

Payments Workshop

BUILDING VIABLE AGENT MODELS

Mumbai
21 October, 2013

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of *MicroSave* is strictly prohibited

MicroSave

Market-led solutions for financial services

Structure of the presentation

1. Status of agent networks in India

2. Design features of a successful agent network

3. Recommendations

4. A few illustrations of models / approaches that are doing better

Poor true reach and quality; and very low levels of activity

| Banks and FI | |
|---|--------------------------|
| Bank branch network (total) | 85,000+ branches |
| Bank branch network (rural) | ~ 40,845 branches |
| # Bank agents (customer service points) | 221,341 |
| Cost of transaction (branch/ATM/Internet/mobile) | Rs. 50/18/4/2 |
| # of Basic Savings Bank Deposit (BSBD) accounts | 183 million |
| # of accounts opened by BC agents | 81 million |
| # of dormant BSBD accounts | Over 50%^ |
| Average #transactions per BSBD account | 1 every 4 months (0.26)^ |
| Bank G2P payment accounts | |
| <i>Bank MGNREGS accounts~</i> | 33 million |
| <i>Average # transactions per MGNREGS account</i> | 1.5 per month |
| <i>Bank Social Security Pension accounts~</i> | 19 million |
| <i>Average # transactions per SSP account</i> | 1.0 per month |

• Source: RBI, India Post, IIFL Report

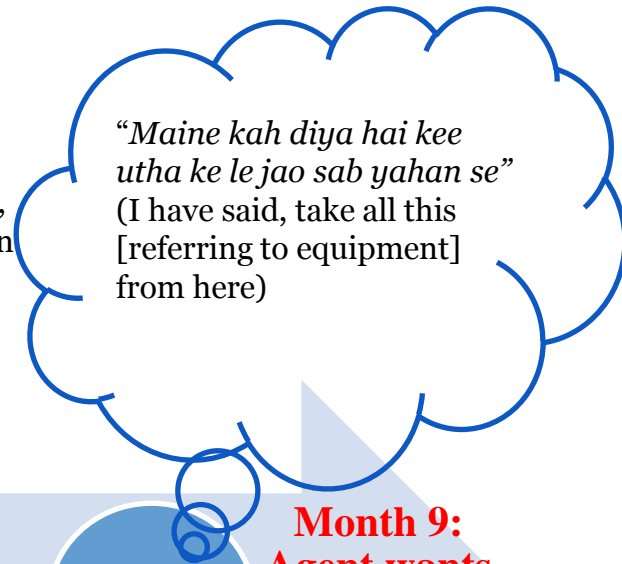
^ Source: Speech of Dr. K.C. Chakrabarty, RBI Deputy Governor (June 2013)

~ Source: MGNREGA and NSAP portals and AP Government data

Underlying the statistics ... innumerable stories of disillusionment

Ravindra was referred to BCNM A by the base branch manager. He took loan from the bank to start the business. He was trained at Nipani for two days.

Ravindra complains that no bank official has visited the location to monitor the work, but have come asking for loan instalment. On average 1-2 transactions per day happen from his shop.



Month 1: Agent came to know about BCNM A and BCO business

Month 3: Enrolments and transactions commenced

Month 1

Month 3

Month 3

Month 7

Month 9

Month 9: Agent wants to quit the business

Month 2: Agent completed recruitment formalities. Underwent minimal training

Support from BCNM A has been okay. The staff helps in troubleshooting technical issues. BC staff visits the BCO location but the schedule of visits is not fixed.

Month 7: Agent started feeling the heat of losses

Ravindra received a cheque of Rs.19 from BCNM A. The actual commission was Rs.419, Rs.400 were deducted on account of mobile charges

| | |
|---|--------------------------------------|
| Cost for 4 months = Rs.6400 | Revenue for 4 months = Rs.419 |
| Mobile charges to BCNM A @Rs.100 per month | Account opening revenue |
| Loan repayment, to bank @Rs.1500, per month | Transaction revenue/incentive |

Structure of the presentation

1. Status of agent networks in India

2. Design features of a successful agent network

3. Recommendations

4. A few illustrations of models / approaches that are doing better

Design features of a good agent network

One or two anchor products to grow the business and build trust in the agent network

Additional products to drive sustainability once there is trust and the anchor products have taken root

Careful agent selection, on-boarding and regular training

Appropriate commission structure

Regular marketing support and monitoring by the banks

Assistance with liquidity management

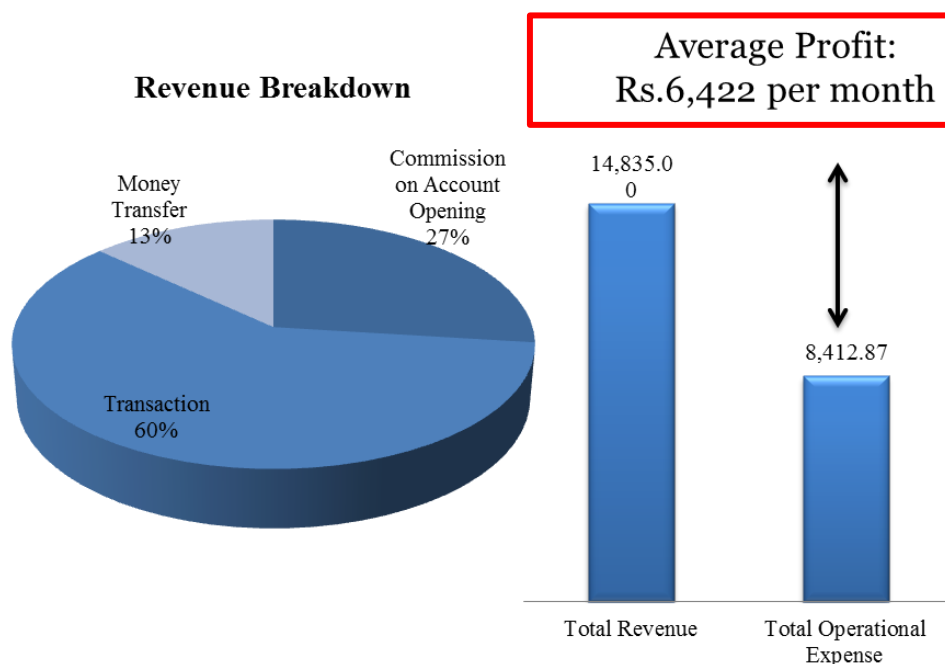
Integration of agent technology platforms to mainstream core banking

BC models focused on driving anchor products are indeed exhibiting signs of viability

For example remittance focused urban, and increasingly rural agent networks are now stable and even turning profitable.

| | CSPs in Surat | |
|---|---------------|---------------|
| | Harish | Rajendra |
| Revenue | 25,000 | 20,000 |
| Monthly income based on the commission | 25,000 | 20,000 |
| Average number of transactions per day | 100 | 70 |
| Working Capital Investment | 500,000 | 200,000 |
| Expenses (A+B+C) | 15874 | 9517 |
| A. Financial Expenses | 5000 | 2000 |
| Interest on Working Capital ¹ | 5000 | 2000 |
| B. Administrative Expenses | 10,250 | 7350 |
| Rent | 3000 | 2000 |
| Salary of employee(s) | 6500 | 5000 |
| Electricity cost | 300 | 200 |
| Travelling cost | 450 | 150 |
| C. Depreciation of Fixed Assets | 624 | 167 |
| Depreciation of Furniture (Straight line depreciation in ten years) | 208 | 167 |
| Depreciation of Computer (Straight line depreciation in five years) | 416 | 0 |
| Net Profit (Loss) | 9126 | 10,483 |

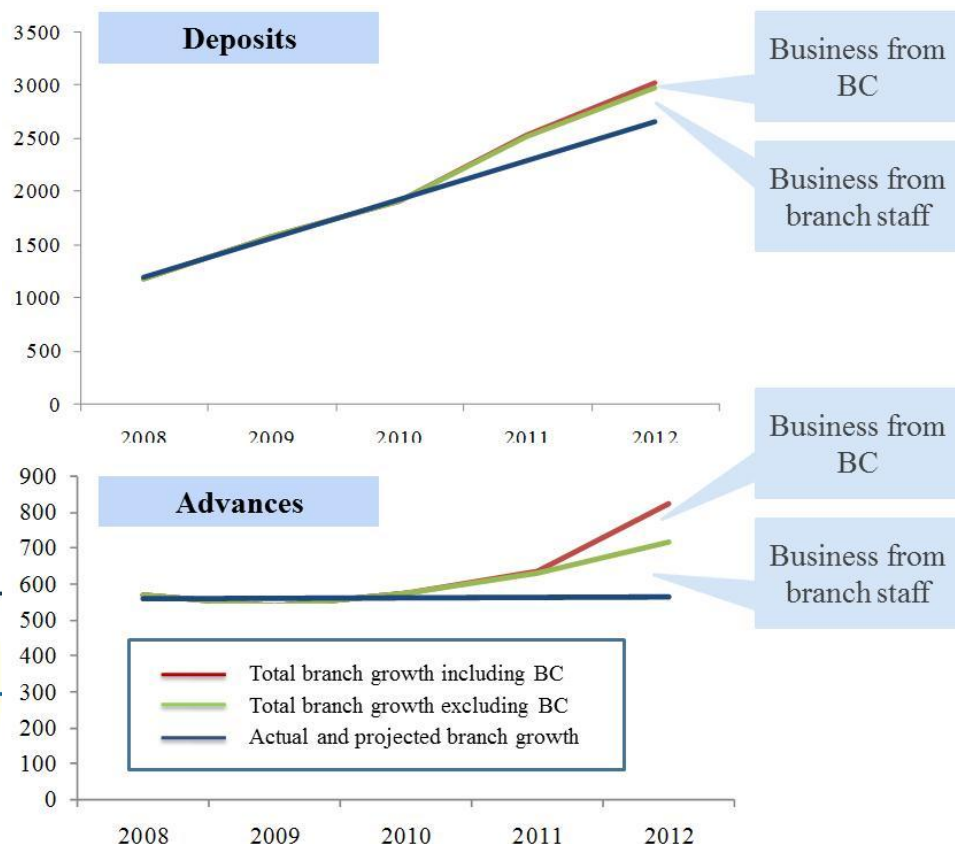
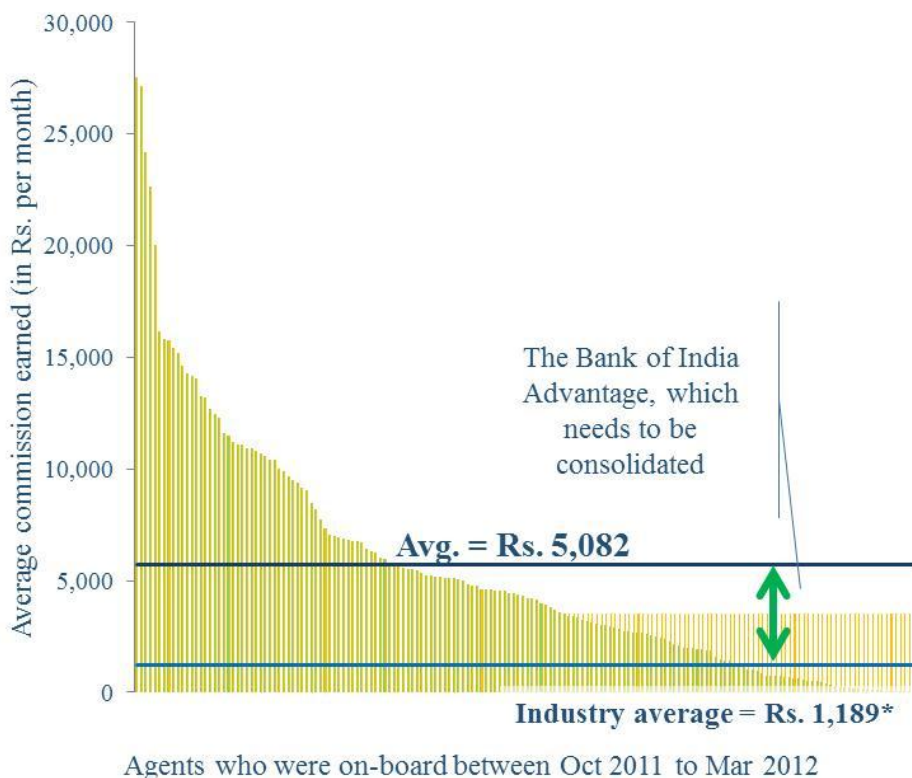
Agent P & L: Gorakhpur



Another illustration of a successful anchor product is introduction of credit services (leads/recoveries) along with savings

*Attractive business case: Agents enabled with wider product mix and branch support earning Rs. 5,716 per month, 4.8 times the industry average.**

Symbiotic impact: Branch business expanding at faster rate, with some branches registering 25% higher growth in advances vis-à-vis historical growth rates.

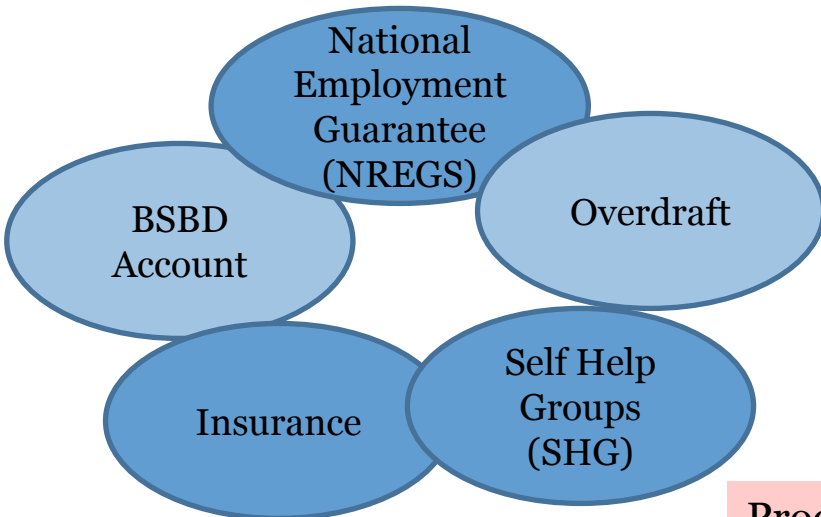


* MicroSave estimates that on an average an agent of an established BCNM earns Rs.1,189 while an agent of a start-up BCNM earns Rs.510; [State of Business Correspondent Industry in India – The Supply Side Story](#), MicroSave, May 2012.

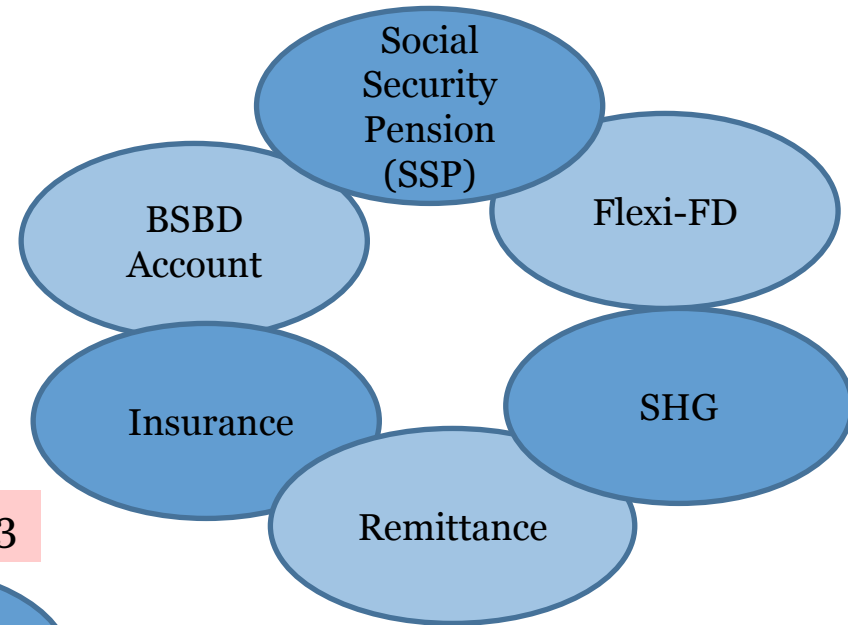
Eventually agent networks need to offer a basket of products relevant to local needs

...once the service is well trusted with the anchor product gaining adoption, additional products according to local needs and relevance ensure continued usage, enabling the business to be viable.

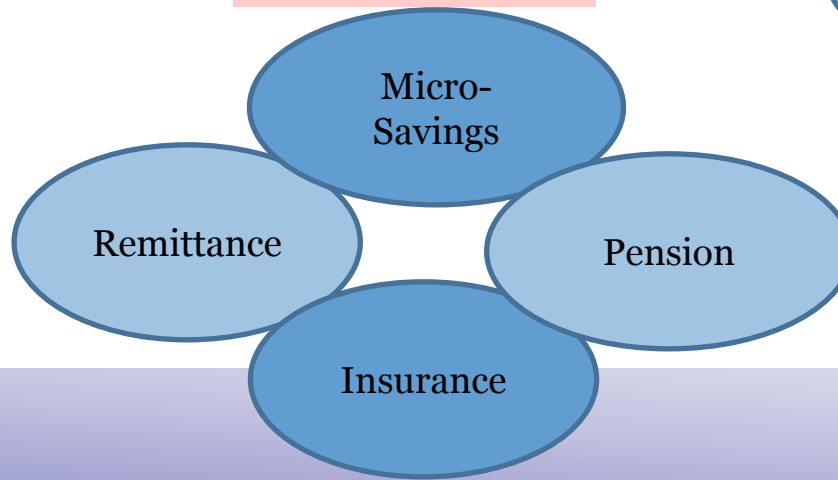
Product Basket 1



Product Basket 2

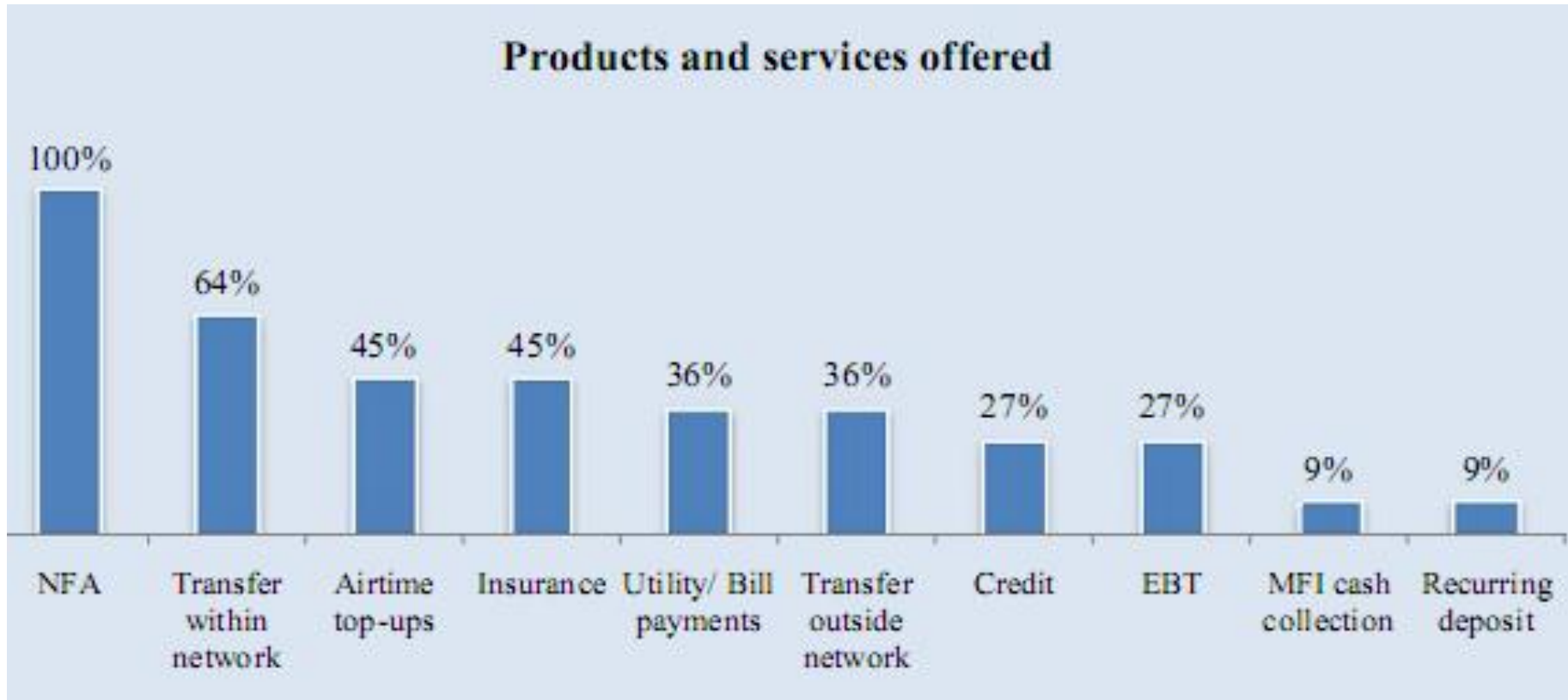


Product Basket 3



Currently the product range offered is very limited

...the approach is not to find a few relevant anchor products for the local market, but a 'one size fits all' in the form of NFAs/BSBDs.



Design features of a good agent network

One or two anchor products to grow the business and build trust in the agent network

Additional products to drive sustainability once there is trust and the anchor products have taken root

Careful agent selection, on-boarding and regular training

Appropriate commission structure

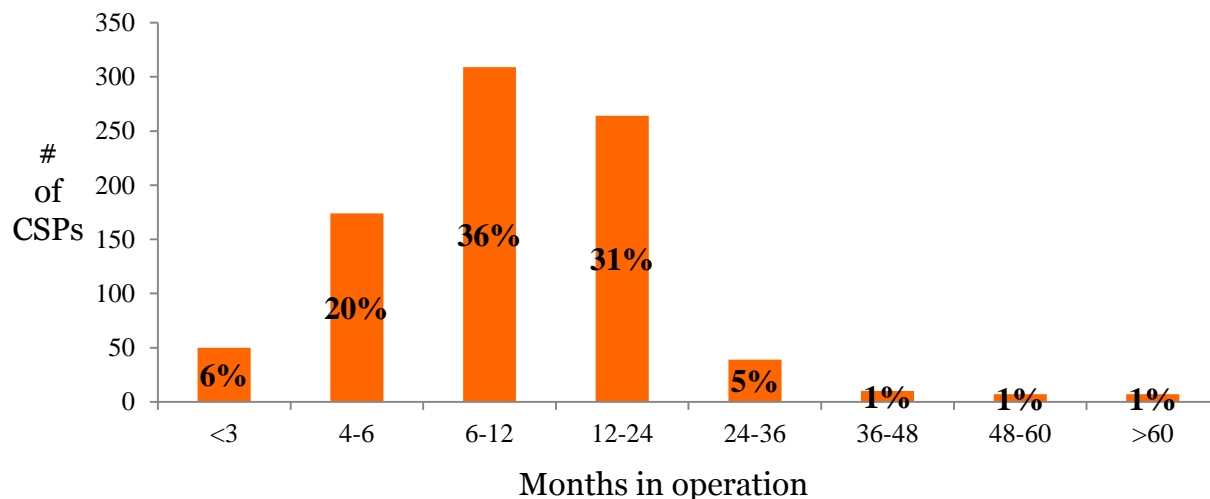
Regular marketing support and monitoring by the banks

Assistance with liquidity management

Integration of agent technology platforms to mainstream core banking

Lack of emphasis on selecting the right agents; and insufficient training and operational support is causing massive attrition of agents ... and causing profound damage to trust in the system

Length of time operating as CSPs



Agent attrition levels are in the range of 30% to 50% (annually) creating a massive trust and service deficit amongst users.

Training

10% never received **training** (89/860)

Visits from BC/Bank

18% no visit in **> 1 month** (158/860)

40% no visit in **> 1 week** (350/860)

Design features of a good agent network

One or two anchor products to grow the business and build trust in the agent network

Additional products to drive sustainability once there is trust and the anchor products have taken root

Careful agent selection, on-boarding and regular training

Appropriate commission structure

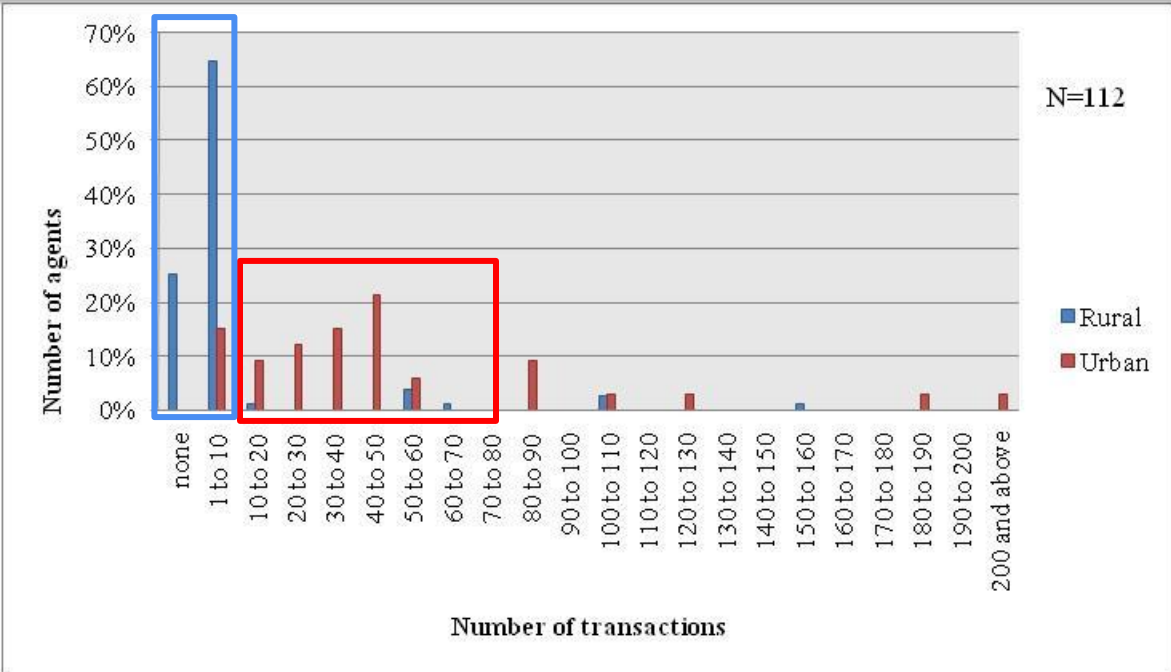
Regular marketing support and monitoring by the banks

Assistance with liquidity management

Integration of agent technology platforms to mainstream core banking

Majority of rural agents/CSPs are struggling to stay in business

The daily transactions of a rural agent are very low compared to their urban counterparts. This affects their profits and motivation.



A rural agent typically does 1 to 10 transactions per day. These transactions includes NFA based deposit and withdrawals and Social Security Payments.

Almost 25% of the agents in rural areas, though active, are not able to conduct transactions for a variety of reasons such as delay in receiving terminal, agent card or customer cards

Most of the urban agents do 10 to 60 transactions in a day, of which the majority are remittance transactions.

Even G2P (EBT/DBT) programmes with assured funds flow and transaction volumes are failing to ensure sustainability

Model 1 Model 2

| Bank Financials | | |
|--------------------------|---------------|---------------|
| Bank Income | | |
| <i>Income from G2P</i> | 2.00% | 2.00% |
| <i>Float Income</i> | 0.26% | 0.26% |
| Total Income | 2.26% | 2.26% |
| <i>Bank Cost</i> | 0.79% | 0.29% |
| <i>BC Payout</i> | 1.87% | 1.83% |
| <i>CSP Payout</i> | 0.52% | 0.78% |
| Total Cost | 3.18% | 2.90% |
| Net Profit (Loss) | -0.92% | -0.64% |

Model 1 Model 2

| Bank Financials | | |
|--------------------------|--------------|--------------|
| Bank Income | | |
| <i>Income from G2P</i> | 3.14% | 3.14% |
| <i>Float Income</i> | 0.41% | 0.41% |
| Total Income | 3.55% | 3.55% |
| <i>Bank Cost</i> | 0.79% | 0.29% |
| <i>BC Payout</i> | 1.50% | 1.75% |
| <i>CSP Payout</i> | 1.00% | 1.25% |
| Total Cost | 3.29% | 3.29% |
| Net Profit (Loss) | 0.26% | 0.26% |

| BC Financials | | |
|--------------------------|--------------|--------------|
| Total Income | 2.39% | 2.61% |
| <i>BC Costs</i> | 1.22% | 1.32% |
| <i>CSP Payout</i> | 0.52% | 0.78% |
| Total Cost | 1.74% | 2.10% |
| Net Profit (Loss) | 0.65% | 0.51% |

| BC Financials | | |
|--------------------------|--------------|--------------|
| Total Income | 2.50% | 3.00% |
| <i>BC Costs</i> | 1.22% | 1.32% |
| <i>CSP Payout</i> | 1.00% | 1.25% |
| Total Cost | 2.22% | 2.57% |
| Net Profit (Loss) | 0.28% | 0.43% |

| CSP Financials | | |
|--------------------------|--------------|--------------|
| Total Income | 0.52% | 0.78% |
| Total Cost | 0.29% | 0.21% |
| Net Profit (Loss) | 0.23% | 0.57% |

| CSP Financials | | |
|--------------------------|--------------|--------------|
| Total Income | 1.00% | 1.25% |
| Total Cost | 0.29% | 0.21% |
| Net Profit (Loss) | 0.71% | 1.04% |

Bank-BC Model 1 – CSP Earnings and Net Income

| Transaction volumes | CSP- Neyamadad | CSP- CK Palli | CSP- Nagasamud ram | CSP- Basampally | CSP Pullakunta | CSP Sanjeevapu ram | CSP- Bathallapa li |
|--|-------------------|------------------|--------------------------|--------------------|-------------------|--------------------------|--------------------------|
| No. enrolments – SSP* | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| No. enrolments – EGS* | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Amount disbursed - SSP (Rs.) | 127,500 | 86,200 | 82,400 | 54,400 | 57,200 | 82,100 | 217,000 |
| Amount disbursed - EGS (Rs.) | 800,000 | 852,368 | 160,000 | 74,514 | 931,551 | 93,000 | 0 |
| Gross Income/Month (Amount Rs.) | | | | | | | |
| Enrolments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transaction Income (Rs.) | 2,319 | 2,347 | 606 | 322 | 2,472 | 876 | 1,085 |
| Fixed Salary (Rs.) | 563 | 563 | 563 | 563 | 563 | 563 | 563 |
| Gross Income | 2,882 | 2,910 | 1,169 | 885 | 3,035 | 1,439 | 1,648 |
| Expenditure/Month (Amount Rs.) | | | | | | | |
| Mobile | 100 | 200 | 100 | 100 | 100 | 100 | 100 |
| Travel | 100 | 100 | 100 | 150 | 200 | 200 | 0 |
| Mobile asset deduction | 372 | 372 | 372 | 372 | 372 | 372 | 372 |
| Total Expenditure | 572 | 672 | 572 | 622 | 672 | 672 | 472 |
| Net Monthly Income (Amount Rs.) | 2310 | 2237 | 597 | 263 | 2363 | 767 | 1176 |

| Averages (CSP) | Amount (Rs.) |
|----------------------|--------------|
| Average Gross Income | 1,995 |
| Average Expenditure | 608 |
| Average Net Income | 1,387 |

Ironically, a very large number of CSPs earn almost 50% less than the daily minimum wage rate under MGNREGA, that they disburse payments of

Bank BC Model 2 – CSP Earnings and Net Income

| Transaction volumes | CSP-Tadipatri 1 | CSP-Tadipatri 2 | CSP-Tadipatri 3 | CSP-Dharmavaram 1 | CSP-Dharmavaram 2 | CSP-Kadiri 1 | CSP-Kadiri 2 | CSP-Kadiri 3 |
|------------------------------|-----------------|-----------------|-----------------|-------------------|-------------------|--------------|--------------|--------------|
| No. enrolments - SSP | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| No. enrolments - EGS | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Amount disbursed - SSP (Rs.) | 150,000 | 82,100 | 86,200 | 127,500 | 82,400 | 54,400 | 57,200 | 217,000 |

| Income/Month (Amount Rs.) | | | | | | | | |
|--------------------------------|------------|------------|-----------|------------|------------|------------|------------|------------|
| Income from Enrolments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Fixed Salary | 2000 | 2000 | 2000 | 2000 | 2000 | 2000 | 2000 | 2000 |
| Expenditure/Month (Amount Rs.) | | | | | | | | |
| Mobile | 200 | 100 | 75 | 100 | 100 | 125 | 100 | 100 |
| Travel | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Expenditure | 200 | 100 | 75 | 100 | 100 | 125 | 100 | 100 |

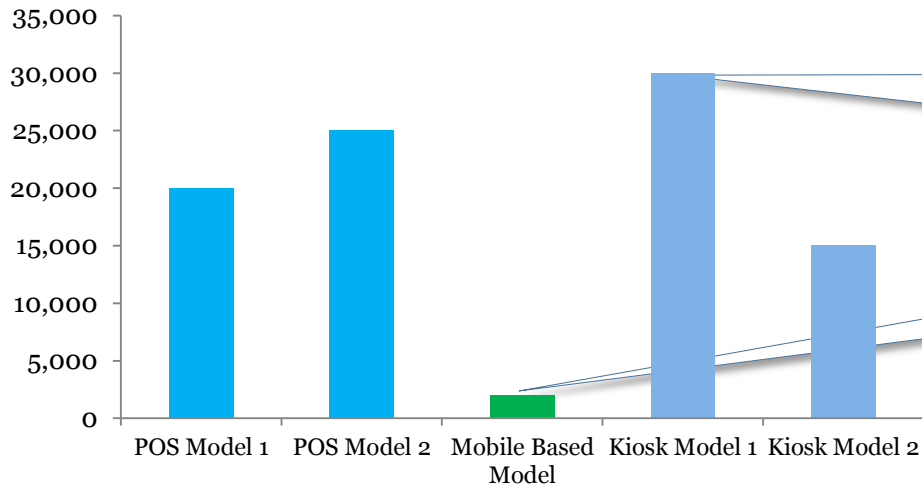
| | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Net Income over Expenditure (Amount Rs.) | 1800 | 1900 | 1925 | 1900 | 1900 | 1875 | 1900 | 1900 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|

| Averages (CSP) | Amount (Rs.) |
|----------------------|--------------|
| Average Gross Income | 2,000 |
| Average Expenditure | 113 |
| Average Net Income | 1,888 |

CSPs receiving a minimum floor income and transaction based incentives are more motivated to continue

Choice of technology has a significant impact on the economics

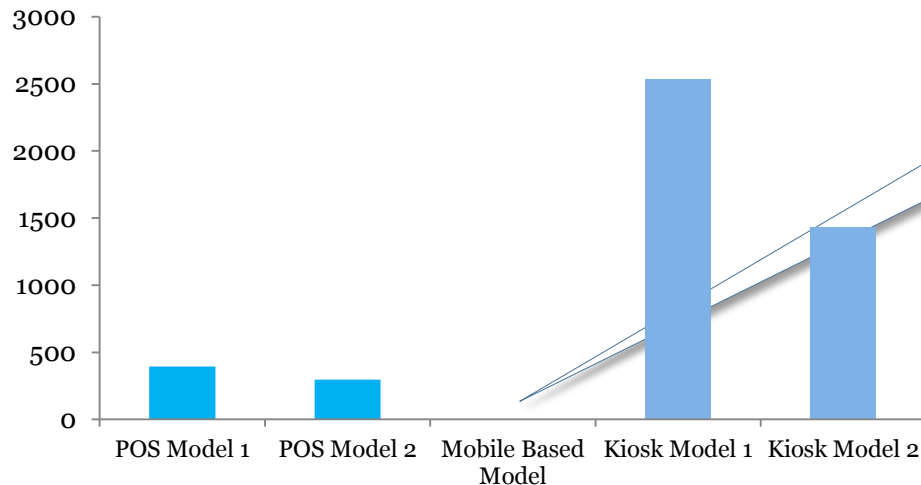
Total CSP Investment (CAPEX) Rs.



Increased investment to purchase inverters due to non availability of electricity.

Least capex for mobile based model

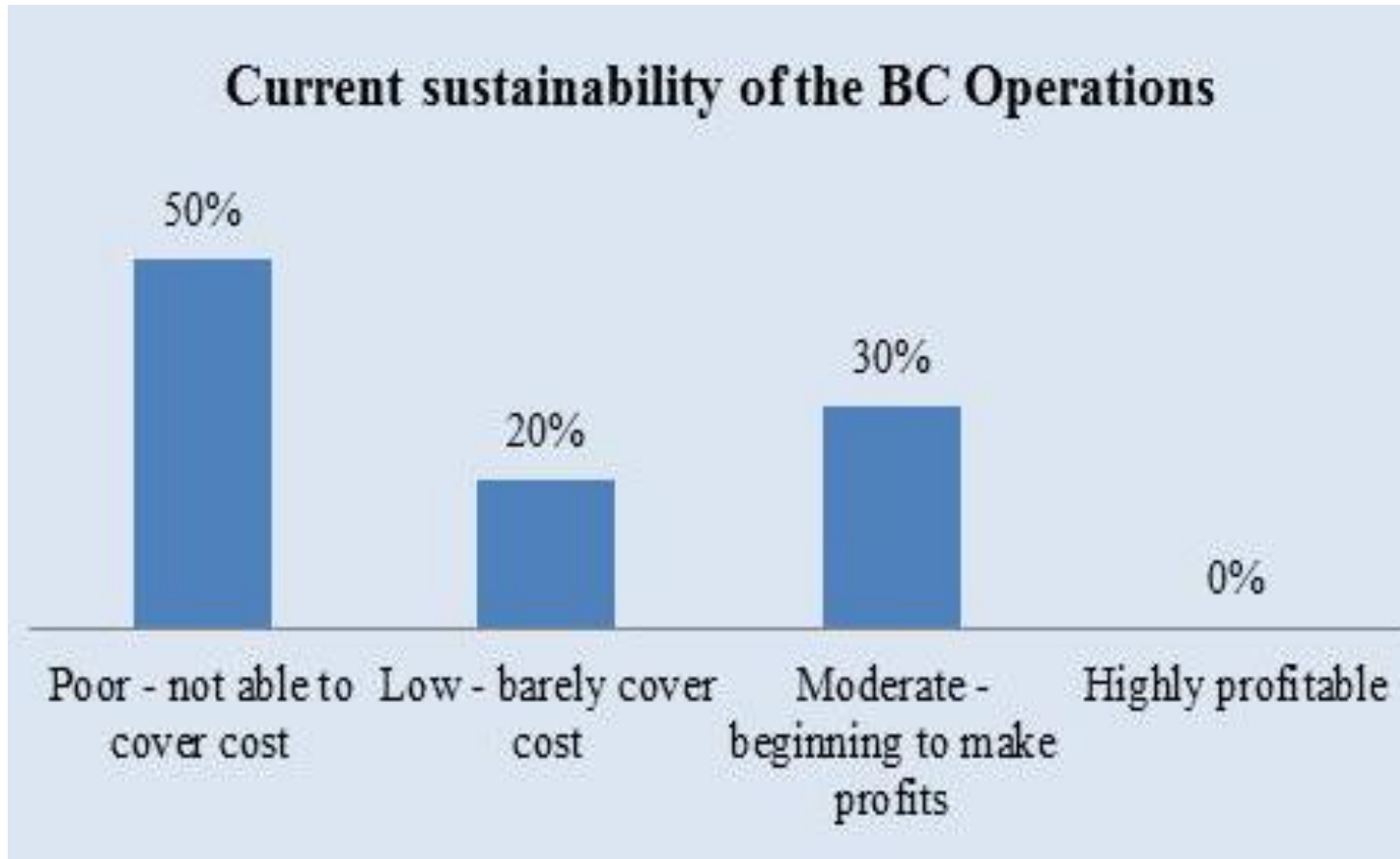
Total CSP Operational Expenses (OPEX) Rs.



Opex for mobile based technology is almost NIL

A summary of the perspectives from a range of BC institutions

Survival at stake with expectations of much needed support from banks



Design features of a good agent network

One or two anchor products to grow the business and build trust in the agent network

Additional products to drive sustainability once there is trust and the anchor products have taken root

Careful agent selection, on-boarding and regular training

Appropriate commission structure

Regular marketing support and monitoring by the banks

Assistance with liquidity management

Integration of agent technology platforms to mainstream core banking

Lack of operational support and monitoring the banks is an oft mentioned challenge by the agents/CSPs

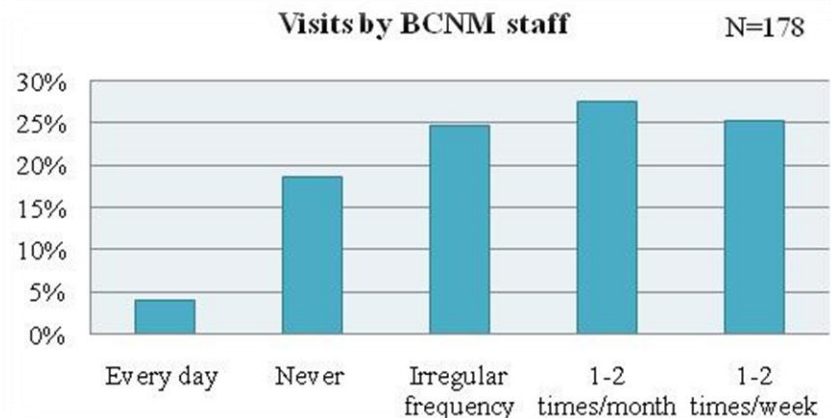
Fewer visits by bank staff affects the credibility of the agent. Frequent visits can help in customer acquisition and business

Operations support is evaluated at two aspects: visits by bank staff and BC staff.

Urban agents constitute 80% of the total agents who have never been visited by the bank staff

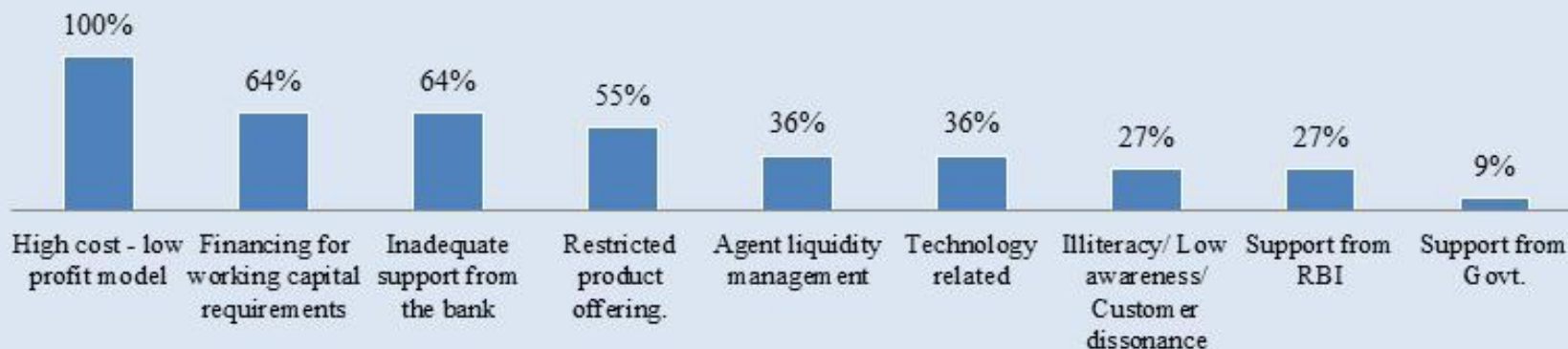
Some rural agents are visited by bank staff one –two times a month. But most rural agents have been visited only once since they started operations

The efforts in monitoring are also contingent on the economics and at the current levels, most institutions are following the path of minimal supervision and monitoring to contain costs.

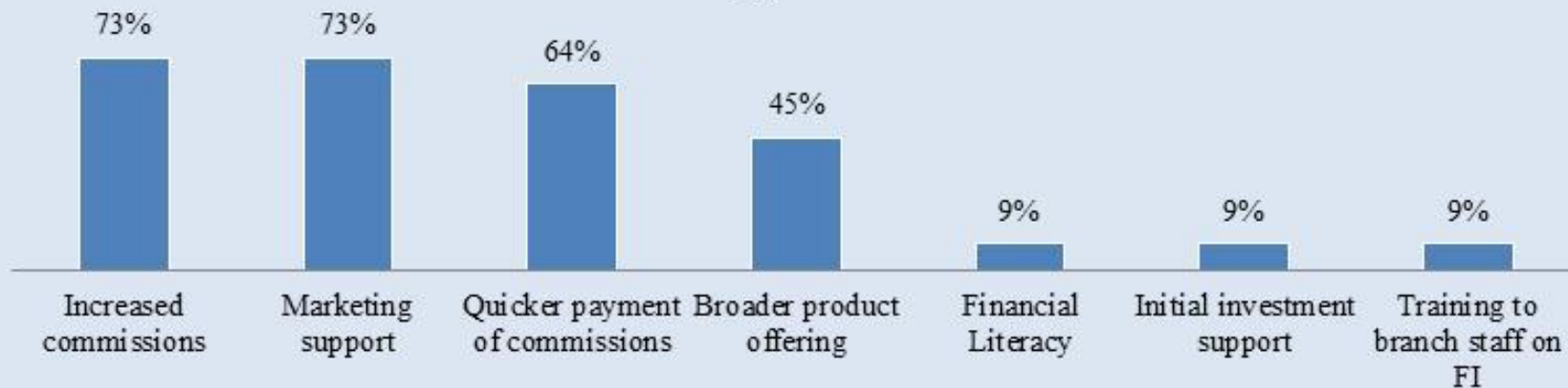


Lack of marketing and operational support by banks is a major challenge highlighted by a majority of the BC Network Managers

Issues/constraints limiting the BC business



Areas of support from banks



Design features of a good agent network

One or two anchor products to grow the business and build trust in the agent network

Additional products to drive sustainability once there is trust and the anchor products have taken root

Careful agent selection, on-boarding and regular training

Appropriate commission structure

Regular marketing support and monitoring by the banks

Assistance with liquidity management

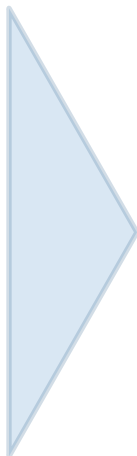
Integration of agent technology platforms to mainstream core banking

Liquidity management is a major barrier, particularly with G2P payments involving large sums of cash.

1

A large number of BCNM organisations still rely on agents to manage cash, including both deposit and withdrawal from bank.

Most BCNMs that participated in this study, rely on the agents to manage cash which includes depositing and withdrawing cash from bank



These agents deposit their daily collections in the BCNM's bank account and receive e float or settle their cash credit/overdraft account, as the case may be.

In urban locations, for four BCNMs, super agents / distributors/staff manage the cash. These super agents / distributors/ staff visit the agent locations once a day and collect the cash. But agents also visit the branch and deposit the cash on an informal basis when necessary.

In rural locations, a majority of the agents have to visit the bank branch to deposit and collect cash.

2

Most BCNM organisations transit large sums of cash over long distances, which involves huge risk, apart from the inconvenience of managing piles of cash at multiple levels during transit.

In many districts of Andhra Pradesh, where G2P payments are being made in large volumes, agents and their supervisors are often seen handling as much as Rs. 20 lakhs in cash, without any security. Upto Rs 7 lakhs is often moved using a motor bike, leave alone a secure vehicle.

Design features of a good agent network

One or two anchor products to grow the business and build trust in the agent network

Additional products to drive sustainability once there is trust and the anchor products have taken root

Careful agent selection, on-boarding and regular training

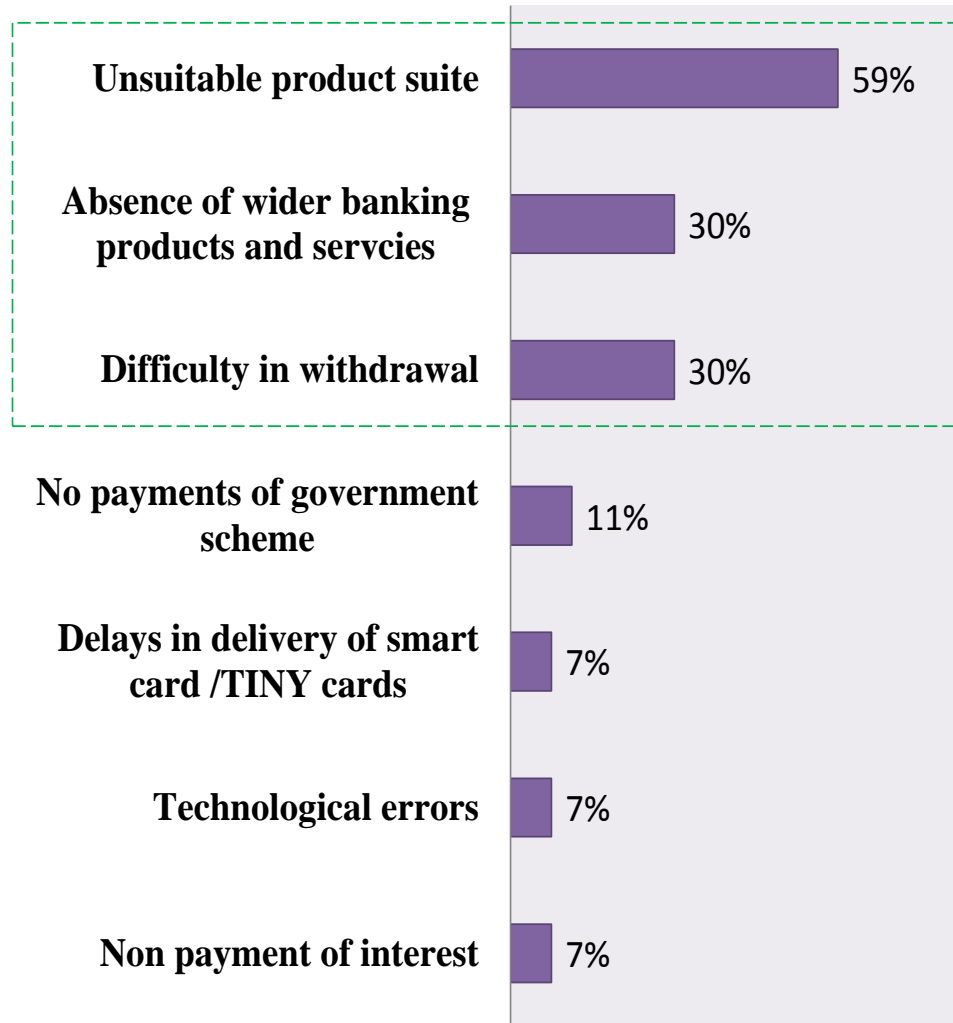
Appropriate commission structure

Regular marketing support and monitoring by the banks

Assistance with liquidity management

Integration of agent technology platforms to mainstream core banking

A very large number of NFAs are still non-interoperable and have not been (truly) converted to BSBD accounts



Lack of interoperability of accounts is a major barrier for the holders to effectively utilise their accounts

At the same time the integration of RRBs to core banking proves the point. As it is now a huge assistance to migrants, enabling them to send remittances to RRB accounts instead of SCB accounts

Structure of the presentation

1. Status of agent networks in India

2. Design features of a successful agent network

3. Recommendations

4. A few illustrations of models / approaches that are doing better

Recommendations

Rationalise allocation of villages/panchayats to banks – cluster and isolated set of villages are extreme approaches

Implement the recommended 3.14% minimum commission per transaction. Mandate a minimum share of payout to agents for G2P payments.

Remove the confusion over the need to withdraw all benefits credited.

Relax the 30km rule.

Focus on monitoring account activity.

Allow Mobile Network Operators to act as issuers of e-money with proportionate supervision.

Introduce standards for integration and interoperability

Mandate agents to have bank accounts; so they can be used for liquidity management instead of transiting cash long distances.

Structure of the presentation

1. Status of agent networks in India

2. Design features of a successful agent network

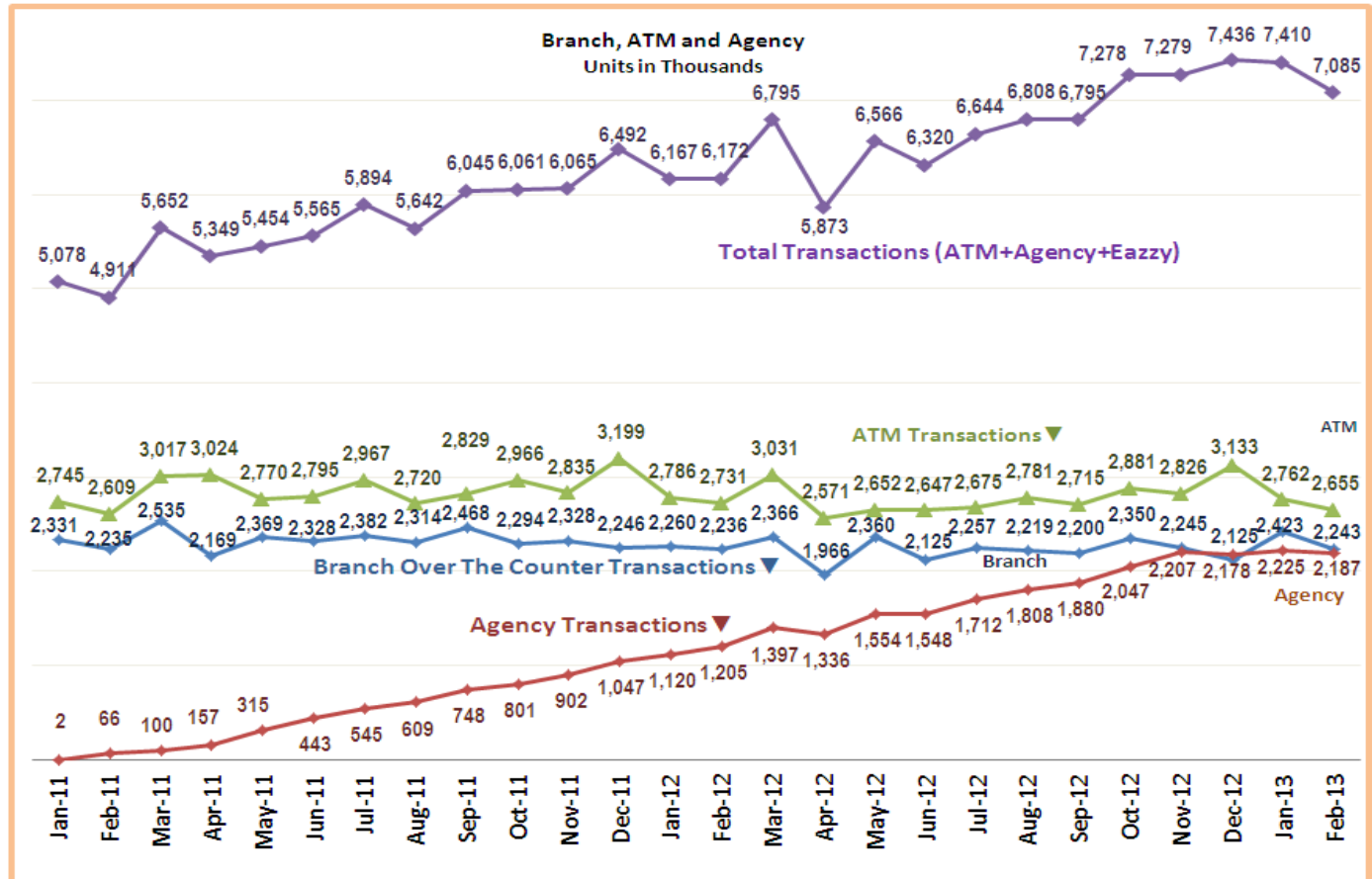
3. Recommendations

4. A few illustrations of models / approaches that are doing better

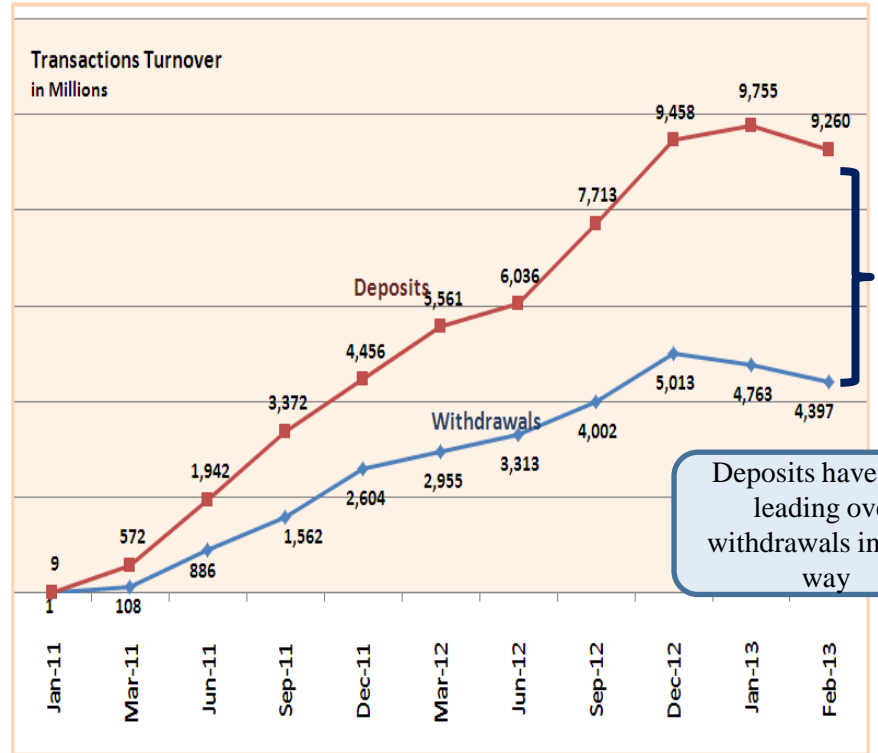
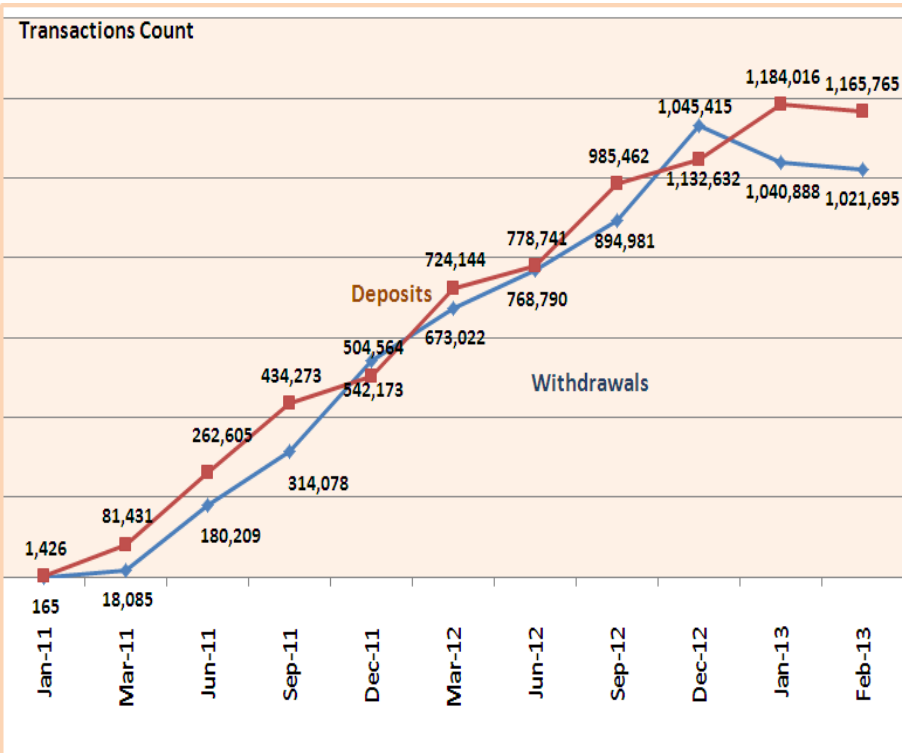
One bank is already showing bank-led models can work ...

- Most successful e/m-banking systems continue to be MNO-led and thus payments/remittance dominated.
- *MicroSave* is working with this bank (on products, agent network development, training & monitoring, as well and marketing & communications) to change this ...

- Agency already 100% of branch transactions ...
- And all are additional transactions
- >1,000,000 accounts reactivated since the introduction of the agent-banking.



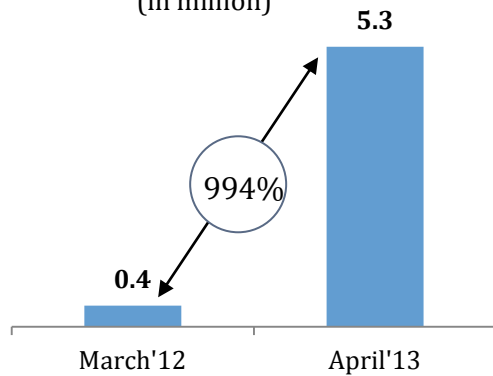
... with deposits exceeding withdrawals



MFS market in Bangladesh market has exhibited rapid growth

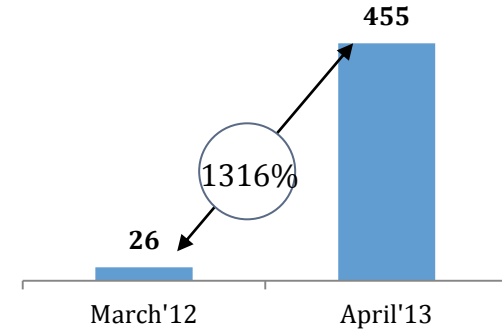
Number of Customers

(in million)

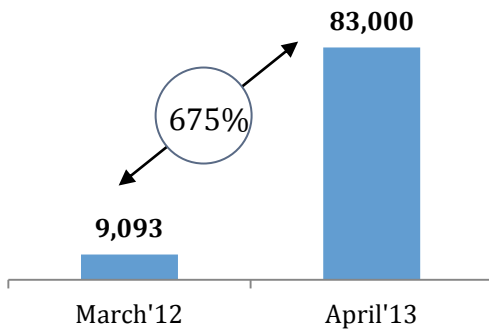


Transaction Amount

(million USD)

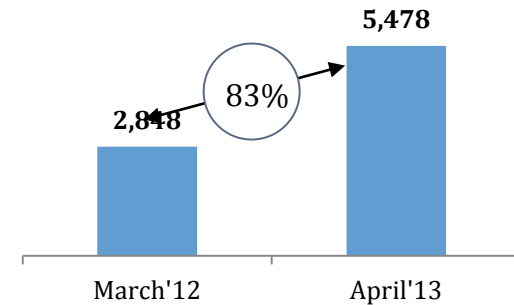


Number of Agents



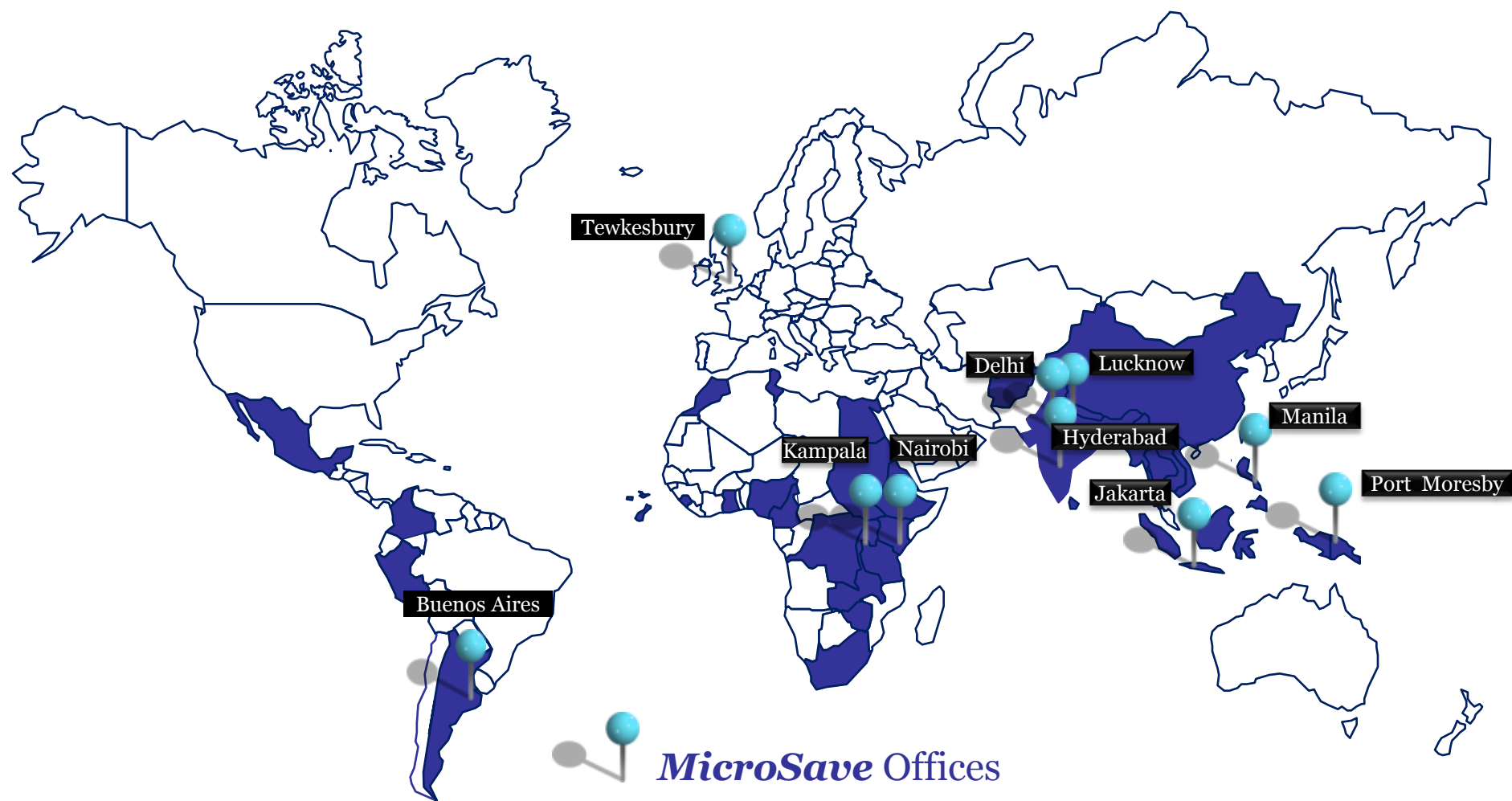
Transaction per Agent

(USD)



Legend:

CAGR
%



MicroSave Offices

MicroSave (India)
 Head Office: Lucknow
 Tel: +91-522-2335734
 Fax: +91-522-4063773
 New Delhi Office:
 Tel: +91-11-45108373
 Hyderabad Office:
 Tel: +91-40-23516140
info@MicroSave.net

MicroSave (Kenya Office)
 Shelter Afrique House,
 Mamlaka Road,
 P.O. Box 76436, Yaya 00508,
 Nairobi, Kenya.
 Tel: +254-20-
 2724801/2724806
 Fax: +254-20-2720133
 Mobile: +254-0733-713380
info@MicroSave.net

**MicroSave (Uganda
 Office)**
 Regency Apartments
 30 Lugogo By-Pass
 P.O. Box 25803
 Kampala, Uganda.
 Mobile:
 +256-712 642368/
 +256-706 842368
info@MicroSave.net

MicroSave (UK Office)
 The Folly, Watledge Close,
 Tewkesbury,
 Gloucestershire
 GL20 5RJ
 UK
 Tel. +44 1684-273729
 Mobile +44 796-307 7479
info@MicroSave.net

**MicroSave (Philippines
 Office)**
 Unit 402, Manila Luxury
 Condominiums,
 Pearl Drive corner Gold
 Loop,
 Ortigas Center, Pasig City,
 Metro Manila, Philippines.
 Tel: +(632) 477-5740
 Mobile: +63-917-597-7789
info@MicroSave.net

**MicroSave (Indonesia
 Office)**
 Jl. Penjernihan I No. 10,
 Komplek Keuangan -
 Pejompongan,
 Jakarta Pusat 10210,
 Indonesia.
 Tel: +62 82122 565594
info@MicroSave.net

MicroSave (PNG Office)
 First Floor,
 Town Post Office,
 Port Moresby
 Phone : +675-3434789
 Mobile :
 +675-7232-9330
info@MicroSave.net