

## Policy Brief # 4

### The Answer is “Yes”—Cost and Willingness to Pay in India

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May 2012

*“Gaon mein koi bhee fizool kharchi nahi karna chahta. Ek seema ke andar wajib kharch dena pada, gaon mein suvidha ke liye toh log denge”.* (No one in the village wants to make unnecessary expenses. If a reasonable amount is charged for a banking facility in the village, then people will pay for it.)

Until recently, the business case for Indian banks using business correspondents (BCs) to extend financial inclusion in rural areas has been an open question. *MicroSave* sought to resolve this question last year in a study in Rajasthan, Tamil Nadu and Uttar Pradesh.

The needs of the customer, arguably the most important component in any business proposition, seem clear. More than two-thirds of the 748 respondents interviewed in 163 sessions claim they are indeed willing to pay for more convenient banking services closer to home and work.<sup>1</sup>

The responsibility now rests with the banks to prove their commitment to recruiting, training, and motivating business correspondents. Banks to date have wavered, and BC initiatives have been inconsistent. A reliable network of financial representatives is expensive to build and sustain,<sup>2</sup> and banks already have more urgent fixed costs. They include, and customers cite as benefits, guaranteed deposits and accurate accounting, security, fraud prevention, branch and ATM maintenance, and compliance with government regulations.

Nevertheless, fulfilling Reserve Bank of India’s (RBI) financial inclusion targets is a regulation no bank can ignore. And the BC model remains, for the present, the best way to ease branch costs in rural areas and to meet these targets. Estimates for the number of Indians without bank accounts vary from 400 million<sup>3</sup> to approximately 600 million if one factors in 8.6% population growth in 2010-2011, dormant accounts, and the greater focus on the unbanked rural poor, rather than urban migrants and other indigent city-dwellers.<sup>4</sup> Public-sector and retail banks in India now have both a greater obligation and more opportunities, welcome or unwelcome, to enable poor people manage their money better. One solution is to charge small fees,



*“Gadi ke liye 2-3 ghante bhi intezaar karna pada 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.)

<sup>1</sup> Please see the specific research papers on the *MicroSave* website for more details.

(Uttar Pradesh) [http://www.microsave.org/sites/default/files/research\\_papers/CWP\\_UP.pdf](http://www.microsave.org/sites/default/files/research_papers/CWP_UP.pdf) ;

(Rajasthan) [http://www.microsave.org/sites/default/files/research\\_papers/CWP\\_Rajasthan.pdf](http://www.microsave.org/sites/default/files/research_papers/CWP_Rajasthan.pdf) ;

(Tamil Nadu) [http://www.microsave.org/sites/default/files/research\\_papers/CWP\\_TamilNadu.pdf](http://www.microsave.org/sites/default/files/research_papers/CWP_TamilNadu.pdf)

<sup>2</sup> For a more global understanding of these issues, please see [CGAP Agent Management Toolkit, Building a Viable Network of Branchless Banking Agents Technical Guide](#), Mark Flaming, Claudia McKay, Mark Pickens, 2011 Consultative Group to Assist the Poor/The World Bank

<sup>3</sup> See 2010 statement from the founder, executive vice-chairman and managing director of Kotak Mahindra Bank <http://aboutus.kotak.com/newsroom/indian-banking-during-the-past-decade.html>

<sup>4</sup> <http://www.rediff.com/business/report/banks-should-tap-the-unbanked/20110317.htm>

particularly for “doorstep” or local services in areas without easy access to branches. RBI has sanctioned “reasonable service charges” since 2009 to help defray the banks’ costs of maintaining low-deposit accounts and to encourage business correspondents.

Until now, however, no one has asked the customers themselves if they are willing to pay extra for banking services, and if so, how much.

*MicroSave’s* 2010 multi-region study focused specifically on the services business correspondents provide in rural areas—and whether or not this particular customer segment thinks the greater convenience and other potential benefits are worth paying for.

### Key Findings

- **Over 80% of study participants indicate willingness to pay** for BC services. Almost half seem to prefer a percentage model (1-2% of the transaction total), while close to 30% opt for flat fees.
- **Bank transactions are difficult** for most respondents. Travel to and from the branch, direct and indirect costs incurred (Rs.10-Rs.50 and higher for lost wages), wait times while there, literacy barriers, poor IT and other back-office support, and unhelpful bank staff are the reasons they cite for preferring the local and more personalised convenience of business correspondents.
- Many of the respondents accept the rationale behind charging a small fee for withdrawal and account-opening if branch visits are eliminated. **Price sensitivity is high, however**, as is customer awareness of how banks make money. No one thinks fees are acceptable for savings deposits or “maintenance”, particularly for no frills accounts (NFAs) with no ATM cards and no cheques.
- Customer trust—in the BC, in the security of their payments and deposits, in the new system—will take time. **Adoption will be cautious at first** and full use of the various bank services will depend on the efficacy and reliability of initial transactions. Too many fees, too fast, imposed without strong justification, could easily cause the high numbers currently willing to pay to drop precipitously.
- At some level, these customers also seem to understand the government support of NFAs and the BC model, and that **branchless banking is usually cheaper** than normal retail branch operations.

### More About the BC Model

Of 50 public sector and commercial banks, 27 have implemented the BC model and some 14 million new accounts have been opened, many with the assistance of technology service providers. This is a useful beginning, but adoption has been disappointing and the overall viability of the BC model is currently under review.

- **Unrealistic expectations of potential earnings** and banks’ inability to present an accurate and persuasive case for these representatives. A recent multinational CGAP study on the larger issue of agent networks reveals that daily net profits for Indian agents range from \$0.69 to \$3.99. Costs, including insurance, can be as high as \$0.99.<sup>5</sup>
- **Financial services are more time-consuming, and more dangerous**, than selling air-time for mobile network operators. Persuading prospective customers, particularly poor ones, that recurring deposits, insurance premiums, or even mobile loan payments make sense requires time, patience, sophisticated sales skills, and full bank support. Most BCs, have few of the above. They also need to hold cash and manage e-floats up to \$1,250 for their 19-28 daily transactions. Many run the risk of losing half that amount due to robbery to and from the bank.<sup>6</sup>
- **Customer retention and development are difficult.** And the real revenues for BCs derive from customers who transact regularly in an expanding number of accounts. Too many account holders only use a mandatory NFA to cash government disbursements or to receive remittances. Others open accounts under sales pressure and for benefits they do not understand. Such accounts tend to become quickly inactive.<sup>7</sup>
- **Better incentives.** The cost benefits of branchless banking are clear for consumers—up to 50 % for money transfers, savings, and payments if mobiles are involved—and less obvious and highly variable

<sup>5</sup> [http://www.cgap.org/gm/document-1.9.49831/AgentManagement\\_TG.pdf](http://www.cgap.org/gm/document-1.9.49831/AgentManagement_TG.pdf) *Agent Management Toolkit, Building a Viable Network of Branchless Banking Agents Technical Guide*, Mark Flaming, Claudia McKay, Mark Pickens, 2011 CGAP pp.4, 28. Note: Specific costs and revenues for business correspondents vary markedly per bank and region in India. Estimates are not available.

<sup>6</sup> Ibid.

<sup>7</sup> For more information on account dormancy, please see “[No Thrills—Dormancy In No Frills Accounts](#)”, May 2011

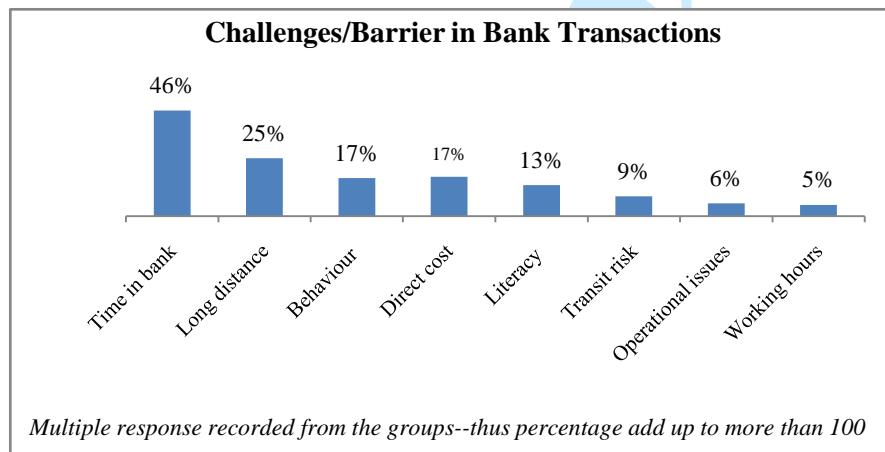
for banks.<sup>8</sup> Nevertheless, when BCs lose money and/or lose interest due to insufficient incentives and support from their bank sponsors, everyone is hurt.

- **Other BC complaints include:** bank interest paid for cash advances to manage predictable monthly liquidity problems; lack of bank promotion for BC services; building trust without full bank support; limited or no compensation of BC work expenses (insurance costs apparently matter most, but travel also significantly erodes BCs’ profit margins); and inflexible and often unrealistic end-of-day or next-day cash-settlement demands in remote rural areas.

Not surprisingly, the BC drop-out rate is high and banks in many areas find it difficult to find interested, qualified replacements. Again, introducing fees for BC services may improve this situation. Banks may also take this face-saving opportunity to rethink costs and reorganise their branch operations to meet more fully the needs of their business correspondents and the long-term revenue potential BC customers represent.<sup>9</sup>

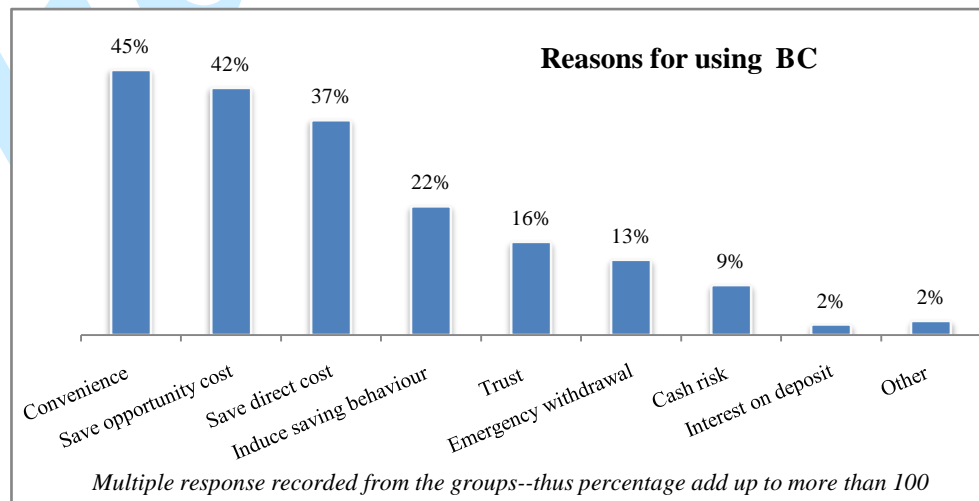
**Fees—For and Against**

Let us return our attention now to the customers interviewed for this study and their reasons for finding BC service fees acceptable—or unacceptable. Respondents were predominantly male (82%) between ages 26-45. Almost 60% work as agricultural or wage labourers or participate in NREGA programmes. Just under 20% work for small businesses or shops. Monthly income varies from zero to Rs.10,000, with the majority earning Rs.2,501-5,000. Almost 30% have attended school through class 8; 37% are illiterate. A full 75% have at least one account; 14% have two. Slightly more than half use these accounts for personal savings, while one third use them to cash out NREGA benefits, and 31% for loan payments. Respondents with accounts currently visit their bank branch on a monthly basis, if not more often.



**Perceived Benefits**

- **Saving time and money:** In most interviews, the primary benefit respondents note for the proposed BC services is the time and money they will save not walking, or travelling by public transportation, to and from the bank, and the estimated three-four hours not spent queuing for basic deposit and withdrawal transactions. In some cases, they must return for a second visit because tellers are not available to help them, IT servers are down, and/or cash reserves are insufficient.



<sup>8</sup> <http://technology.cgap.org/2011/03/15/focus-on-product-pricing-and-agents-to-drive-adoption/>

<sup>9</sup> MicroSave India Focus Note 65 “Successful Business Correspondents Need A Compelling Product Mix”, and 68 “SBI Tatkal- From Cash to Cash Cow”.

- **Direct and indirect costs can be high** (Rs.10-Rs.50 and higher for lost wages and time not spent at home preparing food and gathering wood). Most agree that a local and more personalised BC service with more flexible hours would be preferable.
- **Improved security:** The BC is responsible for the cash carried to and from the branch (and for its loss), thereby eliminating the risk for all account holders, but especially for those who are elderly, handicapped, or in other ways more vulnerable.
- **Easier to save:** With the flexibility, convenience, and perceived economies of the BC model, respondents say more frequent savings deposits are likely, even if their deposits are small. Female account holders also welcome the possibility of a separate, perhaps clandestine, account which they control and to which their husbands do not have access.
- **Emergency withdrawals:** When emergencies arise, respondents currently borrow from a neighbour or relative or from money lenders. No one likes these arrangements and BCs are seen as markedly preferable.
- **Easier interactions:** Money transactions can be complicated, especially for the illiterate and semi-literate, and many are not comfortable with bank branch staff. Most agree that filling in withdrawal or deposit forms, opening a new account, or using new mobile technology would all be easier and faster with a familiar, patient business correspondent.

#### Customer Preferences for BC Services

- **Percentage-based fees.** In almost half the sessions, respondents are more comfortable paying 1-2 % of the transaction amount than a flat fee or an annual charge. Their deposits and withdrawals will be small (Rs.10 is the lowest; Rs.10,000, the highest), and they calculate these fees will be less than their current direct and indirect costs for bank visits. Some groups suggest decreasing the percentage for large transactions (2% for sums less than Rs.2,000; 1% if higher). They also worry that BCs will offer the best levels of service to those households with high-volume needs. Lower-income clients will pay less and receive less attention.

“Door hone ke kaaran khata kholne mein log katrate hain”, “Suba paanch baje uthna padega, kaam niptake, 9:30 tak ghar se nikalna padega”, “Kabhi kabhi nashta bhi nahi karte hain”, “Bank ke andar ka kaam sahi nahi hai, bahut time lagta hain”. ([We] hesitated opening bank account [as] we have to wake up at 5[am], complete household work, and sometimes leave without breakfast, and it takes too much time as work inside the bank is not good or efficient.)

“Bhai sahib aap hi sochiye, agar narega ka Rs.200. Ka payment lene bank jaana pad jayee, to aadmi ka Rs.250. to aane jaane me hi lag jayeega to isme to ulta Rs.50 dene pad jayven – aur aap bank jaane ki baat karte hain”. (If I have to get Rs.200 payment of NREGA and the travel costs me Rs.250, it is Rs.50 loss for me!)

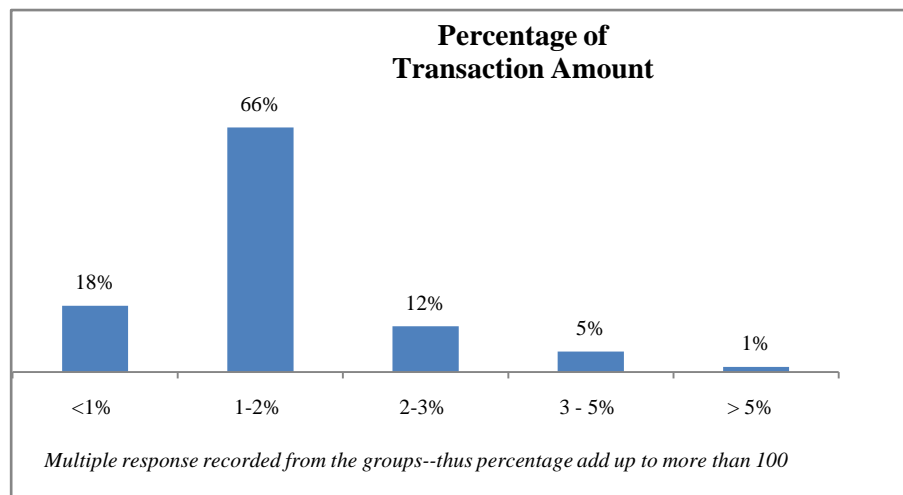


“Computer kharab nahin bhi ho to bhi kehte hain ke kharab hain”. (Often even when the computers are not broken, [bank staff] would still say, “Computers are not working, come back tomorrow”).

“Agar bank yahan hogi to pudiya mein Rs 1.5 nahin kharch karenge, jama kar ke kuch paisa ikaththa kar lenge”. (If the ‘bank’ is closer, we would not spend small amounts, we would deposit these and build up some money.)

“Etho seekirama vela mudiyum, easya panam edukalam podalam enkirathukaga payan paduthalam. Itho ipdi rendu theru thandina udaney bank than, athunala banku pogarathulu ellam engalauku onnum siramam kidayathu”. (We will use [BCs] only because the transaction will be quicker and we can easily deposit and withdraw. The bank is located just across two streets so we have no difficulty in going otherwise.)

- **No fees on deposits.** The majority appear willing to support fees on withdrawals only, not on deposits. They claim deposit fees will be a strong disincentive to regular savings, and they note that their current banks and non-banking financial companies (NBFCs such as Sahara and Peerless) do not impose such charges, so BCs should not either.



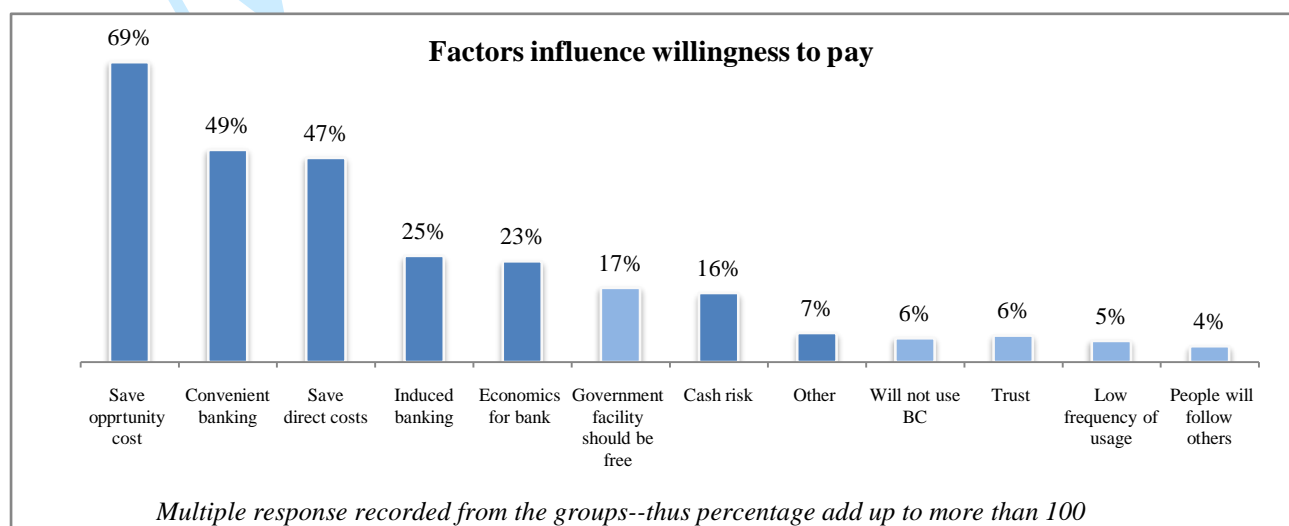
- **Lower fees for emergency withdrawals** and planned expenditures. Respondents suggest charges should be slightly less in these two instances since these are either highly emotional, difficult situations, or planned sufficiently in advance to manage liquidity issues and other BC inconvenience. No one is happy to part with savings in either case, and they note that lower fees would create goodwill for both the bank and BCs.
- **Flat rates** appeal to 28% of the groups interviewed. Most of these respondents link fees directly to their current costs for branch visits and suggest charges of Rs.5-10 on transactions of Rs.1,000-10,000. They understand that flat rates will be less advantageous for small amounts, but they rationalise that over time, transacting both large and small sums, flat fees will be less expensive.
- **Other Suggestions.** A small percentage favour annual fees or a lifetime charge. Only 2% advocate a monthly fee of Rs.10-25.

### Unwillingness to Pay

Close to 13 % of the respondents claim they would not pay for BC services. Their reasons include:

- **No branch charges.** These respondents argue that all deposits and withdrawals at the bank are free, and BC services should be as well. Those who understand this is a government-sponsored programme maintain such initiatives should remain free for the poor. Most realise that banks must cover some of the BCs’ costs, but they note that since banks will earn some money from customers’ deposits, there should be no charges for their personal capital investment nor for new account openings.
- **Security and trust.** For those who have had bad experiences saving with private, unregistered groups, trusting a local business correspondent, even one authorised by a bank, will take time and a history of friends’ and neighbours’ good experiences. Others find it hard to imagine making a savings deposit at a grocery store or with an

“Paise jamaa karte waqt log paise nahi denge. Isse paise par kam byaaj milega. Nikalte waqt log paise dena zyada theek samjhenge”. (No one will pay while depositing the money. It will reduce their interest amount. People will find it better on being charged for withdrawal.)



individual. (They also worry that deposits in outstanding credit situations, with the shop owner or the BC, may prove uncomfortable and difficult to negotiate.)

- **Branch is nearby.** Respondents who live within easy walking or cycling distance of their branches, and for whom time is not a high priority, say they will continue using the bank rather than paying a BC. They emphasise it will be difficult to impose charges on poor people.
- **Other options.** Some note BC services appear no different from the local post office where savings accounts and withdrawals are free. They also compare the BC model with chit funds and other informal groups which impose no fees for savings. They are quick to point out they earn better interest in such savings arrangements than they would with banks. Others compare BC services with insurance agent models, mentioning that these agents collect premiums and other deposits for free.
- **Trips to town are not just banking.** Many already visit the markets close to bank branches at least twice a month for groceries and household supplies. They enjoy these outings, do not want to give them up, and see no reason to pay for local BC services.
- **Saving under the mattress still works best.** For some, their savings are so small; they are reluctant to pay any fees for banking services or trust their money to someone else for deposit. They prefer accumulate the occasional extra Rs.10-30 and keep these sums safe at home.
- **More tailored offerings for villagers’ needs.** If BCs can only offer no frills and other “plain vanilla” accounts, even supporters worry that the BC model may fail. The major requirement for most rural poor is available credit to help ease difficult agricultural cycles, and to pay for education, health care, marriages, funerals, and emergencies. Recurring deposits and the favourable terms of “commitment savings” appeal to many. BCs who can offer these and other options that fulfil their customer needs will fare better than those who have only a limited suite of services.

**Name:** Ram Kailash Jaiswal  
**Age:** 45  
**Education:** Class 8  
**Occupation:** Shop owner, agriculture, generator and lighting rental.  
**Village:** Bagai Khurd, Phoolpur, Allahabad  
**Family members:** Mother, wife and five children  
**Saving avenues used:** Kshetriya Grameen Bank, SBI and LIC  
**Monthly income:** Rs.6,000-8,000 (includes remittances)



Ram Kailash has lived in *Bagai Khurd* since birth and owns a tea shop in the village market. He also owns 1.5 *bigha* of land. In addition, he rents generators and lighting systems for village functions. His three sons live in Surat and work as vegetable vendors.

He has two bank accounts, one with Kshetriya Grameen, Bank, and the other with State Bank of India. Both are in *Sahson* market, eight kilometres away. He makes the one-hour trip to the market every four days with his cycle to buy groceries for his shop. He visits the bank once a month or whenever he needs money for his business and family needs. His Kshetriya Grameen account is more than 10 years old, but he opened the SBI account four years ago to cash a cheque received from India’s Life Insurance Corporation (LIC).

Now he keeps money in both accounts. This is useful as he can deposit or withdraw at whichever bank is less crowded. Since he has some education, he finds bank transactions easy; nevertheless, he likes the BC model as business correspondents will allow him to bank in his village, and he can earn more if he remains in his shop. He claims he will happily pay 0.5% on every BC transaction, or Rs.100 per annum for doorstep services.

*“Har baar .5% le lo ya phir saal bhar ka ek sath 100 rupaiye le lijiye. Sab logo ko bahut suvidha ho jayegi, par nafa nuksaan to dekhna padega, agar 0.5% se jyada hai to log wahi jakar nikal lenge”.* (Either take a 0.5% charge for each transaction or take Rs.100 spot on. This will be a good facility for everyone, though we will have to see benefit for the cost. If it [costs] more than 0.5%,

## Conclusion

Difficult questions remain unanswered. What “reasonable” charges for BC services will customers actually pay when faced with paying more to bank more? Perhaps more important, what amounts will be necessary to help ease the existing ill will between some banks and BCs and the expenses for both noted above? *MicroSave*’s study is only a first step toward understanding workable fee structures, customer concerns that banks and BCs will need to address, and the time necessary to implement these changes.