MicroSave
Market-led solutions for financial services

Digital Financial Services Volume V

Optimising Performance and Efficiency Series

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Inspiration:

"A world in which all people
have access to high-quality affordable
market-led financial services"

Mission:

"Strengthening the capacity of
financial service providers to deliver
market-led financial solutions"

MicroSave

Market-led solutions for financial services

Presents

Optimising Performance and Efficiency Series

Digital Financial Services

The Optimising Performance and Efficiency Series (OPE Series) brings together key insights and ideas on specific topics, with the clear objective of providing microfinance practitioners with practical and actionable advice. Based on *MicroSave's* acclaimed Briefing Notes and India Focus Notes series, the Optimising Performance and Efficiency Series provides succinct guidance on a variety of topics from product innovation to delivery system optimisation. Each of the booklets addresses a key topic that can transform banks/ financial institutions for the better. The Series will help improve banks/ financial institutions double bottom line – both the business and its social performance.

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Electronic and Mobile phone-based Banking: Opportunities, Issues and Challenges

Background

For long now Digital Financial Services (DFS) has been pushed as the next revolution in financial access. At present there are at least 150 live deployments with nearly one-third of them launched last year. Indeed the market has witnessed a number of unsuccessful initiatives, while a handful have managed to reach their full potential. There is, finally, evidence of DFS achieving scale as well as contributing to financial inclusion. The latest Mobile Money Adoption Survey 2012 by GSMA shows that at least six DFS initiatives have more than 1 million active accounts, and there are more mobile banking accounts than bank accounts in Kenya, Madagascar, Tanzania and Uganda, and more mobile banking agent outlets than bank branches in at least 28 countries.

There have been tremendous learnings from these deployments. One of the most crucial lessons is that successful implementation of DFS is not dependent on technology – which has been available for a long time now – but rather on understanding these three key factors.

1) Strong customer value proposition for the end users – Identifying the real needs of the target market and offering a well designed digital financial services solution that offers a combination of deposit taking, withdrawals, bill payments, money transfers, pension and other social payments, air time top up, etc.
2) Attractive business case for the key partners – Developing appropriate revenue strategy, efficient costing and adequate pricing of services, and identifying the right partners and mutual business cases for all.
3) Conducive environment for growth – Considering external/environmental factors essential for growth of DFS such as regulations, banking and payments infrastructure (ATM and POS machines), and financial literacy.

Globally, mobile banking transactions are driven by payments including person-to-person transfers, bill payments, and government-to-person payments. Several providers have been able to figure out the needs of their end users and have witnessed take up of their core offerings. With the elementary requirements of a successful deployment in place, providers now look to optimise the platform by focusing on expanding their agent networks and offering wider range of products. This brings to fore the important aspects of customer service, agent training, risk mitigation, and customer protection.

For several years now, *MicroSave* has been closely involved with several DFS initiatives in Africa, Asia and Latin America. Under "Digital Financial Services" our consulting services cover electronic and mobile banking/ wallets including agent-based services. *MicroSave* provides support conducting market research, process mapping and analysis, pilot-testing, brand/marketing and financial education etc. *MicroSave* has worked on DFS with leading banks (in Bangladesh, Colombia, India, Indonesia, Kenya, Papua New Guinea, South Africa, and Tanzania); agent network managers (in India, Kenya and Papua New Guinea); and mobile network operators (in Kenya and India). For more details about *MicroSave*'s work in this area, please see our DFS brochure on our website www.*MicroSave*.net or http://bit.ly/ZkisoL.

MicroSave also coordinates the Banking Correspondent Network Managers' Forum in India, which brings together all of the leading Indian agent network managers to identify and address issues, as well as to exchange information and data about the industry.

In addition, *MicroSave* periodically holds "M-banking Dialogues", to bring together a select group of providers that are actually implementing m-banking solutions. These allow practitioners to discuss some of the nitty-gritty details and challenges involved with developing, testing and rolling out digital financial services solutions. These Dialogues have proved immensely valuable for participants, who leave with significant learning through the peer-to-peer exchanges.

Additional information and interviews with leading m-banking practitioners can be found in short films available from *MicroSave*'s MicroFinance Podcast, also available on our website www.*MicroSave*.net or http://bit.ly/p7ApSSs.

This volume of OPE series focuses on the key issues and challenges faced by the industry. The notes compiled in the series are based on the extensive work done by *MicroSave* with financial institutions and ANMs/BCNMs across India, Africa, South-East Asia, and the Pacific Islands. This compendium examines aspects building business models for mobile banking, process mapping, customer support, and developing and deliveringnew products through the agent networks. It also analyses the key issues faced by the mobile banking deployments in India and how they can be optimised and taken to the next level to achieve its mission of financial inclusion.

This compendium takes a practical approach to some of the most complex issues, analyses them andoffers possible options to deal with them. The papers are as follows:

1. ***Building Business Models for Mobile Money***
   Krishna U.M. Thacker and Graham A.N. Wright

   To understand and assess the business of mobile banking more clearly and in more detail, this note uses a business model framework and some of the concepts co-created by an active and vibrant community of practitioners in an online community called the "business model innovation hub". The business model revolves around 9 building blocks, described by Osterwald et al. These are: customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure.

2. ***Saddling Up a Dead Horse: Financial Inclusion in India***
   Denny George and Nitin Garg with inputs from Shivshankar V., Anil Paul and Premasis Mukherjee

   This note discusses how financial service providers in India need change their perspective on the BC model to consider it as a "distributed banking model" rather than as a "financial inclusion drive" to meet regulatory compulsions or social objectives. The note illustrates the case of a branch of a nationalised bank in India, where all credit and savings products were being delivered through the BCs, there was not just an increase in business due to what was directly brought in by the BCs, but even an increase in regular walk-in business. Financial inclusion will naturally follow the establishment of an efficient, distributed banking channel.

3. ***Taking Financial Inclusion to the Next Level***
Puneet Chopra

This note is based on the dialogue facilitated by *MicroSave* in January 2012 amongst select banks, and institutional/MNO (mobile network operator) BCs to reflect on the progress made, the lessons learned, challenges faced and identify critical areas needing attention and collaborative efforts. It emerged that there is a need to develop BC as an additional banking channel; drive viability and make BCs sustainable through various interventions and risk mitigation mechanisms; and ensure coherent of policies and directives from various quarters.

4. ***Financial Inclusion through Digital Financial Services: The Regulatory Landscape in India***
Mukesh Sadana

This note examines the current state of regulation for mobile banking in India and concludes that it is already a largely enabling environment for bank-led models. It is not restrictive regulations that are at the core of slow off take of mobile banking services (especially for the low income segments), but the absence of a strong value proposition for the customer. Most banks and business correspondents (BCs) are still struggling with the basics of their business models, and thus have not been able to scale up operations.

5. ***How to Make Optimum Use of Agent Networks Part-I***
Minakshi Ramji and Raunak Kapoor

This note explores opportunities for BCNMs in India to make their agent networks viable thus ensuring stability of deployments and a win-win value proposition for all the concerned stakeholders. An institution may choose between various opportunities available, depending on its operational context, to meet their agent's expectations.

The note highlights four broad options that BCNMs can explore to enhance their viability which are as follows: a) Selling and servicing asset and liability products of partner banks; b) Offering generic payments solutions; c) Offering tailor-made payments solutions for businesses; and d) Selling third party products.

6. ***How to Make Optimum Use of Agent Networks Part-II***
Minakshi Ramji and Raunak Kapoor

This note highlights the multiple opportunities that BCNMs in India can pursueto make their networks viable. While some opportunities are evolving and more complex to implement, others are straightforward. To achieve sustainability, BCNMs need to be innovative to identify opportunity areas, expand their service portfolio, and enhance customer proposition. There is a need to focus on leveraging the agent network infrastructure more intensely.

7. ***Can MNOs Lead the Way for Banking the Excluded? Part-I***
Puneet Chopra and Raunak Kapoor

There has been much debate over the limited success of the BC model in providing meaningful access to financial services to the poor in India. One common argument is that mobile network operator (MNO)-led mobile-money models have been more successful than bank-led models in several parts of the world. Could MNOs emerge winners in India too? This note, along with the next in the series, examine how well MNOs are positioned to provide banking services, and what challenges and barriers they would face in the battle to emerge victorious.

8. ***Can MNOs Lead the Way for Banking the Excluded? Part-II***
Puneet Chopra

This note discusses the several challenges and barriers that Indian MNOs would need to surmount to attain leadership in digital financial services. These challenges are discussed in detail and include: India's large and fragmented market; the nature of customer relationships and channel readiness; the hurdles to achieving a compelling proposition for the agent network as a channel; and the emerging digital alternatives to mobile money in India.

9. ***Beyond Remittances: How To Expand Your Mobile Money Product Suite***
Alphina Jos and Graham A.N. Wright

Remittance is the most common entry point for mobile money systems as it not only addresses significant pain points for customers but also builds trust in the system. However offering only remittance - the star product - is rarely sufficient. Expanding the product suite to offer other services and products is essential. This note discusses why providers need to look beyond remittances both to drive profitability of mobile money systems and to cater to the huge unmet financial needs of the masses. It also discusses the products that can be offered and the key considerations to identify the right strategy to expand the product suite.

10. ***Are Banks All Set To Dominate Domestic Remittance Market In India?***
Akhand Tiwari and Puneet Chopra

Driven by the government's financial inclusion agenda and with expansion of the BC model, banks and business correspondent network managers (BCNMs) in India are experiencing new consumer demand and expectations. Remittance has become one of the flagship products, enabling the financially excluded majority to experience and benefit from formal financial services. Banks and BCNMs have the opportunity to grow and expand remittance as a market-led and profitable offering.

This note discusses the variants of bank-led domestic remittance offerings in India, the challenges associated with them, and the regulatory and technological improvements required to further accelerate growth.

11. ***Agent Banking and Insurance: Is There A Value Alignment?***
Jitendra Balani and Premasis Mukherjee

Agent banking is emerging as the preferred conduit to promote financial inclusion globally. However, an agent banking network can sustain only if there is a value alignment for all the stakeholders in the digital eco-system. In this note, we discuss the potential value for stakeholders in a situation where insurance products are offered through agent banking channel. We also highlight the challenges that might arise when implementing insurance products on agent banking channels.

12. ***Process Mapping for Mobile Banking Initiatives***
Krishna U.M. Thacker and Raunak Kapoor

This note focuses on the intricacies involved in conducting a process mapping exercise for mobile banking initiatives. It analyses the key steps and activities necessary to prepare for effective process mapping; essentials on which to focus during the process mapping exercise; and the maintenance activities to be expected after initial process mapping has been completed. Adopting a systematic approach to design processes in a mobile banking initiative is crucial to avoid redundancies and to create processes that are robust. Alignment of interest between business partners goes a long way in securing the success of any such initiative.

13. ***Customer Support for Digital Financial Services Users***
Swati Mehta

Customer delight is no longer a 'nice-to-have' strategy, but increasingly recognised as integral to any sound business-model. While customer service and support is important for any product, it is vital for financial services that deal with people's money. It is even more significant in the context of the illiterate/semi-literate poor, having their very first experience with financial services delivered through non-traditional channels, outside bank branches through retailers or business correspondent agents. This note examines various dimensions around enhancing customer experience for digital financial services users.

14. ***Customer Service Through Call Centres***
Priyank Mishra

This note details the role played by call centres in reaching out to customers targeted through digital financial services initiatives, and the considerations and challenges which go into setting up and managing these call centres. As these initiatives mature and competition increases, call centres to support customer service will become key differentiators. The note also discusses services that a call center can offer, business and other considerations for setup, role of technology, and challenges in managing call centers.

15. ***Training Digital Financial Services Agents: What is Missing?***
Denny George, Nitish Narain and Vartika Shukla
(with contributions from Nitin Garg)

Agent training is an essential foundation of a robust, trusted and ultimately successful agent network.Based on the experience of working with agent network managers (ANMs) in India and Africa, *MicroSave* has observed that often agent training programmes fail to meet expectations, and trainees rate the content as irrelevant and the training methods as unsuitable. This note briefly discusses the reasons for this negative feedback, different profiles of the agents and why training needs to customised based on agent profiles, and new areas to be considered in agent training programmes.

Building Business Models for Mobile Money

Krishna U.M. Thacker and Graham A.N. Wright

In the words of Victor Hugo, '*Nothing is more powerful than the idea whose time has come*'. At present, there are *5.2 billion mobile connections*[1] and growing as we write (and growing even more as you read) while only around *2.2 billion people have bank accounts*. We also have *robust mobile banking technology platforms* available that can provide real-time, seamless access between a mobile phone and a bank account and in most parts, there is an almost *ubiquitous network of airtime resellers*. Given these conditions, one cannot help but wonder why we cannot bring financial inclusion to match (or at least come closer) the mobile penetration figures? What is stopping us to achieve that? Why can we not put together all the pieces of puzzle to offer banking/financial services to the large unbanked segment that is on the mobile network?

[1] Out of which there are 3.7 billion unique mobile users according to http://consultantvalueadded.com/2011/03/07/mobile-as-a-trillion-dollar-industry-check-this/

Many individuals and institutions alike seem to have asked that question. Some are already on their way *forging strategic multi-industry alliances* to offer financial services to the un/under-banked segment. *There are 113 live mobile money deployments and around 88 in pipeline for the next year*[2] trying to make the goal of financial inclusion a reality. Having said that, most of such deployments (from authors' personal experience with both failed and surviving deployments) seem to be in rush to get numbers and forging partnerships with an approach of "let's try/do something together and figure it out as we go along" instead of taking the pains to sharpen a *mutually aligned business model and developing synchronised strategies*. In what often turns out to be a 'speed to market' and 'number' game, it might just be a good idea to take a small pause: understand, develop, analyse and critique the business model. Since, business models, to a large extent determine 1) the costs we incur during the process of delivering the final product, and 2) the value we generate for the end user on a sustainable basis; with the difference between the two being surplus/deficit. This in turn determines whether the business will be sustainable or not i.e. the survival chances of the business and achieving the goal of financial inclusion through this promising channel. In essence, *"A business model describes the rationale of how an organisation creates, delivers and captures value"*.[3]

To understand and assess the business of mobile banking[4] more clearly and in more detail, we shall use a business model framework and some of the concepts co-created by an active and vibrant community of practitioners in an online community called the business model innovation hub. The business model revolves around *9 building blocks*, described by Osterwald et al.[3]

[2] http://www.wirelessintelligence.com/mobile-money
[3] Business Model Generation, A. Osterwalder, Yves Pigneur, Alan Smith, and 470 practitioners from 45 countries, self-published, 2010
[4] This is largely focused on bank-led models since more work around the globe has been done on MNO led models, the authors have tried to assess it more from a bank perspective and what unique values they can add to a mobile banking initiative and vice versa

We shall now use the 9 building blocksdescribed above and develop a fairly generic business model for a typical bank trying to target its unbanked segment.

Key Partners

Strategic alliances with the following players are at the heart of the model/offering

- Bank/Licensed Financial Institution
- Distribution Agency/ Agent Network Manager
- Technology Partner
- Mobile Network Operator

Key Activities

- Product Design and Implementation
- Marketing / Promotion
- Technology Management
- Channel Management

Key Resources

- Agent Network
- Brand
- Product
- Transaction Platform

Value Propositions

The value preposition revolves around making the financial services **accessible** (at near doorstep) and **convenient** (few queues and fast processing). This is done by offering bank's products through a distribution network of resellers (to de-congest existing branches). At the same time, maintaining a **secured transaction** enviroment through password-enabled transactions and real-time confirmation. Clients can use a range of financial services (cash-in/out, money transfers, top-up etc.) with **reduced effective** cost of transaction/ cash (saving on travelling to and from banks, standing in long queues and foregoing working hours to access banking services).

Customer Relationships

Personal Assistance through agents (facilitating purchase, cash-in, cash-out transactions and offering other assistance through call-centers)

Self-service or automated services (e.g. remote transactions from their handset)

Channels

Reseller network (managed by self or third party) critical for all phases of channel management right from awareness, helping clients evaluate the product by explaining the product features, offering them instant purchase, delivery and after sales service.

Mobile network (increasing awareness, allowing convenient usage/delivery through a client's handset)

Customer Segments

A multi-sided market/platform which needs a sufficient/large base of ***un/ under banked clients*** and a large base of resellers/ ***merchants*** acting as bank agents to deliver full value to end-users in a cost effective way. The model requires to a strong value proposition both for the end-users and the resellers/ merchants (agents) hence it is described as multi-sided market/ platform.

Cost Structure: A cost-driven model with opportunities for economies for scope once the channel is established. Some key costs involved are

- Variable usage costs
- High agent management costs
- Fixed technology costs

Revenue Streams

- **Subscription fees -** Account opening commissions
- **Usage fees -** Revenues from usage or maintenance

Saddling Up a Dead Horse: Financial Inclusion in India

Denny George and Nitin Garg with inputs from Shivshankar V., Anil Paul and Premasis Mukherjee

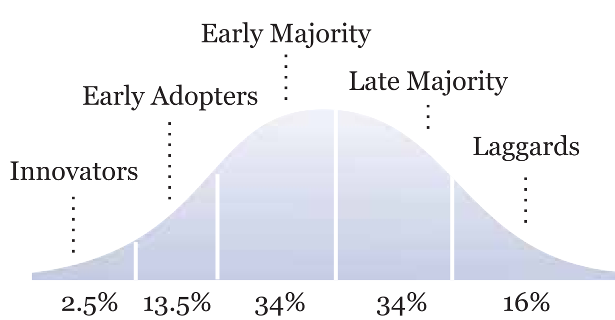
Background

The no-frills accounts (NFA) focussed approach to financial inclusion has so far been largely ineffectual. Several studies have shown that NFAs are rarely active as demonstrated by three independent studies – carried out by Centre for Microfinance, Skoch Development Foundation and *MicroSave*,[1] which estimate that around 80%-90% of the no-frills accounts are inactive. A remarkable fact is that these three studies conducted at different points in time in different geographic locations have come up with surprisingly close estimates of inactivity; indicating that dormancy is a common phenomenon and that not much has been achieved in terms of true financial inclusion over the years.

The Customer's Perspective

There is little that clients can do under the current mode of financial inclusion other than basic liquidity management – a complex formal sector substitute for money kept "under the mattress". While a transaction mechanism for daily cash management is indeed a core requirement for low income customers, the low activity levels indicate that no-frills accounts – even when delivered through business correspondents (BCs) - are hardly used even for this basic need. The customers still seem to prefer keeping money under the mattress - perhaps because of its simplicity and convenience.

This fact seems to question a basic premise of financial inclusion: that there is a need, even if latent, for formal sector financial services among low income households. What providers often forget, in their zeal to achieve the financial inclusion targets set by RBI, is that there is often a product adoption process. The service (i.e. a facility to conduct banking or financial transactions using BCs) fundamentally changes the clients' understanding and experience of financial services. As far as clients are concerned, not everyone is keen to try out something new; especially when there are alternatives they can and do use – even if these are informal and risky.[2]



INNOVATION ADOPTION LIFECYCLE

Everett Rogers, in his seminal work, "*Diffusion of Innovations*", points out that not all customers approach innovations in a similar manner. The figure below depicts the approach to innovations by different categories of people.

Rogers argues that any innovation will be initially adopted by the first two categories – innovators and early adopters, who will act as opinion leaders to influence other categories of customers.

[1] Platt, Ann-Byrd et.al, "No Thrills – Dormancy in NFA Accounts", *MicroSave*, May 2011; Thyagarajan S, Jayaram Venkatesan, "Cost –Benefit and Usage Behaviour Analysis of No Frills Accounts: A Study Report on Cuddalore District", College of Agricultural Banking and IFMR Centre for Micro Finance, December 2008; "Speeding Financial Inclusion", Skoch Development Foundation, July 2009

[2] Agrawal et al. "Savings Perceptions and Preferences in India The Relative Risk to the Savings of the Poor Summary Overview"

Does the Current Financial Inclusion Strategy Meet the Needs of Early Adopters?

In India's approach to financial inclusion, providers forget the innovators and early adopters. The innovators and early adopters (normally the village elite who are more familiar with formal sector financial services in general) are overlooked in the frenzied race to open accounts for the poorest inhabitants of the villages - allotted to banks under their financial inclusion mandates. At the Business Correspondent Network Managers (BCNMs) Forum facilitated by *MicroSave*, this was raised as one of the core issues.[3]

The exclusion of potential innovators and early adopters in the BC driven financial inclusion arises for the following reasons:

- No frills accounts, which are often the only product offered on a BC channel, inherently have features (transaction limits, no chequebooks, no debit cards etc.) that make them unsuitable for more affluent customers.
- Accounts opened at the BC often cannot be operated using other banking channels.
- Many banks expressly prohibit an ordinary saving account holder from opening a no frills saving account. Since no-frills accounts are often the only service available over the BC platform, this provision denies the BC service to most of their current customers (who are likely to act as early adopters).
- The focus of financial inclusion is often on "*excluded*" villages, where current customers of the bank are absent or have limited presence.

The exclusion of potential early adopters from the "financial inclusion" initiatives deprives service providers of an important mechanism that could help drive adoption and usage.

The Supplier's Perspective

The overwhelming feedback we, at *MicroSave* have received (usually off the record!) from senior bankers is that there is no compelling business proposition to promote financial inclusion. Financial inclusion is viewed as a regulatory compulsion, and/or as a social initiative. As a result, it is common to see massive account opening and BC appointment drives with minimal focus on implementing an effective and functional transaction mechanism.

At the bank branch level, the problem is compounded with staff often viewing no-frills accounts as an increase in workload with no real benefits in terms of improved business. This attitude manifests itself in the form of a hostile environment for BCs and low income customers, and in the lack of operational support provided to BCs.

There is also a prevalent belief among bankers at all levels – from the senior managers to the branch staff – that the business correspondent model is a *poor man's service*. They often actively discourage walk-in customers (provided they are relatively well to do) from availing services at the BC. These factors turn the lack of belief in the business case into a self fulfilling prophesy, as evidenced by the paltry levels of activity in most BC initiatives.

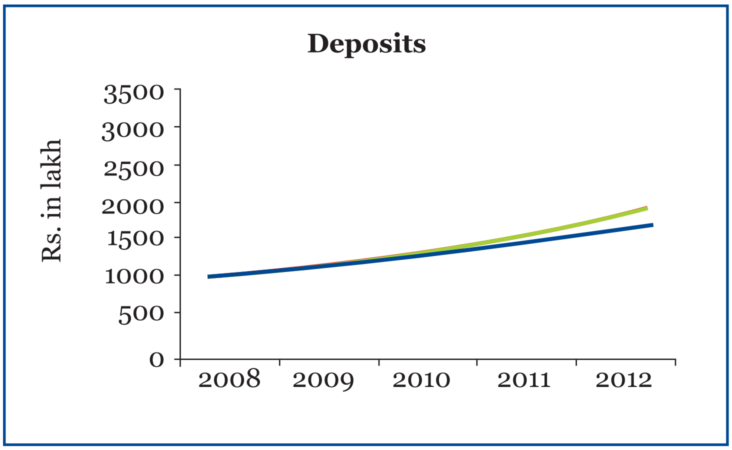
What is Needed?

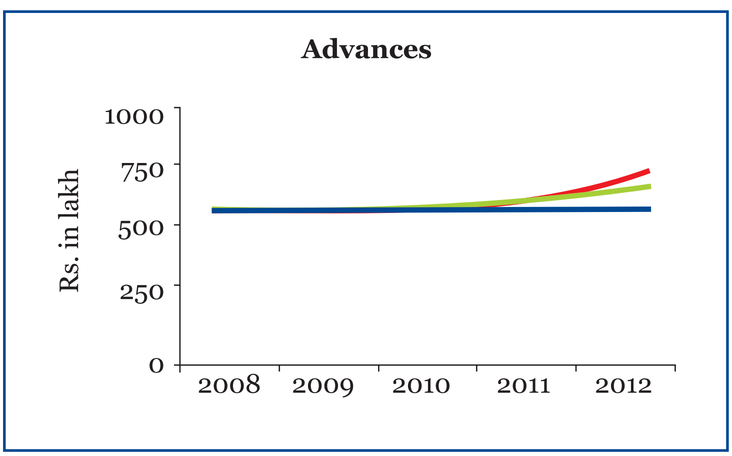
What is really needed is a change of perspective. Providers need to think of the BC model as a "distributed banking model" rather than as a "financial inclusion drive" to meet regulatory

[3] See *MicroSave* India Focus Note 90 "Taking Financial Inclusion to the Next Level", March 2012

compulsions or social objectives. The distributed banking model includes within it the possibility to increase bank's business substantially across diverse products and services. The entire retail banking product suite (subject to regulatory restrictions or strategic considerations) needs to be made available over the BC platform. This needs to be seamlessly integrated with the core banking system of the bank to ensure that current customers can act as early adopters and opinion leaders who drive adoption in their villages and to enable customers to use the financial products and services that they require.

A Demonstration of the Value Added to the Provider by a Distributed Banking Model





The blue line is a trend line of the branch business based on past business. The red line is the actual business while the green line is the walk in business (business not brought in by BCs).

In a branch of a nationalised bank[4] in India, where all credit and savings products were being delivered through the BCs, there was not just an increase in business due to what was directly brought in by the BCs, but even an increase in regular walk-in business. The graphs below display this phenomenon clearly. This is perhaps due to decongestion of bank branches as BCs help to ease the transaction pressure and improve efficiency.

Conclusion

There is definitely a need for product and channel innovations to suit specific needs of low income customers. But the priority is to make the channel accessible to all so as to facilitate sustainability and gradual adoption. The early signs are that there is indeed value in pursuing a "*distributed banking*" strategy as opposed to a "*financial inclusion*" strategy. Financial inclusion will naturally follow the establishment of an efficient, distributed banking channel.

[4] Name withheld due to non-disclosure mandates

Taking Financial Inclusion to the Next Level

Puneet Chopra

Banks and business correspondents (BCs), under the direction and supervision of the Reserve Bank of India (RBI) and the Ministry of Finance (MoF) are making concerted efforts towards financial inclusion (FI). In January 2012, *MicroSave* facilitated a dialogue amongst select banks, and institutional/MNO (mobile network operator) BCs to reflect on the progress made, the lessons learned, challenges faced and identify critical areas needing attention and collaborative efforts.

The following emerged as priority areas required to make access to financial services real and meaningful for the excluded.

Transforming BCs into an 'Alternate Channel'

Forward looking and innovative banks have taken partnership with their BCs to new levels over the past year. These efforts have, nevertheless, been far from universal. Many BCs have the motivation, potential and business need to deliver as a full-service alternate banking channel. It is imperative to recognise this and nurture and support BCs around:

New Customer Segments: Banks can consider allowing BCs to service low income customers as a natural extension to servicing the no-frills-account (NFA) holders in their operative areas. This can include new acquisitions and, potentially, migration of existing accounts. This can be a winning proposition for all, with marginal customers getting door-step (and perhaps superior) services; BCs enhancing their business case; and banks decongesting their branches, and shifting efforts towards the profitable high net worth customers.

Enhanced Product Portfolio: *MicroSave* has established the need for,[1] and RBI has repeatedly emphasised that financial inclusion (FI) objectives must include,[2] a range of products. This means offering: transaction accounts; recurring/commitment savings possibly with overdraft facilities; remittance/payment services; insurance policies; and suitable credit products. Once banks start leveraging BCs as their extended arms, regular banking products (even full KYC based) can be made available. This further enhances the value proposition for banks, BCs and, above all, customers.

Operational Collaboration: Base branches often have a limited role, visibility into or support for BC activities. FI is considered as non-core, one-off business, managed centrally or through local head offices. This needs to change, making BCs part of the local operations. If BCs were to become an alternate channel, local branches would discover the synergies and value from them, and collaborate more effectively.

FI's Integration with Mainstream Banking: Progressive banks like State Bank of India have already provided direct core banking system (CBS) access to BCs, thus taking giant strides to bridge the divide between FI and mainstream banking. Cost considerations may prevent some of the other banks following suit. FI will increasingly emerge as a business opportunity at the bottom-of-the-pyramid, requiring strategic measures such as integration into mainstream banking.

[1] See *MicroSave* India Focus Notes 47, 65, and 80, and Briefing Note #113

[2] See Khan, H.R. Deputy Governor, RBI, August, 2011, Special Address at the FICCI-IBA conference on Global Banking

Standardisation and Interoperability: Better integration of platforms and technology deployed for FI purposes with those for mainstream banking is essential to fully reap the benefits of BCs as a new channel. While there is considerable ongoing debate about need for, and form of, interoperability – it should follow a market- and consumer demand-driven approach.

Strengthening the Business Case and Sharing Risks

Providing the much needed legitimacy to BCs would also address many issues around weaker business cases and uneven risks that BCs face.

Revenue Adequacy: Many banks now realise the need to compensate BCs appropriately, keeping in view their investments, cost structures and responsibilities. Charges are being re-aligned, recognising consumer willingness to pay a premium for better services.[3] Larger players like MNOs are making significant investments to incentivise their agents/ channel members and to build awareness.

Partner Selection Approach: Some banks have suffered in the past on account of poor quality of services delivered by BCs. At times, this has been due to adoption of lowest-bid/cost approach, with insufficient emphasis on quality and performance. For a sustainable solution, banks must start to embrace filtering criteria based on performance and quality metrics to weed out the non-performing/non-serious bidders. External entities can potentially conduct assessment of BCs,[4] to aid banks' due-diligence efforts.

Business Terms: BCs sometimes face the situation of sudden amendments to agreed business terms, causing their precarious business plans to go awry and putting them at considerable risk. Another challenge BCs face is delayed payments, usually for government disbursements (G2P or EBT). These delays translate into large working capital financing requirements for BCs.

Sharing Cash Risk: Several BCs have taken on the responsibility for cash management and associated risks. Banks are more experienced and better equipped to manage cash. They can perhaps extend support to BCs, leveraging existing arrangements to manage cash at branches, ATMs and kiosks.

Collaborating to Address Other Risks: With the BC model, many other risks come into play, mitigation of which requires close collaboration between banks and BCs. Major risks include: (i) brand/reputation risk; (ii) risk arising out of fraud/ delinquency by agents or BC network managers; (iii) mis-selling; (iv) customer information & data security; and (v) business continuity and disaster recovery.

Joint Marketing Efforts: Most institutional BCs are typically entrepreneurs or small businesses without the wherewithal or capacity to make huge marketing or awareness-building investments on their own. Banks can consider enhancing BCs' efforts by marketing them along with their mainstream banking. BCs are a new, lesser known, and often a location-less, agent-based channel. They therefore need even greater attention to awareness building

[3] See *MicroSave* research on Cost and Willingness to Pay
[4] See *MicroSave*'s Agent Network Manager / Business Correspondent Network Manager Rapid Institutional Assessment

and establishing trust amongst consumers and communities. There are some funds available to support this through NABARD. More investments in building awareness at national level would give impetus and legitimacy to the cause of financial inclusion.

Coherence of Policy Directives

At the regulatory and policy level there has been enormous support and enablement to assist BCs become sustainable. There are, however, still several areas where policies that can be made more coherent.

Ministry of Finance and RBI: The current target-based approach towards enrolments has resulted in a compliance mindset. This has led to enormous levels of account inactivity/dormancy, mushrooming of fly-by-night operators and lack of serious intent by banks to pursue the opportunity as an alternate business. While it is important to reach targets, an over accelerated pace would serve little purpose, if the milestones are achieved on paper, without any significant impact on the excluded. Policies should also be directed towards achieving quality and motivating account activity/adoption of financial services.

In this context, an approach towards stabilisation of services in the villages with more than 2,000 population is warranted. The remaining villages between 1,000 and 2,000 population should be covered in a gradual manner, providing contiguous territories and economies of scale to the existing BCs. Coverage targets should be made feasible for banks, while laying increased emphasis on quality and the activity in these new accounts.

State Government Policies: Many banks are fulfilling the mandates for electronic transfer of government benefits and payments. BCs delivering these services make significant investments in technology, staff and operations with a view to getting reasonable returns over the period of the arrangement. However at times, state departments are seen to withdraw the mandates or reduce the scope of services, without adequate compensation for BCs. Recent moves by certain state governments removing mandates for social security pension payouts from banks is a case in point.[5]

Policy requirements like the mandatory delivery of cash into the hands of the MGNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme) beneficiaries, rather than into their accounts, create a losing proposition. There is little incentive for recipients to save surplus funds, or to use their accounts to access additional financial products. The BCs and their field staff are forced to take on substantial cash management risks and are not incentivised to increase the frequency of contact beyond the pay-days.

Level Playing Field: BCs comprise individuals, small and large institutions, and even multi-national corporations. This diverse mix is increasingly feeling the need for a level-playing field to ensure smaller players are not crowded out. Some examples include the need for mobile technology-based BCs to receive network access from MNOs on equal terms; or allowing uniform opportunities to participate while deliberating standards or platforms to be established by national level institutions.

[5] See Social security pensions to go directly into Panchayat account

Conclusion

Despite unprecedented efforts over the past five years to increase real access to financial services through the BC model, the potential of the model is yet to be realised. While innumerable participants have emerged in this sector, only a handful have really exhibited commitment and achieved any meaningful scale to make a difference. Even amongst the committed players who have delivered, signs of despondency and despair are now appearing. Their coffers are starting to run dry while several challenges still remain insurmountable. We seem to be at a critical inflexion point, where actions or inactions of the stakeholders could bring about a fundamental shift or permanently mar this sector. It is critical that banks, regulators and government take notice of the difficulties that participants in this nascent and fragile sector are facing and demonstrate commitment to address their challenges in order to take financial inclusion to the next level.

Financial Inclusion through Digital Financial Services: The Regulatory Landscape in India

Mukesh Sadana

Incremental Changes in Regulations

Over the years, the financial and banking sector in India has been opened up slowly, but substantially, with a view to promoting financial inclusion. The Reserve Bank of India (RBI) has prescribed regulatory and policy changes in line with the evolving domestic market conditions, changes in the world economy and customer needs.

The period from 1949 to 1966 saw the evolution of RBI as its roles and responsibilities were defined. These related to the licensing of banks, branch expansion, liquidity of banks, management and methods of working, and mergers among others.

The period from 1967-1990 was of consolidation with focus on using the scarce resources of the banking system for the purpose of planned development. Fourteen banks were nationalised and the concept of the 'priority sector'[1] was articulated and introduced. Between 1990 and 2008, the Government experimented with new models to improve financial access for the poorest segment through the active involvement of NABARD.[2] In 2005, the RBI directed the banks to offer a basic banking 'no frills account' with low or zero balances and minimum charges on transactions and other services to expand the outreach to low income groups. In 2006, the RBI permitted banks to use the services of certain entities as Business Correspondent (BCs) and Business Facilitators (BFs) to provide financial and banking services. This was accompanied by certain guidelines for the appointment and management of BCs.[3] The guidelines were updated periodically to accommodate customer needs and to address operational challenges faced by banks and BCs. In 2008, the RBI announced the guidelines for mobile banking transactions.[4]

Recent Developments

In recent years, the government's focus has been on enhancing financial inclusion by providing easy access to banking services for the low income/ unbanked/ under banked segments. This is in order to ensure more equitable distribution of the fruits of economic growth. Between April and November 2009, the RBI increased the maximum distance permitted between the place of business of a BC and the link bank branch from 15 to 30 kilometres. It also allowed banks to charge 'reasonable' fee from customers for using services through BCs.

In 2010, the RBI further expanded and liberalised the BC model by permitting "for profit" companies to serve as BCs.[5] It subsequently also allowed urban cooperative banks to use the services of BCs. Other significant steps towards enhancement of financial inclusion are: setting up the target of making banking services available to all villages with a population of 2,000 by March 2012; mandatory opening of 25% of new branches in unbanked rural areas and simplified KYC for "small accounts".

Regulations on M-banking

Only banks (licensed, supervised and with physical presence) that have core banking solutions can offer mobile banking services. These services are restricted to customers of banks and debit/credit card holders. Only Indian Rupee based domestic services can be provided; cross border transfers are not allowed. The most important regulatory relaxation is that banks may use the services of BCs to extend mobile banking facilities to their customers.

[1] http://rbidocs.rbi.org.in/rdocs/notification/PDFs/107MRC050711.pdf
[2] National Bank for Rural and Agricultural Development was established in 1982 by an Act of Parliament of India. More details about NABARD can be seen at www.nabard.org
[3] http://rbidocs.rbi.org.in/rdocs/notification/PDFs/68417.pdf
[4] http://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/87064.pdf
[5] http://rbidocs.rbi.org.in/rdocs/Notification/PDFs/CPC28092010.pdf

The initial transaction limit set by RBI for mobile banking transactions was Rs.2,500 per transaction with a daily limit of Rs.5,000 per customer. These were later raised to Rs.10,000 and Rs.50,000 respectively.[6] Transactions up to Rs.5,000 can be facilitated by banks without end to end encryption, which practically means that customers with low-end handsets can also avail the services, but with limits on transaction value.

Banks have been entrusted with the responsibility of ensuring security of all transactions and with customer protection issues.

Some regulations that are relevant to mobile banking in India, but are beyond the scope of this note are:

- Information Technology Act, 2000;
- Risks and controls in computers and telecommunications, February 1998;
- Guidelines on managing risks and code of conduct in outsourcing of financial services by banks, November 2006;
- Issuance and operation of pre-paid instruments in India, 2009 (amended 2010);
- Banking ombudsman scheme, 2006 (amended May 2007); and
- Consumer Protection Act, 1986.

Current Scenario

The RBI has given banks a clear lead against non-banks, particularly mobile network operators, by allowing only banks to offer mobile banking services. Though non-banks can offer pre paid instruments and mobile wallets,[7] the up-take of such instruments has been slow. The major limitation of pre-paid instruments offered by non-banks is that the customers cannot convert the value loaded on to such instruments or m-wallets into cash. This restriction is significant because of the importance of cash in the Indian economy, where the value of bank notes and coins in circulation as a percentage of narrow money is 60.07% (2009-10) compared to other emerging economies such as South Africa (18.51%), China (18.83%) and Mexico (39.14%).[8]

Mobile banking in India has, so far, remained confined to the upper and middle class, and is yet to make a significant difference in the financial inclusion space. Recently the National Payments Corporation of India (NPCI) was incorporated in December 2008 to offer Inter-Bank Mobile Payment Service (IMPS) among other services. The service allows users to transfer money from their bank account to any other bank account, in same or another participating bank. The system is completely interoperable, i.e., it works on all mobile networks and between all participating banks. Subject to its limitations, this service is likely to induce improvements in mobile banking usage.

What Does the Future Hold?

The potential to link banking services to the most widely used gadget by all sections of the society is huge. The number of mobile subscribers in India is more than 860 million or 72% of the population, whereas the proportion of the banked population is only around 50%.

From the customers' perspective, mobile banking complemented by the BC channel offers a mix of benefits and risks. It offers convenience of making transactions at BC outlets, usually

[6] http://rbidocs.rbi.org.in/rdocs/notification/PDFs/MGR241209.pdf
[7] http://rbidocs.rbi.org.in/rdocs/notification/PDFs/ADP0401110.pdf
[8] "Banking, Electronic Payments and the Road Ahead", H. R. Khan, RBI Bulletin, September 13, 2011

near to the place of work or residence of customers; and few transactions such funds transfer, balance enquiry, bill payments etc. can be initiated by customers without the need to go to BC outlet or bank branch. The factor of 'trust' is crucial and is perhaps the most important criteria for the relationship between a bank and its customers. Customers will usually trust the bank that offers the mobile banking service; but banks will have to build robust systems and safeguards so that the same customers also trust the person (BC) and the technology they are dealing with.[9] The level of trust grows with each successful transaction. Whenever a failure takes place, either due to failure of technology or a service denial by the agent, it will need more time and effort to regain the trust.

The model will be bank-led in the foreseeable future, and non-banks/mobile network operators are unlikely to be allowed to offer full-fledged financial services. The latter can, at best, join hands with banks and act as their BCs. NBFCs have been kept out of the list of entities that can be appointed as BCs, and this too is most likely to continue because of the perceived conflict of interest between NBFCs and banks. Institutional BCs will be preferred by banks over individuals as BCs, to facilitate monitoring and management.[10]

Conclusion

It is not restrictive regulations that are at the core of slow off take of mobile banking services (especially for the low income segments), but the absence of a strong value proposition for the customer. In addition, most banks and BCs are still struggling with the basics of their business models, and thus have not been able to scale up operations. Though there are some contentious issues (such as viability of the BC channel and KYC norms) that are cited as reasons for slow uptake of the services, the RBI has already permitted charging the customers and relaxed KYC norms for the unbanked.

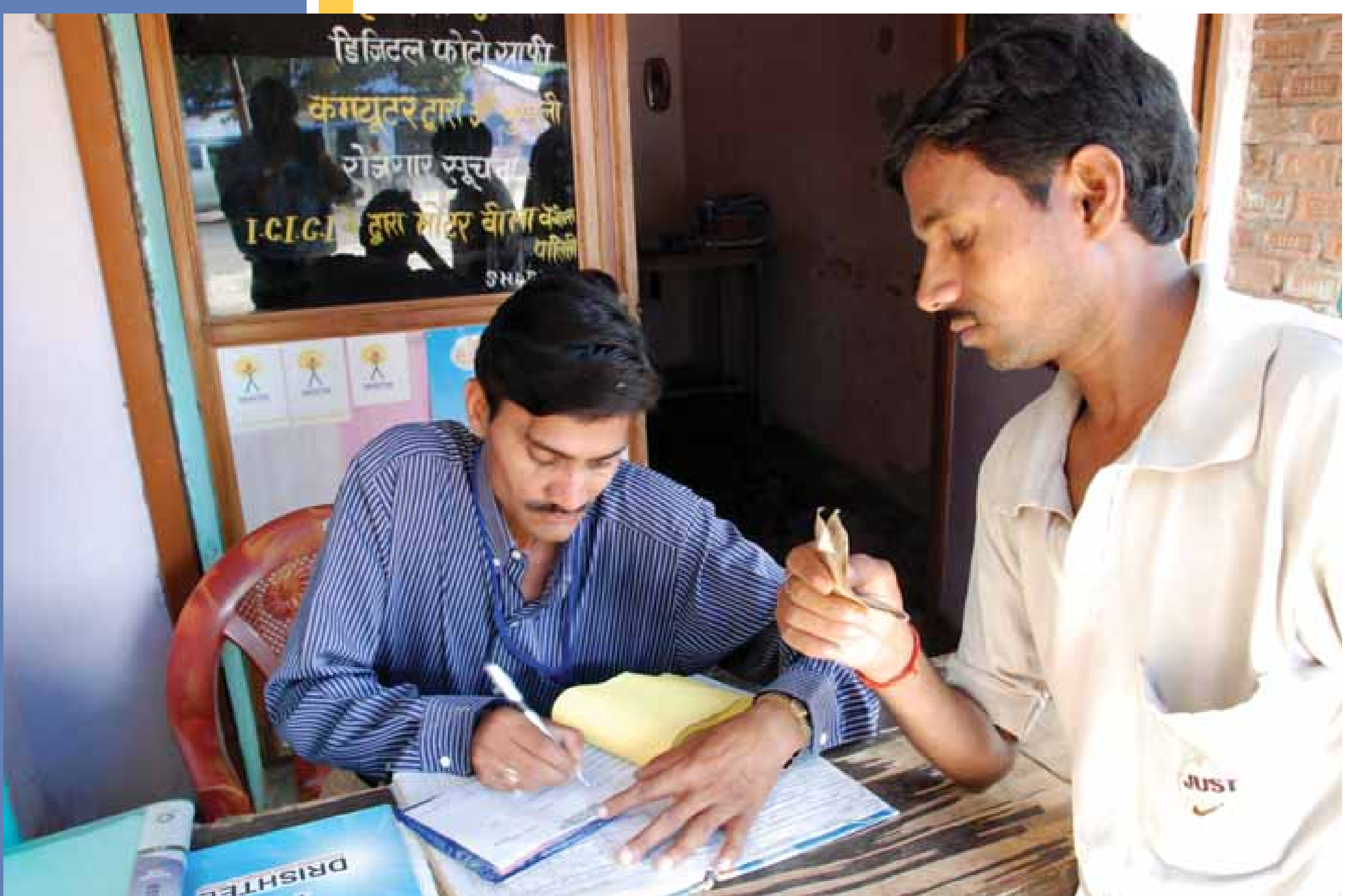
Over the years, RBI has clearly shown its intention to open up and relax regulations when the industry shows signs of stability and a promise to grow. It is for the banks to harness the potential of BCs and BFs to the fullest extent possible under the existing regulatory framework and then ask for more concessions or guidance from the RBI where these are necessary.

The next set of enabling regulations could be around interoperability between BCs of different banks; and around differential pricing based on geography, difficulty or ease of accessibility and similar factors. Such a pricing mechanism will provide banks the impetus to work towards making a strong business case for BCs and agents, and not to shy away from remote or difficult locations.

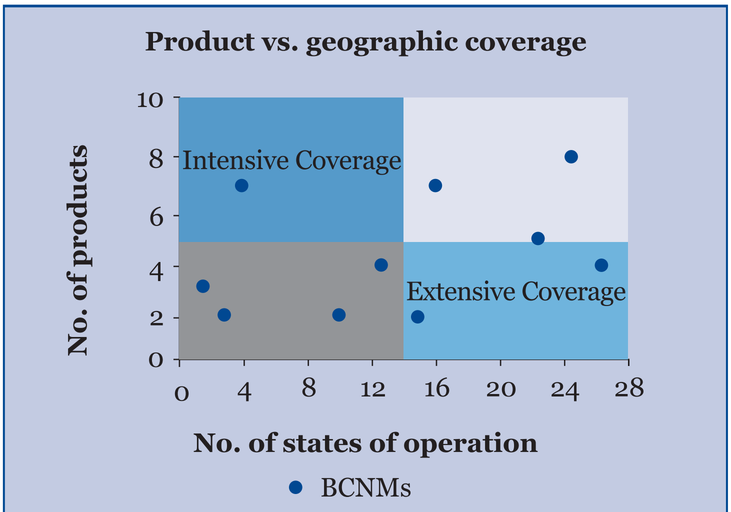
[9] See *MicroSave* India Focus Note 66, "What Do Clients Want in Digital financial services Agents?"
[10] See *MicroSave* India Focus Note 76 Individual or Institutional BCs: The Client's Perspective and 77 Individual or Institutional BCs: The Bank's Perspective

How to Make Optimum Use of Agent Networks Part-I

Minakshi Ramji and Raunak Kapoor



With more than 99 million no frills accounts (NFAs) opened so far and close to 110,000 BC outlets, India's financial inclusion industry is about to undergo a massive scale up.[1] The Ministry of Finance goal of 100% financial inclusion in the country has, thus far, been the primary reason behind these numbers and the large scale of business correspondent (BC) deployments. However, as these deployments mature and revenue from account opening dries up, a more compelling business case for agents, the backbone of these initiatives, will be required to keep them motivated and actively engaged.



Most BCNMs offer four or less products, but operating in more than 10 states.

From survey of 11 BCNMs conducted by *MicroSave*

In a recent survey conducted by *MicroSave* with 11 major business correspondent network managers (BCNMs) in India, the top four reported agent dormancy levels as high as 43%.[2] Based on *MicroSave* analysis of empirical data gathered from major BCNMs, currently, an average BC agent in India earns between Rs. 1,000-1,500 per month, which is far below their aspirations. *MicroSave* field research on agent networks in India shows that agents expect commission earnings in the range of Rs. 3,000-10,000 depending on rural-urban context.

As the graph shows, BCNMs still appear focused on increasing geographic coverage as opposed to providing intensive coverage with multiple product offerings in their existing areas of operation.

With limited products to offer, agent networks are currently under-used and consequently unprofitable. This note explores opportunities for BCNMs to make their agent networks viable thus ensuring stability of deployments and a win-win value proposition for all the concerned stakeholders. An institution may choose between various opportunities available, depending on its operational context, to meet their agent's expectations. The note highlights four broad options that BCNMs can explore to enhance their viability which are as follows:

1. Selling and servicing asset and liability products of partner banks
2. Offering generic payments solutions
3. Offering tailor-made payments solutions for businesses
4. Selling third party products

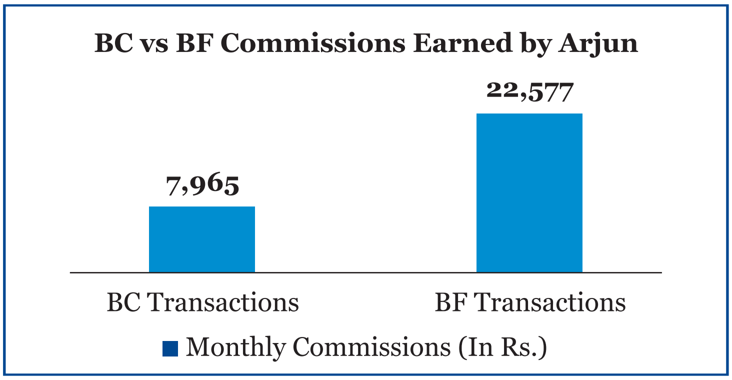
1. Selling and servicing asset and liability products of partner banks

1.1. Opportunities as Business Facilitators

Although the concept of business facilitators (BF) is as old as business correspondents (both

[1] Reserve Bank of India Monetary Policy Statement 2012-13 by Dr. D. Subbarao
[2] Kapoor R. et al, State of Business Correspondent Industry in India – The Supply Side Story, March 2012

were outlined in the RBI circular of January 25th, 2006), the industry seems to leverage the opportunities in the latter more than the former. Both these roles complement each other well and can drive agent viability to great extent.



Arjun, a BC of State Bank of India (SBI) in Assam, is evidence of how income from BF activities can supplement income from BC activities and enhance viability of a BC outlet.

As the figure shows, 74% of Arjun's commissions come from his BF role of referring loan clients to SBI.

A Rapid Agent Assessment of the BCNM that manages Arjun's agency revealed two profiles of agents. The first were agents who were already BFs, and were referred to BCNM to act as BCs. The second were those who were chosen by BCNM to act as BCs, and later on went on to play the role of BFs as well. All these agents were earning a minimum of Rs. 5,000 per month. The BCNM takes 30% of total commissions paid for providing infrastructure and operational support.

In another study conducted by *MicroSave* on the agent network of a large public sector bank, the average revenues per agent/month came out as Rs. 5,716 (based on empirical data for a sample of 170 agents) – five times the national average of RS.1,189.[3] The revenue break-up of these revenues was particularly instructive. Loan referrals contributed 43% of their total revenues, while deposit mobilisation via time deposits contributed 34%. Commissions from NFA activities contributed a meagre 3% of total revenues. The study highlights the importance of having a broader product basket in driving agent viability.

SBI commission schedule for business facilitation

Services Offered	Commissions (BCNM/Agent)[4] (in Rs.)
Regular Saving Bank a/c	Rs.20 per a/c
Current a/c	Rs.25 per a/c
Recurring Deposit a/c	Rs.25 per a/c
Account maintenance fees	50 Paisa per a/c
Demand loan	0.25% of loan amount
Overdraft against gold	0.25% with max Rs.100
Term Loan -Agri/SME	0.75% of sanctioned amount on first disbursal and 0.25% if account is regular after 1 year
Cash Credit	0.75% on 50% utilisation and 0.25% if account regular after one year
Recovery for Non-Performing Assets	10% of recovered amount

[3] See *MicroSave* India Focus Note 95: Saddling Up a Dead Horse - Financial Inclusion in India
[4] Where the agent is directly appointed by bank, the entire commission accrues to him. Where the agent is promoted/managed by a BCNM, he/she receives 70%-80% of such commissions, while residual is taken by BCNM.

1.2 Leveraging CSC Infrastructure

Under the national e-governance plan, government aims to provide G2C and B2C[5] services through a network of more than 100,000 customer service centres (CSCs) in the country. Leveraging the CSCs infrastructure can be a significant opportunity for agents and BCNMs alike.

The experience of AISECT (All India Society for Electronics and Computer Technology) and NICT (Network for Information and Computer Technology) in Madhya Pradesh highlights the effectiveness of such a delivery model. As on March (2011),[6] about 73 NICT CSCs offer BC services, and 250 NICT CSCs offer BF services, in 13 districts of Madhya Pradesh. NICT agents earn a minimum of Rs. 3,000 per month by offering these services. In some cases agents have earned as much as Rs. 50,000 in a month, by pushing BF services, including loan and credit card processing.

Front-end technology interface and connectivity issues may restrict some of the existing BCNMs from venturing into this space. Nevertheless, organisations like Srei Sahaj that have been given significant mandates[7] to set-up CSCs have tied up with banks to offer BC services and are considering BF opportunities in some geographies, in their efforts to enhance revenue and overall profitability of these centres.[8]

Conclusion

This note discussed the need to optimise use of agent networks and enhance their business case through product diversification. There can be a substantive upside from offering business facilitation services and leveraging CSC infrastructure for the same. The next chapter highlights other services (i.e. generic/customised payments solutions and selling third party products) that can support agent economics.

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[5] Tax returns, passport, driving license, land records, property registration, birth/death certificate, agri-commodity pricing, employment exchange etc.

[6] http://www.mit.gov.in/sites/upload_files/dit/files/Financial_Inclusion_through_CSCs_28_02_2011.pdf

[7] Estimated to be around 30% of all national mandates

[8] Indeed some Srei Sahaj agents have already entered into BF arrangements with banks in their individual capacity.

How to Make Optimum Use of Agent Networks part-II

Minakshi Ramji and Raunak Kapoor

In the previous chapter we discussed the need for optimising the use of agent networks and enhancing the business case through undertaking business facilitation activities and leveraging the CSC infrastructure. This note covers other potential opportunities that BCNMs can use to make their networks viable.

2. Offering Generic Payments Solutions

2.1 Over The Counter Money Transfer / Remittance

Over the counter money transfer or remittance services have witnessed significant success in the Indian digital financial services space. State Bank of India's *Tatkal* product was an instant hit amongst the target population. It allowed walk in customers to transfer money to any SBI account in the country. Eko alone processed Tatkal transactions worth more than US$120 million in 2010-11 in the Bihar-Delhi corridor alone.[1]

Encouraged by the success of Tatkal other banks like Yes Bank, Union Bank, Axis Bank and so on, have started offering money transfer even outside of their bank network. Using the National Electronic Fund Transfer (NEFT) facility, they are able to transfer funds to other bank accounts on a near real time basis. These services have significant consumer pull and thereby offer immense potential to BCNMs.[2]

2.2 Ticketing Services / Utility Payments

Companies like Beam, ITZ, Oxigen, Suvidhaa are important players in the payment services space, aggregating for a range of utility service providers and air/road/rail transport companies. Clearly, the larger the set of utility and ticketing services on a common platform, the greater the value proposition for customers and agents alike. Agents usually receive a flat-rate commission for such transactions. Even 5-10 transactions a day can bring in an additional 5% to 20% revenue for the agents, supporting their business case.

3. Offering Customised Payments Solutions

3.1 Government Benefits Transfer and Payroll Processing

Disbursing benefits under a variety of government programmes - the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) the National Social Assistance Programme (NSAP) and scholarships for students, amongst others - have so far been focal point of many BCNMs in India. Progressive governments in States like Andhra Pradesh have maintained the momentum by ensuring appropriate compensation is paid to the banks - typically 2% of the funds disbursed, of which 1% is normally earmarked for the BCNM. This provides steady income and greatly aids in making the ecosystem sustainable. This could however derail if the new BCNM selection process is adopted by banks.[3]

Some BCNMs are also exploring opportunities around processing regular government payments. One such initiative has been taken by Eko, where salary payments to Accredited Social Health Activist (ASHA) workers, on behalf of state health department, are paid-out to their mobile accounts and accessed through a network of CSPs. Another project underway is using FINO's distribution network to pay the *tendu pata* workers in Uttar Pradesh. BCNMs, together with their bank partners, should consider exploring similar other opportunities

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[1] See *MicroSave* India Focus Note 68 "SBI Tatkal - From Cash to Cash Cow"
[2] See *MicroSave* Policy Brief # 3: Remittances - The Evolving Competitive Environment
[3] See *MicroSave* Policy Brief # 7: Is the Business Correspondent Model in Policy Paralysis?

for undertaking salary/wage payments for government departments or even for private organisations with distributed and under-banked staff.

3.2 MFI Loan Disbursements and Repayments

Microfinance institutions (MFIs) have been contemplating how to make their operations cash-lite by processing loan repayments (if not always disbursements) leveraging BCNMs' agent networks. One such model is Eko-Saija partnership in Bihar, where the MFI, Saija, whose clients make their loan repayments through the Eko's agents.

BCNMs with extensive and well-functioning agent networks can explore managing loan disbursements and repayments for MFI institutions. The value to MFIs from outsourcing the management of disbursements would be substantial.[4] This would, however, need tight integration between the MFI and the BCNM, with appropriate systems for risk and liquidity management. Using agent networks to receive loan repayments can be enabled more easily. This too could result in some cost savings for MFIs, while promising regular volumes and revenues for the agents. The outsourcing of disbursements could be introduced gradually through client accounts with BCNMs. Agents, due to their proximity and relationship, can even provide referrals of good clients to MFIs for a fee.

However, such delivery models are still evolving, particularly given their likely impact on group dynamics[5] and liquidity management at agents for high value MFI transactions (particularly disbursements). Furthermore, finding the right BCNM partners with compatible technology and agent coverage to operationalise such a delivery model remains a challenge for most MFIs.

3.3 Opportunities Around Agri-Value Chains

With much of the Indian population still dependent on agriculture and allied activities, opportunities exist to provide digital financial services solutions to improve the efficiency of some agricultural value chains. In addition to acting as information channel for farmers, digital financial services solutions can offer synergies as payment channels for different stakeholders in value chains. Value chains with regular payments to farmers, producers and casual labourers are best suited for such interventions. Several private sector banks (HDFC Bank, Axis Bank and ICICI Bank to name a few) in India are already leveraging their agri-branches and BC networks to offer suitably designed asset and liability products to various stakeholders in the value chain.

Potential interventions and opportunities in agri-value chains are evolving globally. A number of service providers in Africa are piloting payment solutions around coffee, milk, cocoa and tea value chains. The partnership of ZAP (now Airtel money) and Coca-Cola in Tanzania highlights how such payments solution can be used to address distribution challenges in rural areas.

The significance of such solutions for enhancing the viability of agent networks is immense as it pumps in more digital money into the ecosystem, eventually benefiting the service providers, especially the agents through increased transactions.

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[4] Although the savings for MFIs using digital financial services systems for loan disbursements are considerable – see Sadana et al., "Analysis of Financial Institutions Riding the M-PESA Rails"
[5] See *MicroSave* Briefing Note # 100 "Can Bank-led Models Really Deliver on the Promise of Mobile Money?"

4. Selling Third Party Products

4.1 Insurance and Pension Products

BCNMs can also use the opportunities to sell third party insurance, pension (NPS-Lite and IIMPS), mutual funds and so on through BCs. Though there is a high risk of mis-selling complex insurance products like health, endowment plans, unit-linked insurance plans and so on. However, BCs can be effectively used for simpler insurance products like personal accident insurance, term life etc.[6] There is high potential for these products amongst the rural and urban poor. Some insurance companies are also contemplating the appointment of exclusive microinsurance agents. If insurance companies could leverage the BC infrastructure to do this, they can avoid the pains of setting up their own agent network, and boost agents' viability.

Currently, a few BCNMs are selling insurance products in a few well-defined geographies. Out of eleven BCNM respondents in *MicroSave*'s survey, five were offering insurance services. Eko has tied up with Bharti AXA to offer life insurance. FINO is providing health, life, personal accident and weather insurance under umbrella brand "FINOSURE", which has tie-ups with different third party insurance service providers. More such products can be added into the agents' offering, and this mixed product range should be extended across all geographies.

4.2 E-Top-Up for Mobile, DTH etc.

According to GSMA's Global Mobile Money Adoption Survey (2011), airtime top-ups (68%) and bill payments (5%) account for 73% of total mobile money transactions. With the mobile telephony revolutions starting in 2001, in more than 10 years, around 70% of Indians are using mobile phones.[7] BCNMs are a good channel to sell talk time, particularly in rural and hard to reach markets.

The symbiotic relationship between BCNMs and telecom companies was recognised in the early days of BCNMs when retailers providing telecom recharge were appointed as BC agents. Some BCNMs like FINO, Oxigen etc. are already selling airtime top-up through their agent network. With retailer commissions ranging from 2.75% to 3% coupled with established demand, this is a good add-on to agents' revenue stream.

Conclusion

To achieve sustainability, BCNMs need to be innovative to identify opportunity areas, expand their service portfolio to drive sustainability and offer a winning customer proposition. A focus shift to leverage agent network infrastructure more intensely is essential. This note highlights the multiple opportunities that BCNMs can pursue. While some are evolving and more complex to implement, others are straightforward. BCNMs need to undertake the next steps to identify, assess fit, customise and roll out additional products to translate these opportunities into revenue streams.

[6] See *MicroSave* Briefing Note # 123, "Agent Banking and Insurance: Is There A Value Alignment?" and # 124 "Insurance Through Bank Agents: How Can It Be Done?

[7] Industry estimates

Can MNOs Lead the Way for Banking the Excluded? Part-I

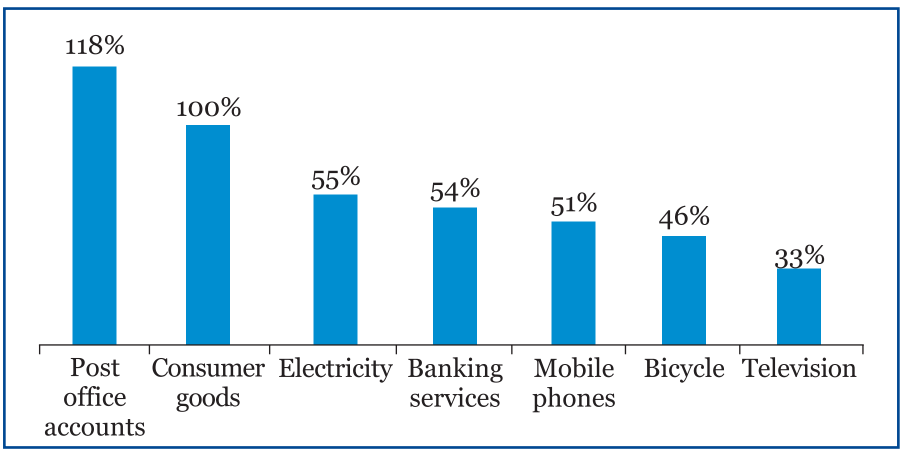
Puneet Chopra and Raunak Kapoor

There has been much debate over the limited success of the business correspondence (BC) model in providing meaningful access to financial services to the poor in India. One common argument is that mobile network operator (MNO)-led mobile-money models have been more successful than bank-led models in several parts of the world.[1] Could MNOs emerge winners in India too? This note, and the next chapter, examine how well MNOs are positioned to provide banking services, and what challenges and barriers they would face in the battle to emerge victorious.

Critical Success Factors for Organised Sectors

A good starting point is to examine the underlying critical success factors for organised sectors that have established large and profitable rural markets. Fast moving consumer goods (FMCG) and durables, mobile phones and related services, pharmaceuticals and two-wheelers all have respectable rural presence in India.

Figure 1: Rural household penetration[2]



The common underlying capabilities enabling wide outreach and penetration were:

- product utility and relevance at acceptable price points that created both consumer pull and channel push;
- depth and breadth of reach by riding on large, lean, agile and low-cost multi-product distribution networks;
- ability to realise economies of scale, and of scope, across the value-chain;
- wherewithal to invest in marketing to create awareness for product category and brand building;
- ability to constantly innovate to stay ahead of the competition in a market that is rapidly crowded with multiple players following a "me-too" strategy, once an opportunity is proven; and
- a risk appetite to make long-term investments before realising returns.

[1] *MicroSave* Briefing Note 71; Mas, Ignacio, (2010) Mobile Payments go Viral.
[2] Census of India 2011. Households rather than individuals being units of earnings and expenses, penetration at household level is often a better metric.

Distribution Networks

A deep distribution network is an extremely vital and an asset that is difficult to replicate in India. Therefore effectively leveraging existing infrastructure to reach consumers and deliver multiple services riding on these 'common rails' is likely to be essential for success.

Comparing the different distribution networks with banking or even merchant POS terminals (accepting credit, debit or prepaid cards) highlights the advantage of following an FMCG or an airtime resale distribution model to expand the outreach of banking and financial services.

Another important dimension is the distinction between sales and service outlets. (For example 0.12 million retailers sell mobile phones and about 1.0 million sell SIM cards/starter packs, whereas airtime can be purchased at 1.5 million mom-and-pop shops). This strategy needs to be tailored for financial services by differentiating agents, who would do enrolment, sell products and provide customer service, from retailers who would only do cash-in/cash-out (CICO) transactions.

Figure 2: Channel outreach

Category	Number of outlets[3]
All retail	14 million
Groceries	7.8 million
Mobile top-up	1.5 million
Pharmaceuticals	1.4 million
Merchant POS	0.6 million
Post offices	0.15 million
Mobile handsets	0.12 million
ATMs	0.08 million
Bank branches	0.07 million
White goods	0.05 million

Reviewing the genetic fabric of most institutional business correspondents (agent network managers) reveals that the sector is crowded with first generation entrepreneurs. Their operations are localised or thinly spread out and difficult to scale. They have cumulatively reached a very small percentage of the unbanked population. Many are, unfortunately, eager to tap the one-time revenue from enrolments and government social security payments, rather than build lasting businesses that will benefit the excluded. Others have carved a niche by restricting services to migrant remittances in the large metro cities. Even after many rounds of funding, many of the incumbent BCs do not seem to be geared up for large scale expansion; or to want (or be able) to introduce more banking products, or to invest in marketing, awareness building and consumer protection.

MNOs' Key Advantages

How do MNOs compare with institutional BCs?

1. They have established multi-layer distribution networks, with over 1.5 million retailers selling airtime and providing extensive urban and rural coverage. One can easily find mobile recharge vouchers stocked next to shampoo sachets or food grains in small remote hamlets. A large percentage of these retailers are multi-product outlets and not dependent on a single line of business. This is fundamental to their viability and to a symbiotic relationship with their suppliers. MNOs can leverage a large number of airtime resellers

[3] Various research reports and *MicroSave* analysis

as CICO agents. Moreover, MNOs understand the agent channel needs and motivations very well and can therefore manage them effectively.

2. The MNO business model is based on usage (high volumes of small value transactions), and therefore more aligned to the willingness and ability of the poor masses to pay in small sums; unlike the traditional bankers' business model that is based on float.

3. Mobile pre-paid platforms that manage high volumes of low value electronic recharge are very synergistic with the needs of electronic or mobile banking (digital financial services). These platforms also allow the ability to offer highly customised and relevant products (supplemented with capabilities for fine segmentation and analysis of usage trends). They also permit the delivery and management of several different product variants simultaneously on their systems (such as multiple rate plans) – a capability that mainstream banking systems typically lack. Moreover, MNO communication networks permit real-time authorisation and settlement of transactions, again a capability very relevant, if not essential, for banking.

4. MNOs have high levels of brand awareness amongst poor and rural customers that can be leveraged well for cross-selling financial services. MNOs also invest regularly and extensively in marketing and promotions to create channel and consumer awareness.

5. Telecommunications is a well regulated service industry, similar to banking. Thus mobile retailers acquiring new subscribers are well equipped to handle KYC norms and service activation processes. They are equally conversant with mobile technology to conduct business.

6. Telecommunications is also an investment intensive and long gestation business. Thus mobile operators have superior capability to source funds, and make large investments with long time horizons for returns.

7. MNOs work through extensive partnerships, aggregating third party products seamlessly into their offerings. Most value added services (ring tones, music, games, wallpapers etc.) are partner products delivered by MNOs. They should therefore be well equipped to bundle and offer multiple banking and third party financial products (insurance, pensions etc.).

8. Last but quite importantly, in the current climate of hyper-competition, bottom-less price-wars, and commoditisation of voice and basic services, MNOs in India are highly motivated to offer stable, diversified value-added-services that have the promise of a substantial upside. Experiences in matured telecom markets around the world demonstrate the importance of services like mobile money in enhancing revenue (M-PESA in Kenya) and reducing consumer churn (in one case of a major African mobile money service by as much as 60%).[4]

Mobile operators can quite effectively play the role of market development through awareness building, consumer education and marketing mobile banking services. Initially the focus can stay on the consumer pull services like airtime recharge, remittance and perhaps utility

[4] http://www.slideshare.net/CGAP/five-business-case-insights-on-mobile-money

payments. Once the consumers gain familiarity and trust, additional financial products to meet their life-cycle needs like savings, credit, insurance or pension products can be introduced.

MNOs, in certain geographies, certainly seem to be in a position of advantage to drive branchless banking, having made a good start with mobile money and wallet services. According to CGAP there are 30 implementations in Africa where MNO-driven financial services are already an important part of the financial inclusion landscape.[5]

Assessments[6] of MNOs' performance in India to date, however, suggests that the apparent advantages have yet not translated into roaring success stories on ground. Apart from teething challenges of introducing a new product category, educating channel and consumers, and fine-tuning the business model to meet retailers' earnings aspirations, there are several other barriers to Indian MNOs' ability to establish dominance in e/m- banking. These are discussed in the next chapter "Can MNOs Lead the Way for Banking the Excluded? Part-II".

[5] Ibid
[6] *MicroSave* Agent Assessments of >20 agent networks across India

Can MNOs Lead the Way for Banking the Excluded? part-II

Puneet Chopra

The previous chapter "Can MNOs Lead the Way for Banking the Excluded? Part-I" discussed the differentiating capabilities of MNOs that could help them attain leadership in electronic or mobile-banking (digital financial services). There are, however, several challenges and barriers that Indian MNOs would need to surmount.

Fragmented Market – No Single Winner

The first hurdle is around the structure of the Indian market that makes it very distinct. India is an extraordinary market where no single player has a dominant market share in almost any given sector. Most sectors (except those regulated to have a fewer number of players)[1] see fierce competition amongst multiple participants. The market for the distribution of digital financial services services is unlikely to be driven by the strategy of one or a few players. Multiple players will introduce their own innovations and variants to stay differentiated and to retain or expand market and revenue share.

Figure 1 highlights the structure of several consumer retail sectors and services in India. As can be seen, rarely do the market leaders have more than 30% share. The second, third and fourth players often fight the market battle very closely, followed by a long tail of smaller players.

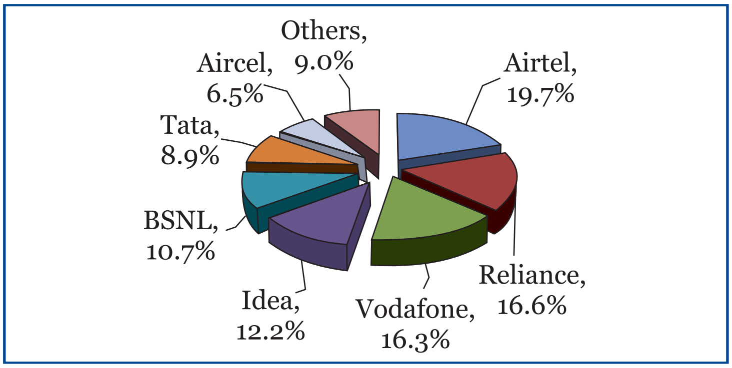
Figure 1: Market shares in select consumer retail sectors / services[2]

Sector / Service (# of players)	Leader	Second	Third	Next 5
Credit cards (25+)	29%	21%	14%	25%
Debit cards (31+)	36%	6%	6%	16%
Merchant POS (23+)	30%	28%	23%	12%
Mobile handsets (8+)	30%	14%	7%	49%
DTH Satellite TV (6)	27%	24%	23%	26%
Colour TV (8+)	26%	15%	11%	47%

The telecom market, with 14 players in the mobility segment (and Reliance Industries expected to join the fray soon as a 4G service provider), is highly fragmented too. Apart from the market leader (Airtel), there are five other players with market shares ranging from 9% to 16% (see Figure 2). This might not be a deal breaker for Indian MNOs, as in other somewhat fragmented markets (like Tanzania and Pakistan), mobile money has achieved scale. However the risk of a first mover disadvantage of investing and creating and educating a market that is subsequently leveraged by other followers (including non MNOs – business correspondents, utility payment service providers or pre-paid instrument issuers) remains.

[1] Primarily industries based on natural resources like oil & gas, metals and minerals
[2] Market research reports and *MicroSave* analysis

Figure 2: MNOs consumer market share



Customer Relationship And Channel Readiness

Banking involves relationship and trust-based, high - involvement selling. Several products require multi-year or even lifetime (for pension products) service and support.

MNO distribution, on the other hand, is geared up for over-the-counter low- Rapid service delivery and the instant transaction completion does not require building trust. involvement selling. The relationships MNOs pursue are, in the main, with corporate accounts and not with retail customers.

These contradictory needs can potentially be addressed by segregating the sales and service channels. Banks can play a key role in selling banking products (savings, time deposits, credit) and providing customer care and other support. Whereas MNO retailers can undertake the routine high volume, cash-in/cash-out (CICO) transaction and payment (service) activities.

Nevertheless, until banks and MNOs can seamlessly collaborate to establish and operate well differentiated sales and service channels, the same set of retailer agents will need to fulfil both roles. Indeed, in the short-run it appears that this is essential for the agent value proposition.[3] Agents will also need to become adept at managing the complex needs for liquidity management, consumer protection and risk mitigation required for banking products.

Hurdles With A Compelling Channel Proposition

MNOs sell through a multi-tier distribution structure comprising the main or super distributors, the sub-distributors or stockists and the retail outlets that stock multiple goods apart from mobile top-up. Retailers are entrepreneurs wanting to maximise their return of investment (RoI) both for capital and time invested. Below is a comparison of RoI benchmarks they tend to use when investing in the working capital for a new product and making the sales push.

[3] See *MicroSave* India Focus Note 90 "Taking Financial Inclusion to the Next Level"

Figure 3: Retailers' RoI Expectations[4]

Product	Commission	Inventory
Mobile accessories	15 to 25% +	7 to 15+ days
Groceries & consumer goods	7% to 20%	15 to 45 days
Mobile handsets	5.0% +	10 to 30+ days
Airtime recharge	2.5%	1 to 3 days
Money transfer (cash-in end)	0.5%	2 to 4 days
Mobile banking	0.5%	7 to 20+ days

Retailers are happiest pushing high-margin, low-turnover, or low-margin, high-turnover, products. However, mobile banking in India is, at present, still a very low margin and low turn-over service (with the exception of money transfer from metros). Mobile money remains unattractive unless either margins increase or volumes rise to respectable levels.

Moreover, the most widely adopted feature of mobile money globally – of airtime recharge[5]- has the danger of cannibalising retailers' established high margin business. MNOs in many other environments (for example Tanzania, Uganda and Philippines) have overcome this barrier by: (a) initially appointing retailers that do not perceive cannibalisation as a major risk; (b) paying agents for airtime loaded through the mobile money accounts they have opened; (c) incentivising these retailers until mobile money volumes were respectable; and/ or (d) building a concurrent network in addition to airtime distribution.[6]

The next big hurdle is non-exclusivity of the channels. MNOs are a preferred business partner for retailers/ distributors due to the promise of volumes from their core airtime reselling business. However, for mobile money, they can (and do) happily also partner with non-MNOs. The net impact is that players like Eko or Oxigen offering alternate mobile money propositions have the opportunity to leverage retail channels as extensively as the MNOs. MNOs themselves sell talk time through large aggregating partners like Oxigen, Mobile Store, Mobeepay and EPRS, as alternate channels. MNOs are also facing competition from existing players like ItzCash, *Suvidhaa*, Beam and similar providers, who are enjoying first mover advantage in providing money transfer, payment and e-commerce services.[7] Competition will also come from large players like Western Union, who have forayed into the domestic money transfer business and are eventually aiming to scale to over 100,000 of their branded outlets.

Emerging Alternatives To Mobile

Mobile money leveraging high penetration levels provides greater value to consumers who are able and willing to conduct self-service transactions (other than CICO). The Indian poor and financially excluded also tend to have lower literacy levels (or are at best numerically literate) and find it difficult to use mobile phones for purposes other than taking calls or dialling out. This is reflected in the fact that the average talk-time of consumers in tier III geographies is

[4] Various reports and *MicroSave* analysis
[5] IFC study of mobile money (2011)
[6] See *MicroSave* Briefing Notes # 136 and # 137 on "Structuring and Managing Agent Network"
[7] For example Oxigen directly controls 100,000 retail outlets and conducts 20 million transactions a month. ItzCash processes payments worth more than Rs 100 million daily.

1.24 times higher than those in tier I, whereas the same ratio for outgoing SMS per consumer stands at 0.45.[8]

With this literacy barrier, agents' perception of value (commissions and promotional benefits), as well as consumers' comfort with and utility of an interface is likely to considerably influence adoption of mobiles or alternatives like internet or card based interfaces - although these alternatives are likely to be more expensive in terms of both capex and opex.

The Government of India has taken several measures to increase the reach and adoption of Internet at village *panchayats* (cluster) level. The National Optic Fibre Network (NOFN) for broadband connectivity to all the 250,000 *panchayats*, costing Rs.200 billion is being implemented. The National Broadband Plan 2010 envisages internet in very village by 2014. Even now, the internet kiosk models of State Bank of India and Bank of India are functioning reasonably well in rural areas operated by BCs like TranServ and SAVE.

MNOs need to be cognisant of these diverse alternatives, with which they must compete and develop their strategies accordingly.

The next few years are likely to witness consolidation in the financial inclusion space, with exit or acquisition[9] of smaller entities, as MNOs and other large corporates expand their presence and scale. One can also expect greater convergence of the mobile and banking sectors, and enhanced collaboration. It is too early to assess who will eventually emerge as the winner!

[8] TRAI performance indicators
[9] FINO's acquisition of Nokia money is a case in point

Beyond Remittances: How To Expand Your Mobile Money Product Suite

Alphina Jos and Graham A.N. Wright

The Star Product

When huge unmet demand meets a product that customers want at a price they will pay, the result is a star product. Remittances, the money migrant workers send home to their families, provide crucial financial support for millions of people in developing countries. This results in a huge demand for remittance services. Formal service providers rarely service this demand, and other remittance systems are often too expensive, too risky, or too slow and unreliable.[1] What customers need is a remittance channel that is cost effective and easily accessible. Mobile money offers a perfect solution as it responds to the unmet demand and has an advantage in terms of access and cost.[2]

M-PESA's success in Kenya was based two things – huge unmet demand and very few formal alternatives. Before M-PESA, Kenyans would SMS the 16 digit code of an airtime scratch card to the recipient (usually in their home village). The recipient would then sell the airtime at a discounted rate (typically at a 10-20% discount) to someone in order to get cash. The system was secure, convenient but expensive. M-PESA responded to this opportunity and formalised this informal system at a lower cost.

Why Beyond Remittances?

Remittance is the most common entry point for mobile money systems as it not only addresses significant pain points for customers but also builds trust[3] in the system. However offering only remittance – the star product – is rarely sufficient. Expanding the product suite to offer other services and products is essential. The reasons for this are:

Viability: Remitters will use the remittance product but remittances alone are unlikely to provide a viable business case for mobile money. Enhancing channel use by offering multiple products will drive significant volume that will make it viable. For example, *MicroSave*'s research on remittances to Uttar Pradesh in India shows that only 45% of the remitters transact on a monthly basis and 42% of them remit only up to Rs.3,000 (or about $67).

Needs Beyond Remittances: Over their full life cycle, the financial service needs of poor people are diverse and complex. Meeting all these needs only by using remittance is not possible. A study in Bangladesh shows that no household uses less that four different financial services.[4] Poor households are using informal sector variants of multiple products and services – at great risk and cost. For example, *MicroSave*'s study of the relative risk to poor people's savings in Uganda showed that 99% of people saving in the informal sector had lost on average 22% of the amount they had saved that year. Huge unmet need for access to reliable financial services represents a profitable opportunity serviceable by m-banking channel.

Economies of Scale and Scope: To achieve economies of scale, and meet competition, service providers have to widen their product range by offering common 'infrastructure rails' for multiple products to ride on. According to CGAP,[5] "A comparison of the largest branchless

[1] See *MicroSave*'s research on remittances in India, Kenya and Uganda & Tanzania
[2] See *MicroSave* India Focus Note 29: Potential for Digital Financial Services Enabled Migrant Remittances
[3] Mobile money remittance service provides instant confirmation of the transaction. The remitter can call the recipient and ensure that they have received the money. This option is not available to those who are saving on a mobile money platform, which is why (initially at least) around 75% of transactions of savings focused mobile money offerings are typical just balance enquiries from users seeking to confirm that their money is still there on the system.
[4] "Microfinance's social impact: cutting through the hype" Jonathan Murdoch, Financial Access Initiative
[5] "Agent management toolkit – Building a viable network of branchless banking agents, a technical guide", CGAP

banking businesses reveals that they deliver different services, generate income and other benefits from different sources, and distribute revenue through the value chain in different ways". It is very important to achieve as many customers as possible, but there is always a limit to the number of customer that can be enrolled under an agent. Hence, it also becomes important to focus on economies of scope and conduct as many transactions per customer as possible.[6]

Mobile Money - Bank and 3rd Party Products/Services

Banks and third party service providers play an important role in the mobile money framework. In a country like India where branchless banking is bank-led, it is very important for the mobile money service providers to leverage their relationship with banks to widen the product suite. Currently in India, Electronic Benefit Transfers (or EBTs) routed through banks account for significant proportion of revenue for many agent network managers.

Over time, sophisticated agents will move beyond EBTs, savings and remittances and focus on credit, loan appraisal, account opening, and different types of deposits like recurring and fixed deposits that will increase channel use. In this context, it will be important to distinguish between basic cash in/out merchants and agents that cross sell and conduct sophisticated services on behalf of the bank. Agent network managers can also tie up with third party financial service providers and MFIs, and offer products like insurance, mutual funds and loans. For example, SMEP, Musoni and other MFIs in Kenya use the M-PESA system for loan disbursement and repayment. In India, mChek collaborated with Grameen Koota to facilitate loan repayment through their mobile platform.

How Do We Do This? Getting It Right

Expanding the product suite involves planning and making critical decisions. The following form the building blocks of expanding the product suite: strategy, customer value proposition, and institutional assessment.

The Right Strategy[7]

Proper strategic planning is imperative for broadening the product suite. *Corporate brand and identity* is essential for building and maintaining trust, and ultimately for reducing spend on marketing and communications. *Product strategy* should optimise the product mix, pricing, and communication. The nature of mobile money products, and how they are priced and marketed, is fundamentally different from products delivered by other channels. *Product delivery and customer service* is largely dependent on effective channel management. This has been the downfall of many high potential mobile money systems. Recruiting, training, incentivising and monitoring the performance of agents is complex, but essential. Agents are the face of the mobile money system and determine the customer experience and thus success or failure of the system. The distribution network has to be strong and reliable - an effective customer and channel satisfaction monitoring and management system (CSM) needs to be designed and implemented to ensure this. *MicroSave* uses ServQual[8] based approaches to this.[9]

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[6] See *MicroSave* India Focus Note 65: "Successful Banking Correspondents Need a Compelling Product Mix"
[7] See Briefing Note # 22: "Strategic Marketing for Microfinance Institutions", March 2005, *MicroSave*.
[8] For more information on ServQual please click here
[9] See Briefing Notes # 110 and 111 for a description of agent and customer focused CSMs

Defining The Strategy – Key Considerations

- The value proposition has to be market driven, scalable and profitable to ensure sustainability in the long run. The value proposition must benefit all the partners involved: the bank, technical service or platform provider, agent network manager, agents and customers.
- The product mix must be appropriately designed, offering real value to consumers, which will enable cross and up selling in due course. The product mix needs to be simple if it is to be delivered through an agent network. Overtime, it should be possible to add additional products incrementally.
- The alliances, partnerships, vendor support should be well planned with clear synergies and backed with detailed contracts and key performance indicators.
- The technology should be proven, scalable, secure and cost-effective with adequate longevity.

Identifying the Right Customer Value Proposition

It is very important to find out what the appropriate set of benefits that the customer wants from a service/product to provide convincing reasons for a customer to avail a service/product. This also differentiates the service/product from competitors. Detailed market research is essential to understand customer needs, perceptions and behaviour before deciding on the product mix. The existing alternatives, key influencers and drivers have to be analysed. The mobile money service provider should also have a comprehensive understanding of the product attributes[10] that clients look for, and how they assess[11] the alternatives they have. For example, *MicroSave* conducted a market research to design five savings products to be delivered through an agent network in Africa. The process took four months and culminated in the “concept testing” of the products with clients. This upfront investment of time/money in developing the right customer value proposition will reduce the costs of marketing in the long run.

Institutional Assessment: SWOT and PEST Analysis

It is very important to have a clear understanding of the institution’s capabilities and the impact of the environment on the institution before widening the product suite. Extension of strengths and weaknesses of a traditional SWOT analysis, beyond the mobile money service provider to cover the bank, the agent network manager, and the agents is crucial. Similarly, the external factors, the opportunities and threats, can be analysed using a traditional PEST analysis. Under the social component, the legal regulatory elements will play a critical role. For example, in India, the regulatory framework defines, the products/services offered through branchless banking agents, which will influence the product suite.

Towards A Mobile Money Ecosystem

Ultimately, a mobile money platform could and perhaps even should be capable of acting as a one-stop solution for all financial services. Oxigen is a mobile money service provider in India that offers a wide range of services including ticketing, payments, P2B, G2P and a range of banking services. M-PESA is another service provider that enhanced its product offering by widening the product suite through offer the M-PESA system to literally hundreds

[10] See India Focus Note 52: “Removing the Pain from Using Cash: An M-banking Solution?”, September 2010, *MicroSave*
[11] See India Focus Note 47: “Who Says You Can’t Do MicroSavings in India? Part 3: So Where to Go from Here?”, July 2011, *MicroSave*

of businesses.[12] In the long term, as "cash light" ecosystems emerge we will see a significant reduction in fees for remittances and P2P transfers, and much more emphasis on charging for conversion of e-money into cash and for using the power of e-money to simplify accounting and reduce businesses' need to handle and manage cash.

It is essential to look beyond remittances both to drive profitability of mobile money systems and to cater to the huge unmet financial needs of the masses. However, it would be a mistake to assume that clients are essentially homogenous. The easiest way to get the product suite right is to listen to clients carefully and to match their needs with the organisation's capabilities. Broadening the product suite enables a mobile money platform to expand its client based, drive the number of transactions on the system and ultimately to reap the benefits of what are almost infinite opportunities. There are billions of potential customers waiting for these services.

[12] See Briefing Note # 93 "Innovation And Adaptation On The M-PESA Rails", May 2011, *MicroSave*

Are Banks All Set To Dominate Domestic Remittance Market In India?

Akhand Tiwari and Puneet Chopra

The market for domestic remittances has been dominated by India Post and a multitude of informal service providers.[1] However, banks are rapidly becoming the cheapest and the quickest way to send money, and remitters and recipients alike seem to prefer this channel to the other options available. [2]

Banks did not target the remittance segment by design. Advancements like online or real-time connectivity through core banking solutions; the availability of services to deposit cash (within prescribed limits) directly into third party accounts; and the expansion of branch and ATM networks over time, enabled remitters to increasingly use banking channels to transfer money. At most banks, cash can now be deposited into a recipient's account by anyone from virtually anywhere in the country. Recipients, in turn, can withdraw money at the nearest branch or ATM. Amongst the poor and less sophisticated, it is common practice to use ATM card as a family instrument to withdraw money as and when needed. Banks have, therefore increasingly became a safe, fast, inexpensive and convenient way to transfer money.

This has had its downsides too. Given the low penetration of branches (one for 15,800 adults) and ATMs (one for 61,350 adults),[3] and the exponential growth of demand for remittance services, the queues in branches grew exponentially, crowding their banking halls. The time to service increased, and the service quality rapidly fell for everyone, including the high net income (HNI) customers. Banks found a solution to their problems as the agent based banking model started to mature, particularly in urban areas where significant numbers of migrants work. Agent-based banking provided more outlets, allowing convenient access for deposit, remittance and withdrawal transactions. As a result, remitters and receivers no longer needed to stand in long queues, lose on their daily wages or suffer other loss.[4]

Different Bank-led Remittance Models

Over time, banks have developed various models to provide remittance services and to acquire a larger share of this market opportunity.

Tatkal: Branded by State Bank of India (SBI) as "*Tatkal*", this allows remitters to deposit into a "non home" branch account of the recipients.[5] The remitter, who need not even be an SBI account holder can deposit cash through an agent appointed by the bank, instead of having to visit a bank branch. SBI has pioneered this model and is offering this service through Eko and Zero Mass Foundation (ZMF) amongst others. The transactions through this model have seen continuous growth since inception. For example, the remittance transactions at Eko's outlets increased by 36% to 398,386 in October-December 2011 from 292,739 in July-September 2011. The value of transactions also hiked by 38% to Rs.1.6 billion (US$36.7 million) in the last quarter of 2011 from Rs.1.2 billion (US$26.5 million) in July-September 2011.[6]

Account to Account Transfer: This requires both the sender and the recipient to hold accounts with the same bank, albeit through a business correspondent (BC). It is similar to P2P transfers at banks, with the difference that transfers are done from BC agent locations through no frills savings accounts. Banks have launched/piloted variants of P2P money

[1] See IIMB working paper: Remittances-India-facts-issues
[2] See *MicroSave* India Focus Note 91: "Banks: The Preferred Remittance Services"; and "Understanding Remittance Networks" I and II studies conducted by *MicroSave*
[3] Source RBI, and *MicroSave* analysis
[4] See *MicroSave* India Focus Note 67 "Clients' Willingness to Pay "Reasonable Fee" for BC Services"
[5] The channel is also known as Direct to Core or D2C deposit.
[6] See *MicroSave* India Focus Note 68 "SBI Tatkal: From Cash To Cash Cow"

transfer products. Some examples include Vodafone-HDFC Bank's M-Paisa, Idea-Axis Bank's Idea My Cash, Nokia-UBI's erstwhile Nokia Money, and SBI-Eko account to account transfer. Most business correspondent network managers (BCNMs) are offering this service in their product mix.[7]

Interbank Transfer: The account to account model enables transfers within a specific bank (or its BCs). A variant of this model allows even inter-bank transfers. The providers use national electronic fund transfer technology (NEFT) to enable this service. The remitter is often required to do two transactions. First deposit cash at a BC agent location and then request for transfer. The BC agent fulfils the request by making an NEFT transaction at the back-end. FINO with UBI and Oxigen with SBI are two examples of BCNMs offering this model. Under some BC models like *Suvidhaa*, in partnership with Yes Bank, the sender is only required to register with a valid identity proof and the inter-bank transaction is a one step process, as long as the IFSC (Indian Financial System Code) code of the recipient bank is known.[8]

These different remittance models are benefitting from technological advancements and government-driven initiatives for standardisation, like the unique identification number (UID), and inter mobile platform system (IMPS) projects. *Aadhaar*-based identification from UID eases authentication of remitters and recipients, a critical requirement to address RBI guidelines for KYC/AML.[9] IMPS provides an instant, 24x7, inter-bank electronic fund transfer self-service through mobile phones, with the transfer initiated by remitters.[10] Until January 2012, IMPS had facilitated 19,101 transactions to the tune of Rs.81 million, across 34 bank partners. The regulator too has facilitated the bank-led remittance model through increased transaction and cash-payout limits.[11]

Challenges with Bank-led Remittance Models

While the agent banking model has come a long way, there are still several challenges that need addressing.

Challenge of Access: Bank agents at the recipient end are sparsely located and offer inadequate coverage. So the receivers still have to visit and crowd bank branches to withdraw money or just for balance enquiries to see if remittances have arrived. Banks could map migrant corridors for remittance services and establish new BC agent points in key locations to address this problem. This would also require banks to increase agent penetration in recipient locations.

Challenge of Communication and Building Trust: The efforts by banks and BCNMs to build awareness and educate potential customers about this new channel have been limited. As a result, remitters remain unaware or apprehensive, and seem to prefer branch-based or informal channels. The receivers likewise, do not yet fully trust the agents. This is a very critical area needing concerted efforts by banks and BCs.[12]

[7] *MicroSave*'s internal studies on BCNM assessments. UBI may now offer Nokia Money in new avatar as Nokia pulled out of mobile banking services recently to concentrate on their core business.
[8] IFSC is 11 character code assigned by RBI to identify every bank branches uniquely for facilitating of NEFT system in India.
[9] See *MicroSave* India Focus Note 69 "UID and Financial Inclusion – Solution or Not?"
[10] See *MicroSave* India Focus Note 61 "Interbank Mobile Payment System: Will It Catalyse Financial Inclusion?"
[11] The RBI recently increased cash payout limit, increase money transfer limit vide mobile transfers, NEFT. Please see DPSS.PD.CO.No. 622/ 02.27.019/ 2011-2012 dated 5th October 2011 and RBI's notification page NPCI's website.
[12] See *MicroSave*'s Briefing Note 101: Mobile Money - Questions That Your Client Will Ask You and Research Study Designing and Implementing Agent Networks

Challenges Faced by Agents: Agents are frequently unable to complete transactions due to problems with using technical devices; issues of connectivity; server unavailability/downtime; or in-adequate cash/float to complete the transaction. Furthermore, many agents wind-up their business due to insufficient income, or inadequate support from the BCNM.[13] These lead to loss of consumer confidence and cause customers to eventually stop using the service.

Conclusion

Driven by the government's financial inclusion agenda, as the BC model expands in multiple forms, banks and BCNMs are experiencing new consumer demand and expectations. Remittance is one of the flagship products, enabling the financially excluded majority to experience and benefit from formal financial services.

Regulations and technology have had a critical role in expansion of remittance services provided by banks. The following further enhancements could accelerate this growth.

Integration of Core Banking: Financial inclusion (FI) services of several banks are yet to be integrated with their mainstream core banking. This prevents seamless transactions between FI and mainstream accounts, thereby limiting remittance services. Additional minor limitations are: (a) inability to transact real-time or even online; and (b) hard-wiring of customers and the BCs with whom they can transact.

Allowing BCs to Acquire Transactions for Multiple Banks: If agents can acquire transactions for any bank, (as is the case with ATMs), their viability would be substantially enhanced. Greater competition would enable market forces to determine tariffs, and customers would get more choice and can expect better services. While agents are allowed to acquire transactions from multiple BCs of the same bank, regulations are silent on acquisition of transactions from another bank.

Standardisation of Technology: A multitude of technologies have proliferated in the BC sector. These range from offline smart cards to online magnetic stripe cards and several variants of mobile solutions. It is critical that some degree of standardisation is accepted by the industry. This would not only enable scale and costs reduction, but also greater integration and interoperability of services. Various initiatives by UID and NPCI hold some promise to achieve this.

Banks and BCNMs have the opportunity to grow and expand remittance as a market-led and profitable offering. Banks will benefit if they can strategically expand BC services across migrant corridors, and improve agent management practices to offer differentiated, superior and consistent customer service.

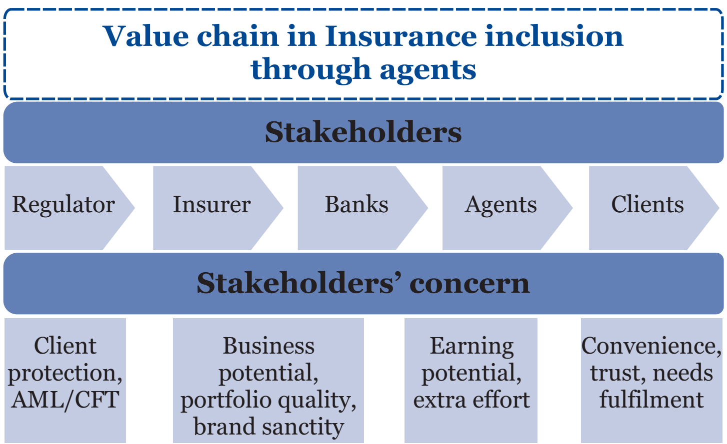
[13] The biggest challenge of agent model is to ensure that agent remains motivated. *MicroSave*'s OPTIMISING PERFORMANCE AND EFFICIENCY SERIES on E/M-Banking (I, II, III, and IV) discusses key insights on e/m banking and agent management.

Agent Banking and Insurance: Is There A Value Alignment?

Jitendra Balani and Premasis Mukherjee

Introduction

Agent banking,[1] is emerging as the preferred conduit to promote financial inclusion globally. However, an agent banking network can sustain only if there is a value alignment for all the stakeholders in the digital eco-system. The banking correspondent model in India has demonstrated the need for a shift from the single product regime to create such value for banks, agents and clients. Since insurance and pension products cover a large span of clients' life-cycle and needs, the prospect of insurance inclusion through agent banking is being widely recognised by regulators and practitioners alike. Pilot programmes testing insurance servicing through agents are also increasingly becoming common and visible.



In this note, we discuss the potential value for stakeholders in a situation where insurance products are offered through agent banking channel. We also highlight the challenges that might arise when implementing insurance products on agent banking channels.

Regulators' confidence in bank-led channels for financial inclusion is high

Agency banking is largely bank-led in most countries. The principal bank is responsible for AML/KYC[2] compliance; consumer protection; risk management; and liquidity management at the agents. Therefore, banks' agents are more trusted by regulatory and political authorities than the more loosely regulated microfinance entities or individual insurance agents. Moreover, the probability of regulatory arbitrage is also lower in agent banking since banking regulation is stronger than insurance regulation in most countries. Hence, regulators find it preferable to promote insurance through agent banking channels.

For insurance companies, banking agent means inexpensive and voluminous point of sales

For insurance companies, business economics depends on the highest possible number of sales outlets acquired and managed at the least possible cost. Banking agents, therefore, are the best alternative channel available for mass market insurance products. Since the agents are acquired and managed by the banks, the insurer does not incur high on-boarding or management cost beyond the variable costs which depend on the business sourced.

Moreover, in this channel, the insurer gets access to the existing clientele of the principal (i.e. the bank), a reason enough for insurers to prefer agent banking as a channel.

For banks, this means extended reach and cross-selling to the base of the pyramid segment

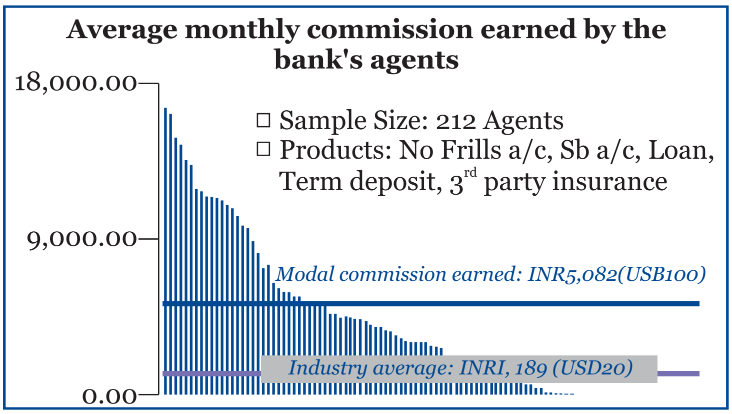
Banks consider bancassurance to be a prospective business due to the opportunities for cross-selling; competitive advantage; increased stickiness of clients; enhanced staff productivity;

[1] Offering of financial services through bank agents often using technology such as point of sale devices and mobile phones
[2] Anti Money Laundering/Know Your Customer

and fee income potential. However, bank employees are costly resources, and hence banks can only afford to sell high premium products through their bank branches. Though many banks have garnered a substantial pool of low income clientele, deputing branch staff to cross-sell insurance to these clients does not make any economic sense for the banks. A low-cost mass-market channel like agent banking opens prospects for extending the reach of insurance for banks.

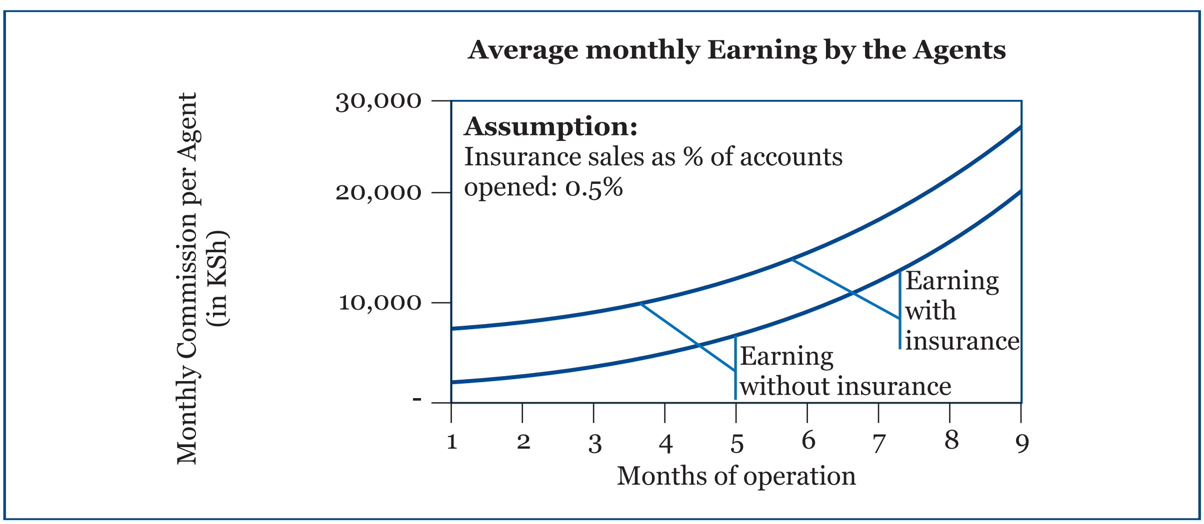
Insurance sales reinforces business case for the bank agent

MicroSave's agent assessments of over 20 agent networks in India have identified a strong need for an improved business case for the bank agents.[3] Basic account opening ceases to make any significant impact on agent economics beyond a year of operation. Remittance and account transactions need time to pick-up, and in between, the agent needs to sustain his business. This can best be achieved by offering a range of products.[4]



In a recent study with a large public sector bank of India, we saw that multiple products do enhance agent's income substantially (see graph below).

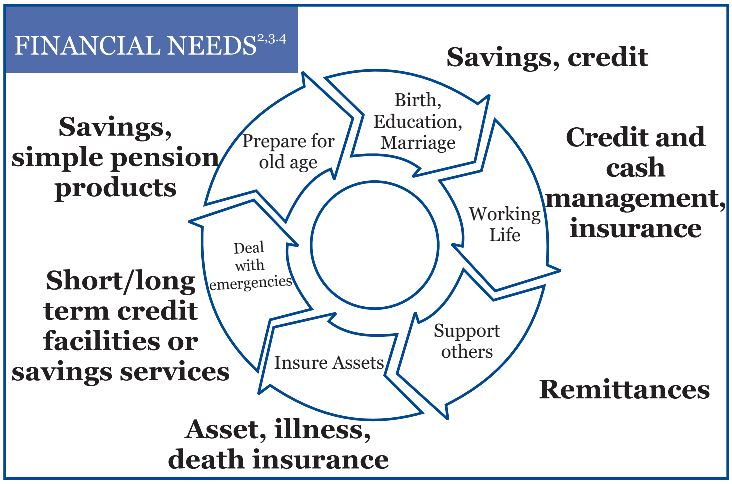
In an African Bank, it is projected that insurance sales and servicing of insurance products (premium collection and benefit redemption) can enhance the earning potential of agents by an average 37%.



For clients, agent should be a one-stop financial solution

Low-income clients need a range of financial products in their life-cycle. Insurance and pension products help them cope with multiple shocks and old age security, which are often perceived as important needs. Demand and willingness to pay studies have also proven substantial

[3] See *MicroSave* Policy Brief 2: The State of Business Correspondence - Agent Networks in India
[4] See *MicroSave* India Focus Note 65 "Successful Banking Correspondents Need a Compelling Product Mix"



need for insurance products in the low income segment and the clients' willingness to pay for the premium. Many clients perceive endowment life insurance as an attractive instrument for long-term savings. Moreover, there are certain insurance policies which are mandated by the government (e.g. motor insurance) and only require simple documentation. Bank agents can be a preferred channel for clients to access such insurance.

Though some value alignments are evident, there are also several concerns about insurance inclusion through bank agents.

Quality of business would be a concern for insurers

Insurance is a specialised financial product and requires expert solicitation and sales. Most countries also mandate a minimum qualification for insurance sales professionals. Bank agents are mostly mom and pop store owners who lack both qualifications and insurance expertise. This can hamper both the quality of business, as well as the potential sales an agent could achieve. Moreover, as a distant client interface (unlike tied agents of insurers), the bank agent channel would be highly susceptible to mis-selling and adverse selection. All these factors could affect both the brand sanctity and the business quality of the insurer. Hence, any insurer will be cautious in allowing its insurance products through this channel.

For bank, the challenge is in managing portfolio

Unlike European banks, where multiple bancassurance channels exist, insurance is mostly pushed through the branch staff channel in developing country banks offering agent banking. Managing the insurance business through the commission-based agent channel would require the banks to re-work their supervision, audit, performance management and incentive design in their bancassurance divisions. Managing third party products would also require the banks to assess the potential for cannibalisation (of other products by insurance or vice versa); brand exclusivity issues; and the cost benefit for each product pushed to the agent channel.

For agents, cost (benefit) must justify the effort

Insurance selling is more effort- and time-intensive for an agent as compared to account opening or mere cash-in/out transactions. The willingness of bank agents to devote time to the insurance business will be a function of the incentive structure for the insurance activities. Unless the policy acquisition is front-loaded with high commissions, agents are unlikely put effort into selling insurance through their outlets. An alternative approach could be to use agents only to sell mandatory insurance (e.g. motor insurance), which has a ready demand and requires little solicitation and underwriting.

Intangibility of agent technology might put clients off
Mobile or card based technologies have become common in most agent banking implementations. One issue with these platforms is their intangibility. Insurance is anyway an intangible product (where the value or benefit for the customer is virtual and future-oriented). This intangibility is further magnified in mobile/card based channels. This factor might dissuade customers from transacting through the agents. Moreover, the low-income clientele often prefer to diversify their financial portfolio across several different providers, because they struggle to trust any one. Hence, the extent of cross-selling potential might be less than expected in the low income category, especially through agents.

Conclusion

Despite the stakeholder value alignment, it is evident that insurance inclusion through agents requires careful planning at both insurer as well as the implementing bank level. The success of insurance sales through agent banking, would ultimately depend on:

- Product planning: decision on which kind of product could be sold through the agents;
- Channel planning: defining the roles, processes, and incentives for the bank agents and how these fit into the overall bancassurance strategy of the insurer, as well as the banks; and
- Marketing planning: to maintain brand identity and ensure that clients come to buy insurance over the counter at agent locations.

Process Mapping for Mobile Banking Initiatives

Krishna U.M. Thacker and Raunak Kapoor

Introduction

MicroSave Briefing Note # 29 "Process Mapping" detailed the steps involved in process mapping. This note focuses on the intricacies involved in conducting a process mapping exercise for mobile banking initiatives.

Pre Process Mapping Phase

Finalise Partnerships

The four key functions that define the success of any m-banking deployment are technology platform, agent networks, connectivity and IT systems. As a precursor to mapping processes, it is critical to ensure that business partners i.e. the technology platform vendor, agent network manager and mobile network operator have been identified and agreements have been signed. The agreements should clearly define scope of work of the concerned partners, which should be aligned with the business requirements as part of bank's branchless banking strategy. Uncertainties around roles and responsibilities of partners will lead to uncertainties and confusions around mapping processes, and any processes thus designed are likely to be redundant or not implementable.

Involve Business Partners

Staff from partner entities should be part of process mapping team to help define the boundaries within which a particular process can be designed. For example the internal team may come up with a customer enrolment process that the technology platform is not able to support, or that the agent network manager cannot deliver on because of the organisation's limited staff capacities.

Avoid the "Technology Driven Business" Trap

At the first meeting with the technology provider (usually the business development managers) often yields promises that nothing is impossible and the provider has the world's best and most advanced mobile banking technology ready to deliver and roll out. Of course, the reality is far more complex. Unless the financial institution is conscious, clear and practical about its business (and the clients') needs, it will find the technology driving some important product features and processes instead. This may result in products/processes that fail to meet business requirements and associated costs that go beyond the budget. To avoid such situations, management and partner entities (the core banking solution vendor, agent network manager and mobile network operator) should assess the technology platform together. To do this effectively, the individual entities in a consortium must have a shared understanding of the overall business strategy, based on which a checklist of relevant technology related questions can be prepared. This list should be discussed with technology vendor to understand 'standard applications' and 'customisations' that would be required, along with associated cost and timelines for such customisation and implementation.

Understand the External Environment and Potential Clients

A sound understanding of the external environment and target clientele is essential for the design of processes for mobile money. This will require secondary research on literacy levels, tele-density, mobile network coverage, the market share of MNOs, prevalence of identity cards etc. The secondary research can further be elaborated through market research with potential customers.

The market research should assess the perceptions, needs and aspirations of the potential customer base. These should then largely drive the products offered and the processes used to deliver them.[1]

Training Internal Staff on 'Process Mapping' and 'M-Banking'

As explained in *MicroSave*'s Process Mapping toolkit, assembling a cross-functional team is key to any process mapping exercise. The team should be trained on 'process mapping' in order to ensure a common understanding of methodology and conventions amongst team members. In addition to training on process mapping, the team may require education on m-banking and the institutions' strategy. The latter sessions are particularly important in cases where the service provider is pioneering m-banking services in the country. In a country like Kenya, where there are multiple mobile money services with reasonable penetration levels, such exposure might not be required.

Creating a Process Mapping Architecture

Before starting the mapping exercise, the team should brainstorm the process to derive a clear plan covering:

1. A list of processes along with start and end points,
2. Process owners
3. Key result areas
4. Scheduled timelines for completing each process
5. Team involved in designing a particular process
6. Process reviewers

This plan document serves a useful reference point for tracking the progress of the mapping exercise and leads to better coordination amongst team members. It develops a common understanding of the overall process mapping exercise. Also, scheduling processes logically helps to avoid redundancies and each process serves as a logical starting point for subsequent one.

Process Mapping Phase

While individual institutions need to assess what could work best within their context and environment, they should consider the questions below:

[1] See *MicroSave*'s Briefing Note 101 "Mobile Money - Questions That Your Clients Will Ask You"

Customer Enrolment

- Who can enrol customers? (All agents, specific agents or only bank branch staff)
- Same or different process for existing bank customers and new customers?
- Will KYC requirements be different for different levels of use?
- How will be KYC data captured?
- How will the data be transferred to the validation center and who will validate the authenticity of data captured?
- What will be the status of accounts whose KYC data has not been validated?
- How will accounts be activated?
- What details/documents will be in the account opening kit?
- Monitoring and follow-up (Who will monitor, at what frequency and what all needs to be checked)?

Transfers

- Will transfers be allowed only within network (existing client base) or outside network as well (other network wallet holders, non-wallet holders)?
- What is the transaction process? Who will initiate and who will confirm?
- How will 3rd party deposits be treated?
- What is the process, if any, for erroneously recovering remittances to unintended recipients?

Cash – In/Out

- What details customer/agent needs to enter to authenticate transactions?
- Who will initiate the transaction? (Agent or client and its implications)
- Will the agents maintain any registers?

Commissions, Settlements and Reconciliation

- What are the commissions for account opening and transactions and how will these be credited to them?
- How will any client/agent level disputes be handled during the transactions?
- Who will settle with whom?
- What is frequency of such settlements?
- What are the guidelines/regulations? Is any professional body required to mediate?
- What will be the accounting entries in the institution's books of accounts for settled and unsettled amounts?
- Who will be responsible to reconcile and follow up on settlements?

Post Process Mapping Phase

Be ready and prepared for changes and adaptions during the first few months: the institution should have their teams and systems prepared and designed to identify, incorporate and implement changes. The following steps will help institutions to do this:

Assign a Team

The institution should assign an internal process team responsible for updating the maps based on identified changes. Processes related performance / tasks should be in the KRAs of the team members.

Determine the Frequency of Updating Processes

MicroSave recommends monthly for the first few months until completion of the pilot phase, and quarterly for the first few quarters of the roll out. However, this will also depend on the institution size and context.

Conclusion

Adopting a systematic approach to design processes in a mobile banking initiative is crucial to avoid redundancies and to create processes that are robust. Alignment of interest between business partners goes a long way in securing the success of any such initiative.

Customer Support for Digital Financial Services Users

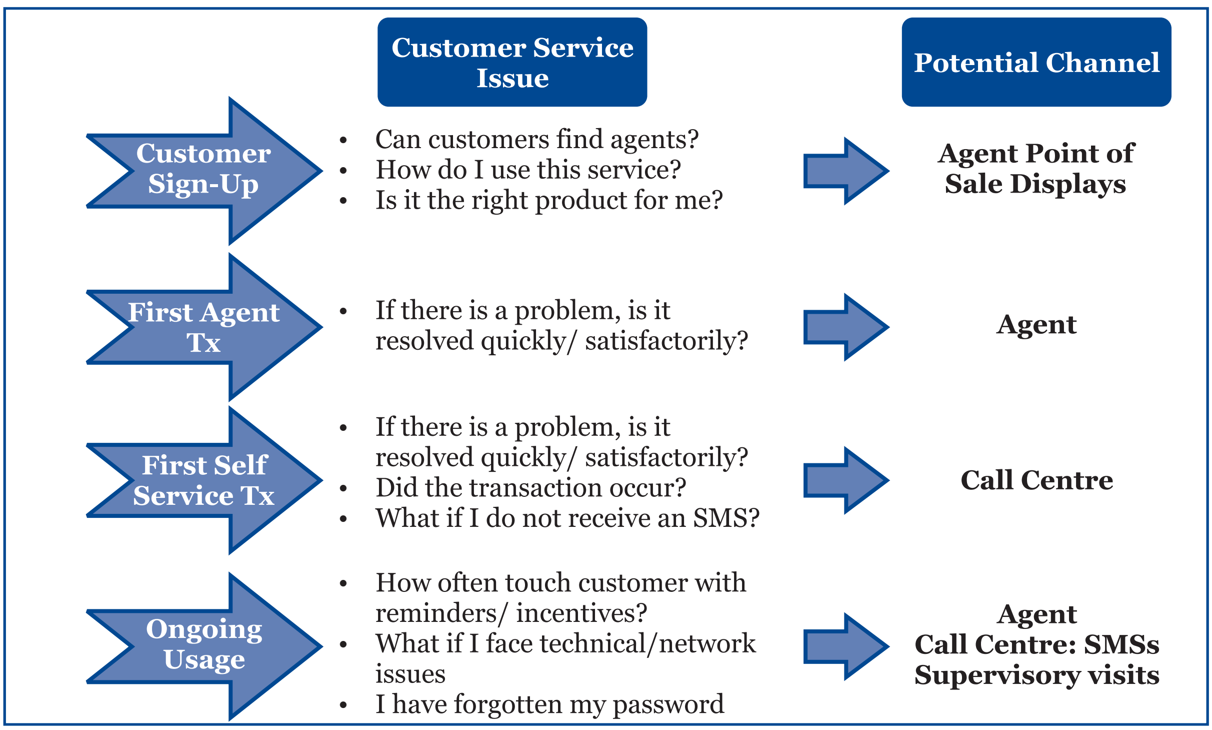
Swati Mehta

Customer delight is no longer a 'nice-to-have' strategy, but increasingly recognised as integral to any sound business-model. Given the high cost of customer acquisition and wafer-thin margins, the longevity of customer relationships is quite fundamental to the very survival for providers servicing the poor. A delighted customer not only drives the usage to a higher level, but becomes an advocate, and a tremendous catalyst for marketing efforts through word-of-mouth promotion.

While customer service and support is important for any product, it is vital for financial services that deal with people's money. It is even more significant in the context of the illiterate/semi-literate poor, having their very first experience with financial services delivered through non-traditional channels, outside bank branches through retailers or business correspondent agents. This note examines various dimensions around enhancing customer experience.

Consumer Usage Lifecycle and Service Issues

Customer needs for support in the context of digital financial services vary at different lifecycle stages and should to be addressed accordingly (see exhibit below):[1]



1. ***Customer sign-up:*** To be able to find the agent location; understand the product features and their benefits; and understand how to sign up for the product, make enquiries about status in case of delay in service activation / card issuance.
2. ***First agent transaction:*** To understand how to load and access the service or the application, if required; understand the process of making a transaction; and troubleshoot in case of a problem.
3. ***First self-service transaction:*** To receive support when conducting self-service transactions in terms of network/connectivity support, transaction confirmation, troubleshooting, delays and so on.

[1] Adapted from the CGAP Framework for Active Customers

4. ***Ongoing usage:*** To receive regular updates and reminders; troubleshooting; new product enrolment and other support.

Channels for Customer Support

The relevance and utility of methods for providing customer service and support varies during the usage lifecycle. The most widely used channels are – (a) front-end agents; (b) call centres; (c) monitoring visits and interactions by supervisors/managers during visits to agent/customer locations; (e) information through point of sale displays; and (f) SMS interactions.

Front-end Agents

Agents are the first and the most critical point of contact for customers. Thus, their importance and role in ensuring high quality customer support is clear. This can be achieved through a three-pronged approach.

a. ***Agent selection:***[2] It is important to ensure that the agent recognises his/her vital role in providing customer support and is capable of delivery. Though subjective, the agent selection process should seek to assess agent's ability and willingness to offer customer support services.
b. ***Training and information material:*** Next the agents must be armed with appropriate training and adequate information material such as process manuals, product information and frequently asked information guides. The training should lay adequate emphasis on the basics as well as critical aspects of customer service for which agents are responsible.
c. ***Incentivisation:*** Agent incentives are normally on a fixed-fee basis or linked to the number of accounts opened and the value or the volume of transactions conducted. In order to drive customer delight, these need to be altered to include incentives on customer longevity and satisfaction. Some metrics that can be adopted are: average quarterly balance maintained by the customers; percent of active customers that are more than 6 month/ 1 year/ 2 years old; consumer complaints as a percentage of total enrolled/active base; inactive customer base; feedback surveys and so on. This can greatly motivate the agents to acquire the right customers, attend to their issues and ensure their satisfaction.

Call Centre for Customers

ANMs and banks often provide remote support for frontline agents. There is however an equally compelling and acute need for a direct helpline for the customers. This becomes an essential fall-back option when agents are unavailable or unable to address consumer queries or grievances. Customers get an opportunity to provide feedback on agents or lodge complaints in case of unsatisfactory service or to simply call to inquire about products or agent locations. If this can be made reliable and efficient, it has the potential to boost customers' trust many fold as they would have a 12x7 or 24x7 accessible recourse mechanism.

In order to ensure call centres are reliable and efficient, certain measures need to be put in place: pre-defined turnaround times; well trained and suitably informed call centre executives; tracking open cases; and escalation for unresolved / delayed cases. At Eko, an ANM in India, every service denial complaint is tagged to the particular agent.[3]

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[2] See *MicroSave* Briefing Note # 81 "M-Banking Agent Selection" and India Focus Note 66 "What Do Clients Want in Digital financial services Agents?"
[3] See *MicroSave* Briefing Note #130 "Customer Service Through Call Centres"

Call centres can also provide valuable insights to ANMs and can be effectively used as a channel to communicate with customers, or as a resource to enhance marketing efforts and quality of operations. For instance, if there are too many queries on a particular product, it suggests that some promotional/marketing efforts might be needed. Outbound calls can be made to increase sales, disseminate product information, introduce special offers, conduct research for new products, and obtain feedback for existing products. Equity Bank in Kenya recently conducted a huge marketing campaign to launch its m-banking product. Their call centre played an important role to measure the effectiveness of various media channels used and provide inputs for future marketing strategy.

Call centres can be in-house or outsourced, with toll or toll-free access, depending on the strategy, scale and cost-benefits for an ANM. Often providers commence with a toll-free service and subsequently introduce charges once the customers are accustomed to the m-banking service.

Monitoring and Supervision

Periodic visits to agent locations are necessary to monitor agent activity, identify and mitigate risks and to receive customer feedback. These visits should include assessment of consumer related issues and could include monitoring customer service levels, point of sale displays (particularly pricing), instances of mis-selling or overcharging customers and so on. These visits should be made by both bank and ANM staff. Appropriate mechanisms such as mystery shopping and test transactions at the agent location, can be institutionalised to enforce monitoring discipline. Suitable rewards and penalties need to be imposed for non-compliance. In Mexico, regulations empower the supervisor to shut down an agent's operations partially or totally for inappropriate customer service.[4]

Some ANMs/banks also outsource the monitoring function. M-PESA uses the services of Top Image for monitoring front-end agent activity. Banks/ANMs can couple these visits with customer interviews to assess customer satisfaction levels, wherein the staff can use a questionnaire to gather feedback.[5]

Information at Point of Sale (POS) Displays

In many countries, regulations require agents to display important information - such as certificate of appointment, grievance redressal process, product pricing - prominently. In Colombia, agents are required to display notices informing clients that withdrawals depend on availability of cash at the agent. In Brazil, Colombia, and Mexico, marketing material and transaction receipts must disclose that the agents are associated with a licensed financial institution.[6]

POS displays also aid branding the outlets so that customers can identify them. ZMF[7] in India displays bank's sub-brand "SBI Tiny" to enable customers to identify their outlets easily and to build trust. They can also be used to communicate with the customers about new products and promotions.

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[4] See Page 16, CGAP Bank Agents: Risk Management, Mitigation, and Supervision
[5] See *MicroSave* Briefing Note # 110 Managing Channel Satisfaction in Agent Banking 1/2 and # 111 Managing Channel Satisfaction in Agent Banking 2/2 for more details on managing customer satisfaction
[6] See CGAP Protecting Branchless Banking Consumers: Policy Objectives and Regulatory Options
[7] ZMF or Zero Mass Foundation is a business correspondent for State Bank of India (SBI)

Who is Responsible for Customer Support?

In certain countries like Brazil, Mexico and Peru, regulations provide for strict guidelines to ensure customer protection and support in terms of disclosures, supervisory requirements, cash management, data privacy norms and so on. However ANMs need to increasingly recognise that superior customer experience and delight is no more an option or a matter of compliance, but needs to be integrated into institutional strategy and functioning at all levels. Digital Financial Services systems depend on above all on clients' trust. Customer service is key to building and maintaining that trust.

Customer Service Through Call Centres

Priyank Mishra

Introduction

Traditionally, the banking sector has been an early adaptor of several technology based interventions to provide 24x7x365 customer service availability for its customers. Core banking systems, ATMs, internet banking, etc. were designed to provide better and more readily available services to their customers. Call centres, in-branch customer help desks, e-mail-based systems, etc. were developed to stay connected with customers and ensure that their queries were quickly resolved. Financial inclusion (FI) players in India are trying out different delivery channels to offer convenient and accessible services to customers. Many banks, agent network managers (ANMs) and technology service providers (TSPs), have also arranged call centres to stay connected with, and be available for, their customers.

This note details the role played by call centres in reaching out to customers targeted through FI initiatives, and the considerations and challenges which go into setting up and managing these call centres.

Role of Call Centres

The three broad roles played by call centres in agent based banking are:

- Providing information to callers
- Instant redressal of callers' complaints
- Initiating service requests of callers

Agents also use call centres for complaint redressal on issues like server down time, issues with field staff, etc. or to seek information on commission structure, product features or any other query coming from the customers. In fact, recognising how important the call centre is as an agent support function, a leading ANM of India started a separate toll-free line. This provides agents quick responses without the congestion of the public line for customers accessing the call centre.

Some regular cases for which customers call up are:

Seek Information	Enquiries on product, process, pricing, terms & conditions, service availability, account balance, transaction history
Complaint Redressal	Overcharging, service denial by agent, misbehaviour by agent
Initiate Service Request	Blocked/inactive account reactivation, PIN reset, change of registered mobile no, loss of smart card/mobile phone

Types of Services Offered

Inbound services: These are the call centre services that are offered through calls initiated by customers or agents like enquiries, grievance redressal and technology support for agents. In such a case, call centre executives are trained professionals who handle the

Contact Centre - *An Emerging Concept*

A leading ANM in India (its parent company handles several other businesses as well) provides multiple options to customers/agents to raise their grievance - through **inbound calls, SMS** (call centre executive calls back) and **web portal** where a person can log the grievance. The parent company's call centre handles FI related calls as well hence each of the 52 call centre executives are trained to handle FI/non FI related calls. Estimated call volume on FI related calls (with FI customer base of around 300,000) handled:

Inbound calls/day	500 - 550	Each executive handles nearly 10-15 FI related calls daily.
Outbound calls/day	100-150	

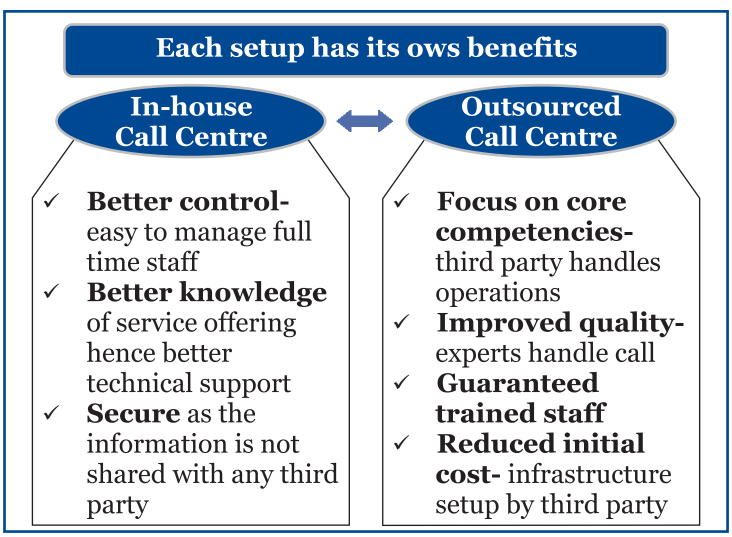
incoming call and resolve it either by providing an instant solution or by raising a service request which has a defined turnaround time for resolution.

Outbound services: These services are offered through calls initiated by call centre executives who call up customers or agents. These calls are used to promote a new product or service or to conduct satisfaction surveys. Outbound calls are also made to educate customers on how to ensure security of their account, how to stay alert to fraudulent practices and to re-emphasise product features.

Safaricom, the leading mobile money service provider in Kenya (M-PESA) provides differential customer service to different segments. There are dedicated call centres for agents and agent aggregators, as well as other two dedicated call lines for customers - one line is toll free (and hence often congested), and a second premium line where customers pay for the service.

For a call centre supporting FI services, it is highly important to give priority to inbound services, which have high volumes. However, call centres can also provide outbound services during lean periods of the day when incoming calls are lower (typically during normal office hours during the day).

Business Considerations – Call Centre Setup



Several banks, financial institutions and ANMs involved in FI have attempted to set up a call centre in one form or the other. The biggest business consideration that they have to decide upon while setting up such customer service options is whether to keep the call centre in-house or outsource it to a specialised third party. This decision has to be made based on a number of parameters like strategic fit with their business model and also based on commercial considerations. These are highlighted in the diagram.

Other Important Considerations

Human Resource Management and Training: A call centre setup usually has a hierarchical structure where each level has a defined role. Executives handle inbound/ outbound calls and report to team leaders, who are subject matter experts and handle escalated calls. They report to a manager who handles the whole team in terms of quality, targets and overall operations.

Training is complex and essential to respond effectively to customers during the call. With the entirely new market segment serviced under FI, it becomes particularly important to have staff who can handle calls effectively. Areas typically covered under training include product and process knowledge, issue resolution, customer relationship management and the use of other applications (see **Role of Technology)**. In addition, executives are given a separate course on soft skills and behavioural aspects of managing calls – this again may need tailoring for the low income market.

Monitoring Parameters: Monitoring involves conducting periodic checks to determine an employee's level of performance in relation to established performance standards. Monitoring provides the data by which performance is ultimately evaluated. Quantitative monitoring is based on parameters like service level (where actual call rate is matched with targets); average call handling time for an executive; and first time call resolution (where it is checked if the call was resolved by the executive in the first call itself or not). Quality monitoring is also conducted by listening to and observing executives' phone calls and other interactions, and then scoring those conversations against an agreed definition of what constitutes an effective customer interaction.

Role of Technology

Certain specific applications which assist the call handling and issue resolution at call centres are:

Application's name	Application's Use
Automatic Call Distributors	To manage incoming call flow and automatically diverts calls to the most appropriate agent based on subject knowledge, language skills and availability.
Customer Relationship Management	To document customer issues and action taken. Assists in responding to customers based on their past interactions through call centre.
Call Processing Simulator	To evaluate/verify the information shared by the caller. This application is connected with backend real time transaction database.
Workforce Management Software	Based on call flow, helps in forecasting call volume. Useful for scheduling optimal number of executives to attend calls.
Campaign Management System	To manage the outbound calling by providing contact details for calling and interface for recording the interactions.

Challenges in Managing Call Centres

As FI players are servicing clients in diverse geographies, the biggest challenge faced is to cater to the regional customers who can interact only in their local language. Cost considerations will always favour a centralised setup, so call centres are usually setup and manpower with regional language capabilities are recruited based on call log patterns. Another challenge is handling call flow at peak hours and also ensuring that executives do not sit idle during lean hours. For this, call centre staffing work on a shift basis to ensure optimum staff during peak hours. Also, during lean hours, idle executives are used to make outbound calls.

Conclusion

Currently in India, call centres supporting FI initiatives are either running as in-house establishments fully managed by one of the participating agencies, or as outsourced call centres to third parties, based on the overall business considerations. Some MNOs or banks which have ventured into FI are using their existing call centre facilities to cater to the new set of customers. There have also been instances where ANMs have entered into an arrangement with partner banks to piggy back on the bank's call centre. On the other hand, many FI initiatives have not yet started, or are in the process of setting up, a call centre for better customer service. As FI initiatives mature and competition increases, call centres to support customer service will become key differentiators. Indeed, it is not unreasonable to argue that a quality call centre is essential to build trust in emerging digital financial services systems.

Training Digital Financial Services Agents: What is Missing?

Denny George, Nitish Narain and Vartika Shukla (with contributions from Nitin Garg)

> "We are mobile airtime sellers. We do not require much training. We do this work every day!"
>
> "The training should happen at the shop. In the hotel, there is a crowd and we cannot understand anything."
>
> "The trainers were not proper. Most of the CSPs (agents) came back to us to understand how to do transactions." – An agent supervisor

This is the feedback that one Agent Network Manager (ANM) received this summer from their agents and agent supervisors.[1] These and other training programmes too often fail to meet expectations, and trainees rate the content as irrelevant and the training methods as unsuitable.

This note briefly discusses the reasons for this negative feedback, the profiles of the agents, and new areas to be considered in agent training programmes.

Types of Agents

There are broadly three kinds of agents:

1) ***Transaction (or cash-in/cash-out) agents***—These agents only conduct transactions on behalf of the bank, and usually handle one or two products. For example, Eko agents in India handle only *Tatkal*, an agent-to-bank account remittance service. Even in Kenya's ever-expanding M-PESA money-transfer service, most of the agents just service transactions (deposits, withdrawals, and transfers).

2) ***Full-service agents/sales agents***—These agents provide all services, including enrolment/account opening. They usually offer two or more products, rather than a single product. At Equity Bank in Kenya, sales agents are expected to handle both account opening and servicing of accounts, in addition to managing more than five bank products and services.

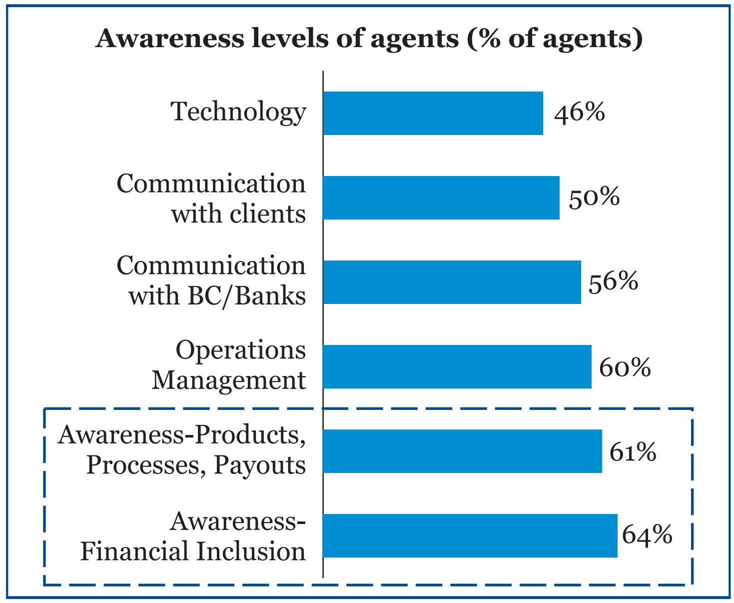
3) ***Super agents***—These agents supervise the activities of transaction and/or sales agents under them, provide a link between the ANM and the agent, and support agents in cash management and front-end operations. At Eko, an Indian mobile banking and transfer service, super agents provide cash management support by rebalancing cash and e-cash between agents and the bank.

The training needs for these agent categories differ. Transaction agents require a "*products and processes*" focus, plus liquidity management and security; while full-service agents need a more comprehensive review that covers all aspects of agency banking—including processes, marketing, risks, technology and relationship management. The next rung up, super agents or agent supervisors, need training on managing the agent network under them and processes involved.

[1] The feedback was received during the many Channel Satisfaction and Measurement Studies conducted by *MicroSave* with a leading ANM in India

Evidence from The Field

MicroSave recently conducted a baseline assessment of m-banking agents in Bihar, India. The study highlights the awareness level of agents across six categories, and points to significant gaps in the understanding of issues central to the delivery of digital financial services. The study also probes into specific aspects of agent awareness within these categories. (Some are not provided in the general graph below).



While 64% of the agents understood the objective of providing digital financial services banking services promoted by banks; 68% were completely unaware of the clientele they need to target. Similarly, 61% of the agents knew about the products and processes, but only 24% could handle customers' frequently asked questions.

What Should Training Cover?

The training issues discussed below derive from the above study, as well as other related *MicroSave* research studies and assignments.

1) ***Products and Processes***

   Agents need to be well-versed in the various accounts their bank offers, restrictions, fees, and key selling points, along with their ANM requirements. This helps agents adhere to regulatory norms, reduce fraud and expedite successful customer applications. Agents should also know what new products will soon be available in order to help promote these. Since they are usually the only point of contact for customers, their knowledge needs to be both current and accurate in order to handle customer queries.

2) ***Technology Platform and Troubleshooting***

   Technology is at the core of digital financial services operations, and agents are expected to understand at least the basics so they can troubleshoot common errors. This matters, since most agents are located in remote places. It is time-consuming and costly for a technician to visit them and resolve technology issues.

   The *MicroSave* Bihar assessment study referred to earlier also reveals that though 88% of the agents were comfortable in handling the Point of Sale (POS) device for customer enrolment and transactions, only 12% were aware of the basic troubleshooting processes. They would regularly call the TSP (technology service provider) to resolve even minor problems.

3) ***Compensation Structure***

   Not surprisingly, agents care most about their compensation and incentives, as well as how their remuneration is calculated and credited. They also want to know how to make money as agents, since many in rural areas do not. Because revenues and profits are too often skipped over, or insufficiently explained, in their training, agents lose interest or even quit.

4) ***Banking and Digital Financial Services Operations***
Agents who understand their roles and responsibilities—specifically, good record-keeping and liquidity management—will also better understand overall bank operations. Knowing why and how banking regulations affect daily operations is also useful.

5) ***Soft Skills and Communication***
Finally, open channels of communication between agents, their network managers, and the banks are essential for agents to do their job properly. Agents can do every aspect of their business better if they inspire trust. Customers are more likely to open new accounts, conduct transactions etc. Furthermore, unresolved disputes, which agents can only help mediate, not decide, may be less problematic. All these issues should be clearly addressed in the agent training.

Emerging Trends in The Market[2]

The agents must be updated about any developments in the industry with regard to regulation, technology, and new players, as these have an impact on their business. For example, Indian agents need to be aware of all changes in government financial-inclusion initiatives such as cash subsidies and social-security payments since the agents are the principal cash-out points.

Conclusion

The training issues highlighted above should form the core of most programmes. However, *MicroSave* recommends that a training needs assessment be conducted before designing any training programme. Agents' level of understanding about each issue will vary and depend on their previous experience with handling banking services, their occupational profile, and their level of education. In addition, to allowing calibration of the standard agent training, a training needs assessment will often unveil additional issues or training requirements. Many of these vary substantially across different markets.

Agent training is an essential foundation of a robust, trusted and ultimately successful agent network.

[2] See *MicroSave*'s research paper, "Designing and Implementing Agent Networks" for a detailed guide on managing agent networks.

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- Product and Process Re-engineering
- Improving Portfolio Quality
- MIS
- Internal Audit and Control Systems
- Risk Management Framework
- HRM

Strategy Development and Governance

- Strengthening Board Governance
- Institutional Change
- Strategic Business Planning
- Financial Planning
- Strategic Marketing
- Corporate Brand and Identity

Product and Channel Innovations

- Market Research (Qualitative and Quantitative)
- Costing and Pricing
- Pilot-Testing
- Roll-Out
- Product Marketing
- Digital Financial Services Solutions
- Agent Network Development, Monitoring and Management

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