MicroSave India Focus Note 101

The Case for a Bank Managed Agent Network in the Business Correspondent Model

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In 2011, *MicroSave* examined the two modes of managing agent networks-through outsourced institutional ANMs, and directly through the banks-in the India Focus Notes 76 and 77.[1] We arrived at a conclusion that institutional business correspondents were perhaps better suited both from the client as well as from the bankers' perspective. Most banks in India have also chosen to adopt the institutional business correspondent model.

However, some banks have started experimenting with agent networks they directly manage and supervise. In India, State Bank of India (SBI) is a pioneer in appointing branch-linked agents on a large scale. There were a total of 12,710 business correspondents appointed by the SBI as on March 31 2012. Out of these, 3,201 (approx.25%) were directly managed by the bank's branches.[2] This is true in the international context as well. In Kenya, for instance, Equity bank is implementing a system under which its >6,000 agents are recruited, managed and monitored from its branches-as opposed to Safaricom's largely outsourced model.[3]

In this context, it is pertinent to examine if a case exists for an agent network directly managed and supervised by banks. In the sections below we outline the core incentives to adopt a directly managed agent network.

Establishes Trust

Conducting financial transactions outside brick and mortar bank branches and in small local shops/kiosks is still a novel and unfamiliar idea for most low income customers. To do so in large numbers, initially at least, they need handholding and reassurance from trusted sources. For the low income clientele, one prominent source of this reassurance is quite often the brand of the bank itself. As one customer said, *"I have full faith, and in addition, it's with SBI!"*[4] In contrast, trust can be irreparably damaged if the bank staff do not know about or recognise agents operating on the bank's behalf – as is common when third party agent managers are managed at the regional or head office levels.

Directly managed agents are often recruited by, linked to, and closely integrated with, the local bank branches. This enables validation of the authenticity of the agent directly with the bank branch. In addition, branch staff members often act as information channels, proactively directing customers to agent outlets, participating in marketing and communication drives, or at the very least, displaying agent details in branch premises.

A study by *MicroSave* revealed that most of the early adopters of e/m-banking systems are those who have previously had some banking experience.[5] In an agent model closely integrated with the branch banking structure, these early adopters (current customers) are likely to make use of agent banking due to information received from the branches, and in turn promote trust and influence adoption by others in the locality.

Better Business Case for the Agents

MicroSave field research indicates that agents expect commissions in the range of Rs.3,000-10,000 based on location (rural/urban).[6] However, the actual average revenue of agents of established BCNMs is Rs.1,189 while an agent of a start-up BCNM earns Rs.510.[7]

Contrast this with the revenues earned by branch supervised agents of a public sector bank in Maharashtra (see graph on next page). Commissions averaged Rs.5,716 per month; 4.8 times the industry average.

One reason is that due to closer integration with the branches, branch managers empower agents to facilitate multiple services, including sourcing fixed deposits, recurring deposits, and loans (primarily Kisan Credit Card); loan recoveries etc. as Business Facilitators (BFs). This diversifies revenue sources and leads to higher income.

Another reason for this is that since there are fewer entities involved, banks are able to share a higher commission with transaction agents. For instance, during the course of field research in Madhya Pradesh, we observed that agents who were directly supervised by the branch were earning commission rates as high as 1.5%, while their counterparts

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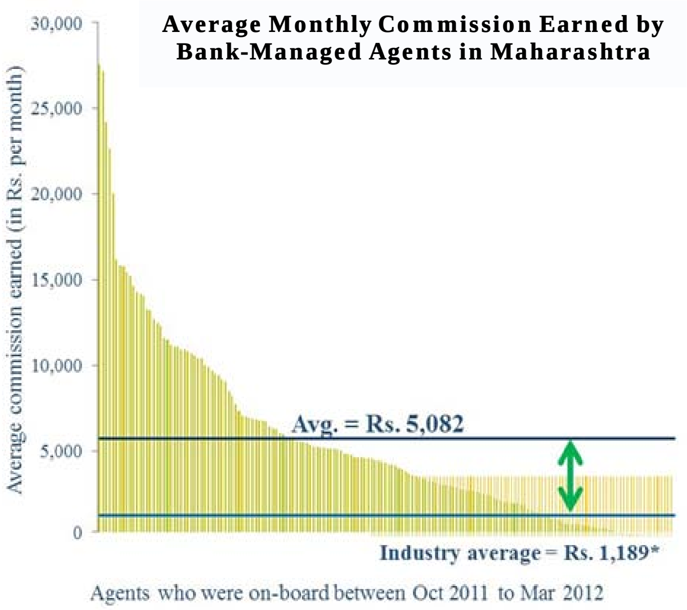
[1]See India Focus Note 76: Individual or Institutional BCs: The Client's Perspective, *MicroSave*, September 2011 and India Focus Note 77: Individual or Institutional BCs: The Banker's Perspective, *MicroSave*, September 2011
[2]SBI financial inclusion portal
[3] See Briefing Note # 136: Structuring and Managing Agent Network - I and Briefing Note 137: Structuring and Managing Agent Network - II
[4] State Bank of India is the largest commercial bank in India
[5] See India Focus Note 38: Listening to Agents of Mobile Banking in India,*MicroSave*, April 2010
[6] See Optimising Agent Networks in Gujarat, *MicroSave*, March 2011and Optimising Agent Networks in Uttar Pradesh, *MicroSave*, January 2011
[7] See State of Business Correspondent Industry in India – The Supply Side Story, *MicroSave*, April 2012

employed by institutional BCNMs in the same location were being paid a commission of 0.5%.



Caters to Agents' Expectations

Many agents often sign up at least in part for the prestigious association with public sector banks.[8] Association with the bank is more evident and visible when agents are directly supervised by the branch. This in turn helps keep agents satisfied and continually interested in maintaining the association.

Operational Support from Branches

When agents are directly linked to the bank, agents have a constant, locally present, support system. The number of layers of hierarchy agents have to traverse is considerably lower since most issues are often solved locally at the bank branches. Branches often offer support for customer grievance redressal and account activation. Being directly linked to branches therefore also significantly lowers the time involved for account activation and grievance redressal, when compared to institutional business correspondents.

Branches also often act as a back-up channel to conduct transactions in case the agent is absent for any reason, or does not have the liquidity to manage larger transactions.

Better Monitoring and Control

Locally present bank branches are often positioned to better supervise local agents. Their presence in the geography means that customer feedback is timely and relevant. Moreover, the bank, due to its location near agents, as well as customers, may be in a better position to address issues appropriately as and when they arise.

In effect, a greater extent of control is possible, right from recruitment and selection of agents to supervision of regular operations.

Symbiotic Impact on Branch Business

In recent *MicroSave* research at bank branches where agents are directly linked to the branch, it was seen that branch business was expanding at a rate much higher than projected; often as high as 25% as compared to historical growth rates. What is interesting to note is that the growth is not just due to business brought in by the agents; the branch staff productivity seems to have gone up as well. This is perhaps since reduced transaction pressure at branches helped staff focus on business generation and serving higher value customers.[9]

Risk Diversification

Banks have often suffered in the past on account of poor quality of services delivered by BCs. On occasions, institutional business correspondents have shut shop abruptly, leaving the bank, as well as the front-line transaction agents, in a lurch.

> In more one instance, *MicroSave* has observed agents who have not been not paid their commissions for more than six months by an institutional BCNM. Operations came to a virtual standstill with most agents dropping out and the rest suspending their operations temporarily. The agents' commissions for the duration of six months still remain unpaid as on date. In one case, a technology service provider had to float a BCNM on its own to continue operations.

With agent networks directly managed by the bank, the risk of ANM shutting shop is largely eliminated. The risk of individual agents dropping out remains, but since the risk is spread out across a larger number of agents, it is much less likely to affect universal continuity of operations.

Exclusivity

When agents are directly recruited and managed by the branches, often they recruit unemployed, educated youth from nearby villages as opposed to retailers etc. recruited by ANMs. This largely ensures that the agents are exclusive to the bank. This, in turn, enables better control for the bank. This factor also often results in a better customer experience, when compared to agents engaged in multiple businesses.

Conclusion

There are several factors which work in favour of an agent network directly managed and supervised by banks. However, pursuing this approach does come with a unique set of challenges and issues. We will explore these in detail in India Focus Note 102.

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[8] See Policy Brief # 2: The State of Business Correspondence: Agent Networks in India, *MicroSave*, March 2012
[9] See India Focus Note 95: Saddling Up a Dead Horse - Financial Inclusion in India