with attributes they felt most important in choosing a savings option. They were then asked to rank these attributes in decreasing order of importance. Findings are as follows:



RECOMMENDATIONS

- **Introduction of mobile or card/POS enabling solutions:** Our research indicates that security, convenience, better service and accessibility are customers' major concerns. Mobile money transfer to and from accounts linked to individual mobile phones or cards would certainly help customers in remote locations. These same mobile accounts and point-of-sale cards could also improve cash-in/cash-out liquidity management. Security, fraud, customer authentication, sufficient customer and IT support are all open, and potentially expensive issues to resolve, but if the ultimate goal is to encourage NFA use and extend financial inclusion, technology will cost less and prove more effective long term than asking banks to change.
- **Expedite implementation of BC Model:** The time and cost of travelling to and from remote locations to bank branches is a severe deterrent for many. The BC model and the doorstep or local services available via business correspondents work far better for these customers. Recruiting, training and motivating BCs remain problematic and the mobile and card-based solutions noted above will ultimately play an equally important role. Nevertheless, BCs offer more personalised and in many ways preferable service to the inaccessible and unwelcoming bank branches. More focus on resolving the problems noted above and implementing the BC model in remote locations would help spur NFA use and expansion.
- **More offerings:** Savings are always worth encouraging, but other useful services include: credit linked to savings and other assets; more efficient money transfer for salaries, remittances and other payments; micro-insurance and mutual insurance whereby the policy holders are also the stakeholders for longer term planning and emergencies. If banks need more deposits for NFAs to be commercially viable, then more services that encourage deposits will help. Note: Business correspondents will also benefit from having more to offer their customers, and the current problem of incentives will improve.
- **More conspicuous promotion of NFA security:** Most respondents already perceive NFAs as secure, by virtue of their association with banks. NREGA and other government payments via NFAs are also reputed to be more trustworthy and less fraudulent than non-electronic, non-banking payment methods. An important part of promoting new offerings will be the implicit security of NFA remittances, savings, credit, and insurance. Respondents rated security as the most valued attribute for their savings. This same need for trust will extend to all other services NFA choose to promote.

Case Studies

Case Study 1: Risky Savings in Villages

Manju Devi, a resident of Aradkia Village, Railmongra Block, Rajsamand District, opted for PACL (Pearls) savings. In this scheme, she had to deposit Rs.110 every month for five years whereupon she would receive an amount of approximately Rs.11,000. She started out saving Rs.110 every month and she gave this sum regularly to a collection agent who came to her village. However, the agent only gave her receipts for the first two months, claiming receipts for her deposits would be issued collectively. After



her ninth instalment, doubting agent's intentions, Manju stopped her savings deposits and asked for her money back. Upon further enquiry, she discovered the agent had only deposited her first two instalments and made off with the rest. Without proof of deposit, she ultimately recovered only five months i.e. Rs.550 and lost the principal of Rs.440, plus the interest earned.

Case Study 2: Branch Manager Rohat, Pali Branch

The Rohat Branch of Marwar Grameen Bank (MGB) opened in 1976. Mr. Gopal Singh Bathi has had many roles during his MGB career, including time in the bank's legal department. He is currently the MGB Rohat Branch Manager. *MicroSave's* research team visited the branch in August 2010 as a part of NFA research in Pali, Rajasthan.

This branch has 8000 saving accounts, of which more than half (4,500) are No Frill Accounts and most were opened to enable NREGA payments. Total saving balances of NREGA accounts are approximately Rs.4 million; the average balance per account is an estimated Rs.889. The branch has raised a total of Rs52.2 million for these accounts and Rs101.1 million savings overall. (Please see Tables 1 and 2 below for different savings offerings across different customer segments).

The branch maintains 3,000 loan accounts with loans outstanding of Rs.144.3 million. About 81 % of the loans are agricultural. The loan recovery rate is maintained at 92%. The branch Credit/Deposit ratio is 143% and the branch has performed better than other MGB branches with Rs.3.5million profit in the last fiscal year.



The challenge for this branch manager and his staff is motivating NREGA account holders to maintain even small balances in their accounts. Most would prefer to withdraw their full NREGA wages as soon as their accounts are credited. Nevertheless, Mr. Bhati has mobilised Rs.889 per account from his NREGA account holders. His secret? He claims initially the branch compelled each account holder to leave at least Rs.100 each time they withdrew a NREGA payment. Gradually, after watching their saving accumulate, they were inspired to save more. NFAs at this branch now leave the Rs.100 without being asked and some have instituted fixed deposits and are motivating others. Mr. Bhati is convinced that everyone, including the poor, should save and will do so if appropriately encouraged and supported. *'I believe in this philosophy and I have never refrained from opening account.'* He also believes that once customers, whatever their profile, are linked with his bank, they will see the banking business and will encourage to do so - *'I see business potential in each of them.'*

Everyone, including the poor, should save and will do so if appropriately encouraged and supported. *'I believe in this philosophy and I have never refrained from opening account'*.

Saving Account balance across various customer segment (in million)	
NREGA	4.0
SHG	1.5
General customer	0.2
Commercial	0.3
Govt. deposit	46.2
Total	52.2

Saving balance in various saving accounts (in million)	
Current Account	6.89
Saving Account	52.20
Term Deposit	4.79
Special Term Deposit	37.20
Total	101.08

When we asked whether Mr. Bhati sees any business proposition in servicing NREGA account holders--many branch managers view such accounts as compulsory government support only--he claims it is as good as any other business. It helps us to get access of low cost fund from two sides, one saving balance maintained by the account holders and second we get NREGA payment from Government at least 2 month in advance. "On an average we retain about Rs.2.5-3.0 million of NREGA payment throughout. As its disbursement takes about 15-20 days, before one disbursement completes we again receive money for next disbursement. So, if you will see I am able get access to Rs.7.0 million (4.0 million account holder's saving + 3.0 million from Govovernment for payment) at the cost of 3.5%, I am able to earn minimum of 8% if I send this fund to head office and more than 12% if I am lending it back to the field. Since the branch's C/D ratio is more than 100% I am able to earn revenue at more than 12%. Therefore my annual earnings from NREGA business only is about Rs.5.95 lakh which about 17% of my annual profit. So, I must say each account of my branch has potential business opportunity."

Case Study 3: Client Case Study -NFA holder with multiple savings

Hiraman Nai, aged 38 an agriculture and wage labour, lives in Nimbli village of Pali District. He lives with wife and five children, his monthly income is Rs.4000. Himaram opened his first savings bank account in 1999 in Marwar Grameen Bank with a motivation to save some money for contingencies. He saved small sums for three years, but stopped savings in 2002 as his family income was too low and his children's expenses were increasing. He reactivated his account in January 2009 to receive NREGA payments. His wife also opened a No Frills Account in her name for her NREGA benefits. Himaram feels happy that because of NREGA, he is linked to the bank once again.



Aamdani to kam hi hoti hai, par bachat karne ke liye iccha honi chahiye

Savings avenues used

Himaram is quite disciplined and saves money for his current and future financial needs in the following ways:

When asked why he saves in multiple accounts, Himaram claims they help him to manage his cash flows. Since he is not able to take out big amounts at a time, he saves in small denomination in different accounts on different dates. Also, this strategy helps him to manage risk, as he is not willing to put all his money in Sahara, although it is very convenient for him.

Sr. No.	Saving Avenue	Amount of Deposit	Frequency of deposit	Term of deposit
1	Marwar Grameen Bank	NREGA wages (variable)	As per NREGA work	Savings account, can be withdrawn anytime
2	Post office, Rohat	200	Monthly	5 years
3	Sahara India	200	Monthly	5 years

Himaram's Priorities

Himaram's Priority	Priority I	Priority II	Priority III
Saving Avenue	Post Office	Sahara India	Marwar Grameen Bank
Likes	<ul style="list-style-type: none"> • Not very crowded • Transaction takes very less time • Encourages savings because of forced discipline • Offers high rate of interest • Flexibility in depositing instalment in case of emergencies 	<ul style="list-style-type: none"> • Doorstep Service • Accepts savings in small denomination 	<ul style="list-style-type: none"> • Savings can be withdrawn any time when needed • Can be used for depositing cheques, if any
Dislikes	<ul style="list-style-type: none"> • Restrictions. Savings cannot be withdrawn any time when needed 	<ul style="list-style-type: none"> • Always afraid; some people report fraud by Sahara agents • Have to go to Pali for collecting money after maturity. 	<ul style="list-style-type: none"> • Crowded branches • Takes more than two hours for doing a transaction. • Rude behaviour of branch manager

Case Study 4: Student Case Study-Account gone Dormant

Veena Singariya, Age 23 has completed her B.Ed. and lives in Bikaner with her husband. Veena, along with her 60 college classmates, opened her No Frills savings account in State Bank of Bikaner and Jaipur to receive her scholarship benefits. A bank manager came to her college to explain account features. Veena and other scholarship students then submitted their documents to the college and the bank issued account numbers to the students. According to Veena, only two or three students used their accounts for transactions. Veena herself used the account after signing up for a NREGA job for which she was paid Rs400 per day. When her NREGA assignment was finished and she had married, she closed the account in Pali. She is willing to open another account in Bikaner where she presently stays.

Veena's thoughts on NFA use among students:

Reasons for low student use of NFAs:

- Very low awareness about NFAs and their benefits
- No saving habit and no money to save
- Passbooks not issued by the bank
- Banks are usually far away from student's hometown so the account becomes dormant after leaving college
- Girl students get married and follow their husband which also results in dormant or inactive accounts

NFA best use for students:

It could be very helpful in getting the remittances from home.

Her suggestion for improving student NFAs: the bank should issue passbooks immediately when students open their accounts: otherwise, students too easily lose track of account details—and lose interest in using their NFA.



Ladkia account number 'likh ke bhool jati hain'
(Girls forget the account numbers.)

ANNEXURES

Annexure 1: Policy guideline around No Frills Accounts

No Frills Accounts – Key Features as per various RBI circulars²⁵

The RBI has asked banks to make a basic banking “No Frills” Account available for low-income individuals, with either zero or low minimum balances and charges. The nature and number of transactions in such accounts would be limited as per the offering bank policy, but the details should be made known to customers in advance in a transparent manner. The RBI has also urged all banks to give extensive publicity to such accounts to enable financial inclusion.

Simplification of 'Know Your Customer' Norms

The RBI has eased the “know your customer” (KYC) norms to keep account-opening procedures to a minimum. Low-income customers can open NFA bank accounts without proof of identity or residence. In such cases, introduction and personal recommendation by an existing account holder in good standing for at least six months and with full KYC approval suffices for the prospective NFA customer. The existing customer must also vouchsafe the NFA client’s photograph and address.

Banks also can rely on certificates of identification issued by a bank business correspondent, the Block Development Officer, head of village Panchayat, local postmaster, or any other public functionary known to the bank. These simplified KYC norms are applicable for those who intend to keep balances not exceeding Rs50,000 in their combined accounts, with total credit not exceeding Rs100,00 per year. If the customer exceeds these and other limits, a full KYC examination will be necessary.

No Frills Account Criteria and Services

Many banks (public and private) offer no frill saving bank accounts to disadvantaged people with their own guidelines based on the RBI circular.

Criteria include:

- Eligibility: individuals can open an NFA in their own name or jointly, and multiple accounts under one name are generally not allowed. Some banks restrict NFAs to underprivileged segments only: PAN holders and affluent customers do not qualify.
- Authentication/Know Your Customer (KYC): bank customers in good standing with KYC approval can introduce NFA candidates and certify identity and photos.
- Minimum balances: some banks allow zero initial balance: others require a small minimum to open the NFA. There are, however, no charges imposed if NFA customers do not maintain this minimum balance.
- Savings interest: many banks offer the same interest rates to NFAs that they offer for their other savings accounts—with the same minimum balance requirements.
- Withdrawals: each bank imposes its own restrictions on the maximum number of withdrawals allowed. State Bank of India, for example, permits 30 transactions, including withdrawals, per half year, while ICICI restricts this number to 12 per quarter with a Rs50 charge for each additional transaction.
- Cheques: most banks do not offer chequebooks to NFA customers.

²⁵ RBI/2005-06/135 Know Your Customer Guidelines- Anti-Money Laundering Standards, August 23, 2005

RBI/2005-06/204, [Financial Inclusion, November 11, 2005](#), RBI/2005-06/288, Financial Inclusion by Extension of banking services –Use of BFs and BCs, January 25, 2006

- Credit upon cheque presentation: immediate credit is generally not offered to NFA customers; when the cheque clears, the account is of course credited for the full amount.
- Conversion to regular SB/CA accounts: allowed, although NFA customers must submit to a full KYC review to qualify.
- Bank statements: NFA customers may request quarterly statements for their accounts. Duplicates are available with a charge of Rs10 per page.

BCs and No-Frill Accounts²⁶

To increase outreach in rural areas and to ease the burden on regional branches, RBI has allowed banks to use business correspondents (BCs) to provide banking and financial services for NFA and other poor customers in remote areas. The BC model and its doorstep or local services are popular but problematic. Recruiting, training and motivating BCs is expensive and turnover is high. A 2009 RBI study shows that only 26 out of 50 public sector and private sector banks had appointed BCs, For more recent information, please see *MicroSave's Optimising Agent Networks* report, Nov-Dec 2010.

In addition to banks, other groups can also appoint business correspondents:

- NGOs/ MFIs set up under Societies/ Trust Acts;
- Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States;
- Section 25 companies that are stand-alone entities or in which NBFCs, banks, telecom companies and other corporate entities or their holding companies do not have equity holdings in excess of 10%;
- Post Offices

BC candidates include:

- Retired bank employees, ex-servicemen and retired government employees.
- Individual kirana/medical/fair-price shop owners.
- Individual Public Call Office (PCO) operators,
- Individuals sponsoring small saving schemes and working with Government of India Insurance Companies,
- Petrol pump owners.
- Retired teachers
- Self Help Groups (SHGs) linked to banks

BC Commission Fees

Banks pay commissions and other incentives to BCs to act as their representatives in rural areas. For the present, customers are not charged directly for these services and BCs collect no fees from them. This model is under review as current incentives do not seem to encourage long-term BC commitment and reliable service. In addition, initial *MicroSave* research²⁷ suggests some remote customers may be willing to pay a small percentage on each withdrawal or a flat fee for doorstep and other very convenient BC services. This may also motivate both BCs and customers to extend NFAs to include remittances and other money transfers, credit, and various savings and insurance options.

²⁶ Report of the working group to review the business correspondent model August 2009 and RBI/2009-10/238 dated November 30, 2009

²⁷ [Tiwari et al. "The Answer is "Yes" Cost and Willingness to Pay in India". *MicroSave*, May 2011.](#)

BC Development

In order to improve BC training, the Indian Institute of Banking and Finance (IIBF) offers a certification course. Banks sponsoring BCs share in the training costs and add their own training modules for policies and procedures, sales, local languages and other skills they wish to highlight

Risk Mitigation

Banks understand that using intermediaries can involve significant reputation, legal and operational risks. They are also looking into technology-based solutions to support the BC's role and help manage these risks. Current strategies include:

- Suitable limits on BC cash holding, plus limits on individual customer payments and receipts;
- Daily or next-day reconciliation of all BC transactions.
- Full bank responsibility for all BC interactions with customers

Grievances

Banks are also responsible for addressing customers' grievances about BC services as quickly as possible. They must also ensure they appoint an officer to deal with these complaints, customers understand how to lodge grievances, and this information is widely publicized. If their complainant does not get satisfactory response from the bank within 60 days, customers can seek further help from the Office of the Banking Ombudsman.

Compliance with KYC Norms

KYC compliance remains the banks' responsibility despite the more flexible approach allowed for NFA customers. For NFAs, banks can rely on certification by already authenticated customers in good standing or by BCs, Block Development Officer (BDO), head of village Panchayat, local Post Master, or other public functionaries known to the bank.

Bank Oversight of BC Operations

In most cases, designated bank branches oversee BCs, including training, daily operations and activities. Bank head offices oversee these branches and general BC management.

Geographic coverage

The distance between the BCs' radius of business and their bank branch should not exceed 30kms in rural and semi-urban areas. In metropolitan centres, the distance should be approximately 5kms. The District Consultative Committee (DCC) can extend these limits if necessary or, for adjoining districts, the State Level Bankers' Committee (SLBC) is responsible.

Appointment of Sub-Agents

Banks can also appoint sub-agents to assist BCs who need help covering numerous customers in large areas. The same BC criteria and due diligence will apply to sub-agents. BCs can recommend but cannot appoint their own sub-agents.

Monitoring

Bank authorities are responsible for implementing and closely monitoring Business Correspondent activities in the field and at branches. Periodic review by the bank boards is also advised

Annexure 2- FGD Guide- Clients

Welcome	
<ul style="list-style-type: none"> ▪ Thank you for coming – we are grateful for your time. We are from an organisation called MicroSave. MicroSave is a research organisation which helps financial institutions design products and services for those who do not get adequate access to prompt and affordable financial services. We try to ensure that the clients’ voices and ideas are heard by the institutions which provide financial services. ▪ We are trying to understand the use of zero balance/NREGA accounts offered by Banks, NGOs, MFIs and other companies. We seek your opinion to understand the reasons for usage and dropouts. Result of this study will be used to support banks and MFIs in providing better quality services/products to their clients. ▪ Your names and any personal information will be kept confidential – so please feel free to express your opinions. Answers you provide here are neither right nor wrong. Every opinion is important. ▪ We would very much like to record (take notes) of these discussions to help us remember them and so that we do not miss any of the issues and ideas you give us. ▪ As a first step we should introduce ourselves. My colleague will prepare the name-tags to help us remember your names. 	
Warm up Question:	
<ol style="list-style-type: none"> 1. How long you have been living in this area? 2. What are the main occupations of the people in your area? 3. How long you have been operating the NFA? 	
Questions	Related Probes
4. Why did you open the NFA?	<ul style="list-style-type: none"> ▪ Probe whether the objective is fulfilled ▪ Probe for multiple accounts for households and why?
5. How frequently and for what purposes do you use the account?	<ul style="list-style-type: none"> ▪ Reasons for low or high frequency ▪ Probe the reasons why they are not using for other purposes
6. What do they know about NFA and where from?	<ul style="list-style-type: none"> ▪ Probe around Product, Price, Place, People, Process (Training/workshop), Positioning, Promotion and Physical Evidence? ▪ Probe whether they were pushed or pulled
7. What do you like or dislike about it?	<ul style="list-style-type: none"> ▪ Probe for reasons for liking or disliking ▪ Probe: We have heard that many of the people are not using these accounts what could be the reasons ▪ Probe if they have any suggestions for its improvement (What about loans)
8. What other financial services do you use?	<ul style="list-style-type: none"> ▪ Probe about variety of service provider/devices like formal, semiformal and informal (We may need to prompt giving examples) ▪ Probe how NFA is comparable with other financial services
9. What kind of people do you think NFA will suit more?	<ul style="list-style-type: none"> ▪ Probe: how this accounts will go with different economic status
Closure Thank you for your contributions in this discussion. Do you have any questions/comments for us?	

FGD Guide- Staff

Welcome	
<ul style="list-style-type: none"> ▪ Thank you for giving us an opportunity to talk to you – we are grateful for your time. We are from an organisation called MicroSave. MicroSave is a research organisation which helps financial institutions design products and services for those who do not get adequate access to prompt and affordable financial services. We try to ensure that the clients' voices and ideas are heard by the institutions which provide financial services. ▪ We are trying to understand the use of zero balance/NREGA accounts offered by banks, NGOs, MFIs and other companies. We seek opinion of clients to understand the reasons for usage and dormancy/dropouts. Result of this study will be used to support Banks and MFIs in providing better quality services/products to their clients. ▪ Your names and any information that you will share will be kept confidential – so please feel free to express your opinions. Answers you provide here are neither right nor wrong. Every opinion is important. ▪ We would very much like to record (take notes) of these discussions to help us remember them and so that we do not miss any of the issues and ideas you give us. 	
Warm up Question:	
<ol style="list-style-type: none"> 1. How long you have been living in this area? 2. What are the main occupations of the people in your area? 3. How long you have been operating the NFA account 	
Questions	Related Probes
4. Why did you open the NFA?	<ul style="list-style-type: none"> ▪ Probe whether the objective is fulfilled ▪ Probe for multiple accounts for households and why?
5. How frequently and for what purposes do you use the account?	<ul style="list-style-type: none"> ▪ Reasons for low or high frequency ▪ Probe the reasons why they are not using for other purposes
6. What do you know about NFA and where from?	<ul style="list-style-type: none"> ▪ Probe around Product, Price, Place, People, Process (Training/workshop), Positioning, Promotion and Physical Evidence? ▪ Probe whether they were pushed or pulled
7. What do you like or dislike about it?	<ul style="list-style-type: none"> ▪ Probe for reasons for liking or disliking ▪ Probe: We have heard that many of the people are not using these accounts what could be the reasons ▪ Probe if they have any suggestions for its improvement (What about loans)
8. What other financial services do you use?	<ul style="list-style-type: none"> ▪ Probe about variety of service provider/devices like formal, semiformal and informal (We may need to prompt giving examples) ▪ Probe how NFA is comparable with other financial services
9. What kind of people do you think NFA account will suit more?	<ul style="list-style-type: none"> ▪ Probe: how this accounts will go with different economic status
10. Can please give us information about your age, education and household income.	<ul style="list-style-type: none"> ▪ Try to understand client's profile in terms of age education, gender and household income (monthly/annual)
Closure Thank you for your contributions in this discussion. Do you have any questions/comments for us?	

Individual Interview Guide for Clients

Welcome	
<ul style="list-style-type: none"> ▪ Thank you for giving us an opportunity to talk to you – we are grateful for your time. We are from an organisation called MicroSave. MicroSave is a research organisation which helps financial institutions design products and services for those who do not get adequate access to prompt and affordable financial services. We try to ensure that the clients' voices and ideas are heard by the institutions which provide financial services. ▪ We are trying to understand the use of zero balance/NREGA accounts offered by banks, NGOs, MFIs and other companies. We seek opinion of clients to understand the reasons for usage and dormancy/dropouts. Result of this study will be used to support Banks and MFIs in providing better quality services/products to their clients. ▪ Your names and any information that you will share will be kept confidential – so please feel free to express your opinions. Answers you provide here are neither right nor wrong. Every opinion is important. ▪ We would very much like to record (take notes) of these discussions to help us remember them and so that we do not miss any of the issues and ideas you give us. 	
Warm up Question:	
<ol style="list-style-type: none"> 1. How long you have been living in this area? 2. What are the main occupations of the people in your area? 3. How long you have been operating the NFA account 	
Questions	Related Probes
4. Why did you open the NFA?	<ul style="list-style-type: none"> ▪ Probe whether the objective is fulfilled ▪ Probe for multiple accounts for households and why?
5. How frequently and for what purposes do you use the account?	<ul style="list-style-type: none"> ▪ Reasons for low or high frequency ▪ Probe the reasons why they are not using for other purposes
6. What do you know about NFA and where from?	<ul style="list-style-type: none"> ▪ Probe around Product, Price, Place, People, Process (Training/workshop), Positioning, Promotion and Physical Evidence? ▪ Probe whether they were pushed or pulled
7. What do you like or dislike about it?	<ul style="list-style-type: none"> ▪ Probe for reasons for liking or disliking ▪ Probe: We have heard that many of the people are not using these accounts what could be the reasons ▪ Probe if they have any suggestions for its improvement (What about loans)
8. What other financial services do you use?	<ul style="list-style-type: none"> ▪ Probe about variety of service provider/devices like formal, semiformal and informal (We may need to prompt giving examples) ▪ Probe how NFA is comparable with other financial services
9. What kind of people do you think NFA account will suit more?	<ul style="list-style-type: none"> ▪ Probe: how this accounts will go with different economic status
10. Can please give us information about your age, education and household income.	<ul style="list-style-type: none"> ▪ Try to understand client's profile in terms of age education, gender and household income (monthly/annual)
Closure Thank you for your contributions in this discussion. Do you have any questions/comments for us?	

Annexure 3-National Rural Employment Guarantee Act (NREGA)

The National Rural Employment Guarantee Act (NREGA), now known as Mahatma Gandhi National Rural Employment Guarantee Act (NREGA), is an Indian job guarantee program, enacted by legislation on August 25, 2005. The program provides a legal guarantee for 100 days of employment in every financial year to adult members of any rural household willing to do public, unskilled, manual work at the statutory minimum wage of Rs100 per day.

NREGA OBJECTIVE

The objective of this program is to enhance livelihood and security in rural areas by providing at least 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work.

NREGA GOALS

- Social safety net for vulnerable groups, providing employment when other work is scarce or inadequate.
- Sustainable development of an agricultural economy. NREGA seeks to strengthen the natural resources and create more durable assets via employment that addresses causes of chronic rural poverty such as drought, deforestation and soil erosion.
- Empowerment of rural poor through rights-based Law.
- New ways of doing business with transparency and grass-roots democracy.

COVERAGE

NREGA first went into effect in 200 districts on 2 February 2006 and then extended to 130 more districts in 2007-2008. With the exception of urban districts, NREGA now covers the entire country.

SALIENT FEATURES OF THE ACT

- Adult members of a rural household, willing to do unskilled manual work, may apply for registration in writing or in person to the local Gram Panchayat.
- The Gram Panchayat, after verification, will issue a Job Card. The Job Card is free and includes the photograph(s) of all adult household members willing to work.
- The Job Card should be issued within 15 days of application.
- Job Card holders may then submit a written application for employment availability to the Gram Panchayat. The minimum number of working days is 14; the maximum is 100.
- The Gram Panchayat will issue a dated receipt of the written application for employment, against which the guarantee of providing employment within 15 days operates.
- Applicants will be offered employment within 15 days of their application. If no work is available, NREGA offers a daily unemployment allowance.
- NREGA work is usually within a 5 km radius of the applicant's village. If beyond 5 km, NREGA offers 10% extra to meet the additional transportation and living expenses.
- Wages are paid according to the Minimum Wages Act (1948) for agricultural labourers. Equal wages will be provided to both men and women.
- Wages are paid according to piece rate or daily rate and issued every week or every two weeks.
- At least one-third beneficiaries shall be women who have registered and requested work.

- Work site facilities such as crèche childcare, drinking water, shade must be provided.
- The list of projects for each village will be recommended by the gram sabha and approved by the zila panchayat.
- Gram Panchayats will be responsible for at least 50% of works allocated.
- NREGA projects predominantly include water and soil conservation, afforestation and land development.
- A 60:40 wage and materials ratio must be maintained. No contractors and machinery are allowed.
- The Central Government bears the full cost of NREGA labour wages and 75% of the materials cost and the wages of skilled and semi-skilled workers.
- Gram Sabha is responsible for the Social Audit.
- The submission and resolution of grievances do not yet have a formal process.
- All accounts and records relating to NREGA should be available to the public.

Annexure 4- Bhamashah Financial Empowerment Scheme

The Government of Rajasthan has initiated the Bhamashah Financial Empowerment Scheme (BFES), whereby the government deposits Rs1500 into the savings accounts of 50 lakh rural families who are Below Poverty Line (BPL), Small & Marginal Farmers and/or identified as SC/ST families. It has also been decided to take up Government of India, Ministry of Labour – Rural Health Insurance Scheme with coverage of Rs.30,000 per family with compensation for loss of wages, stay and transportation charge for all BPL families in rural areas and the routing of payments under Pannadhay scheme, in the first stage

Named after Seth Bhamashah who gave his wealth to fight the Mughals, BFES is different from most other welfare programs in that women, not men, will be considered as the head of family. BFES hopes to encourage women's financial and personal independence.

Key to BFES implementation will be 12,000-15,000 electronic points of service (PoS), spread over the state to provide banking and health insurance to BFES recipients. The Rajasthan government, through competitive bidding, has selected IL&FS to help implement a state-wide IT architecture and access for the BPL and other families to the proposed PoS via biometric ID smart cards.

BFES will run on a Build-Operate-Transfer (BOT) basis for a period of 10 years. IL&FS will work with Punjab National Bank, State Bank of India and State Bank of Bikaner & Jaipur to provide banking services via business correspondents in two phases:

Phase I

Enrolment of 5 million rural households and issuing of smart cards. So far, BFES has identified 44,12,553 candidates.

Phase II

Establishment of 15,000 PoS in villages to provide banking services. Each PoS will be equipped with a laptop, internet access, smart card reader, and biometric equipment

Features include:

- Bring easy access to banking to all BPL, Small and Marginal Farmers, and identified families of SC/ST in rural areas of Rajasthan.
- Open these bank accounts, in women's names, and authenticate account holders via biometric identification.
- As an incentive, credit Rs1500 per family to encourage account opening in the name of women.
- Extend the benefits of the Ministry of Labour's Health Insurance (Rashtriya Swasthya Bima Yojana) to BFES recipients.