

Business Correspondent Channel Cost Assessment

Presentation to DFS, Ministry of Finance



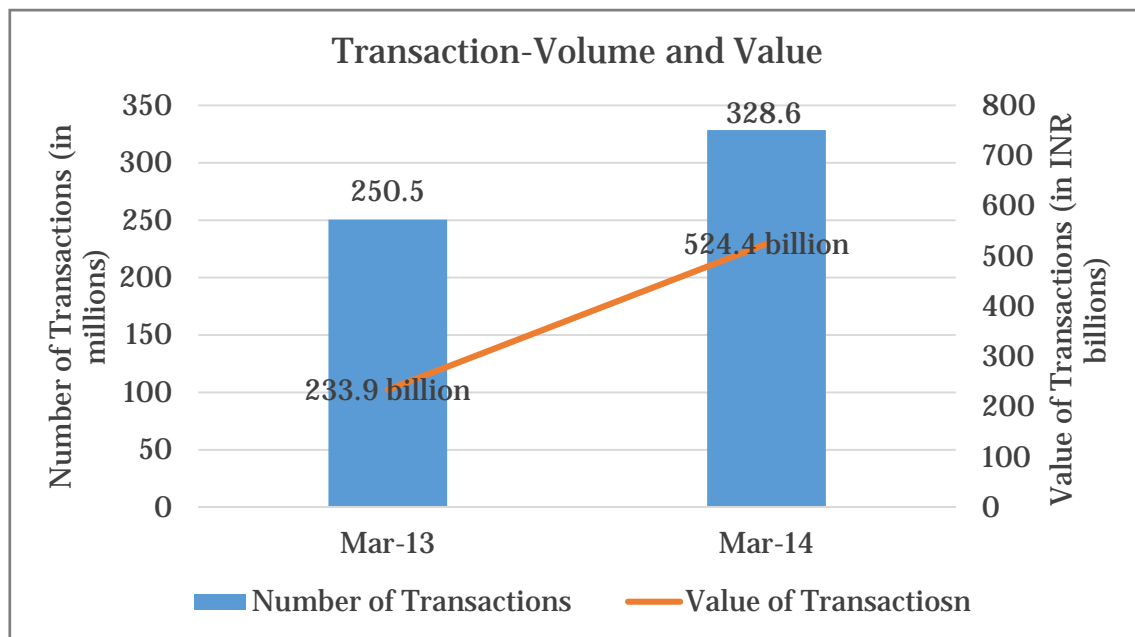
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MicroSave
Market-led solutions for financial services

Sector Background



The number of ICT-based transactions* through BCAs increased from **250.5 million** in March 2013 to **328.6 million** in March 2014

The transactions amount* increased steadily from **INR 233.9 billion** to **INR 524.4 billion** during the same period

For PMJDY specifically**:

125.4 million accounts have been opened out of which **75 million** accounts are in rural areas and **50.4 million** accounts are in urban areas

Out of a total requirement of **126,837** BCs, **123,805** BCs have been deployed***

BCA Outreach

- ❖ Number of BCAs in villages: **337,678**
- ❖ Urban locations covered through BCAs: **60,730**
- ❖ Total channel employment (direct and indirect) ~ 600,000
- ❖ Basic Savings Bank Deposit accounts opened through BCAs: **116.9 million**

Issues

- ❖ With focus on SSA what happens to the remaining BCs
- ❖ Potential unemployment and opportunity lost to enhance FI

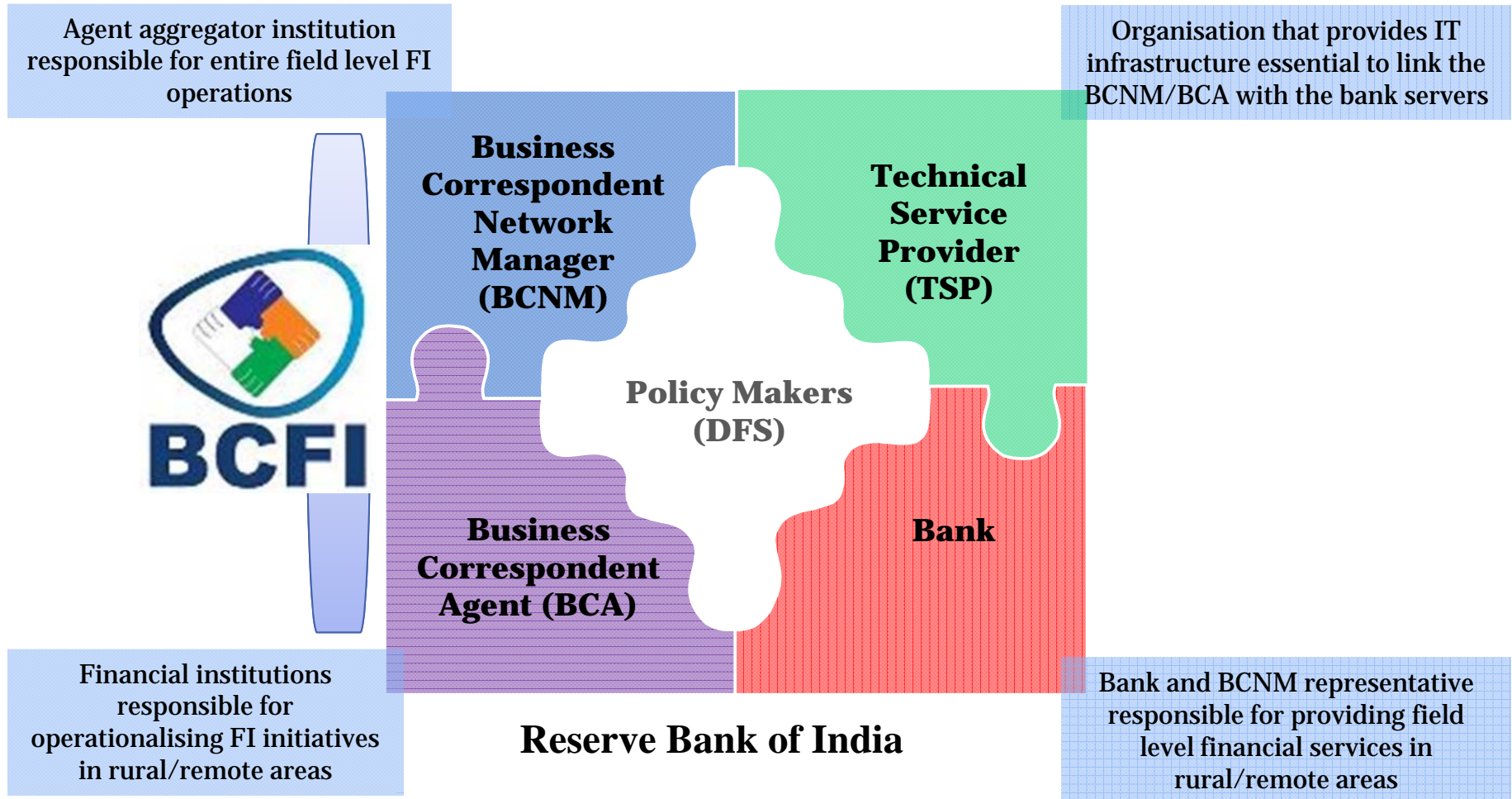
*Table IV.7: Financial Inclusion Plan-Summary Progress of all Banks including RRBs RBI Annual report 2013-2014

**http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=862

***Please see <http://financialservices.gov.in/banking/FinancialInclusionIndicators.pdf> for further details

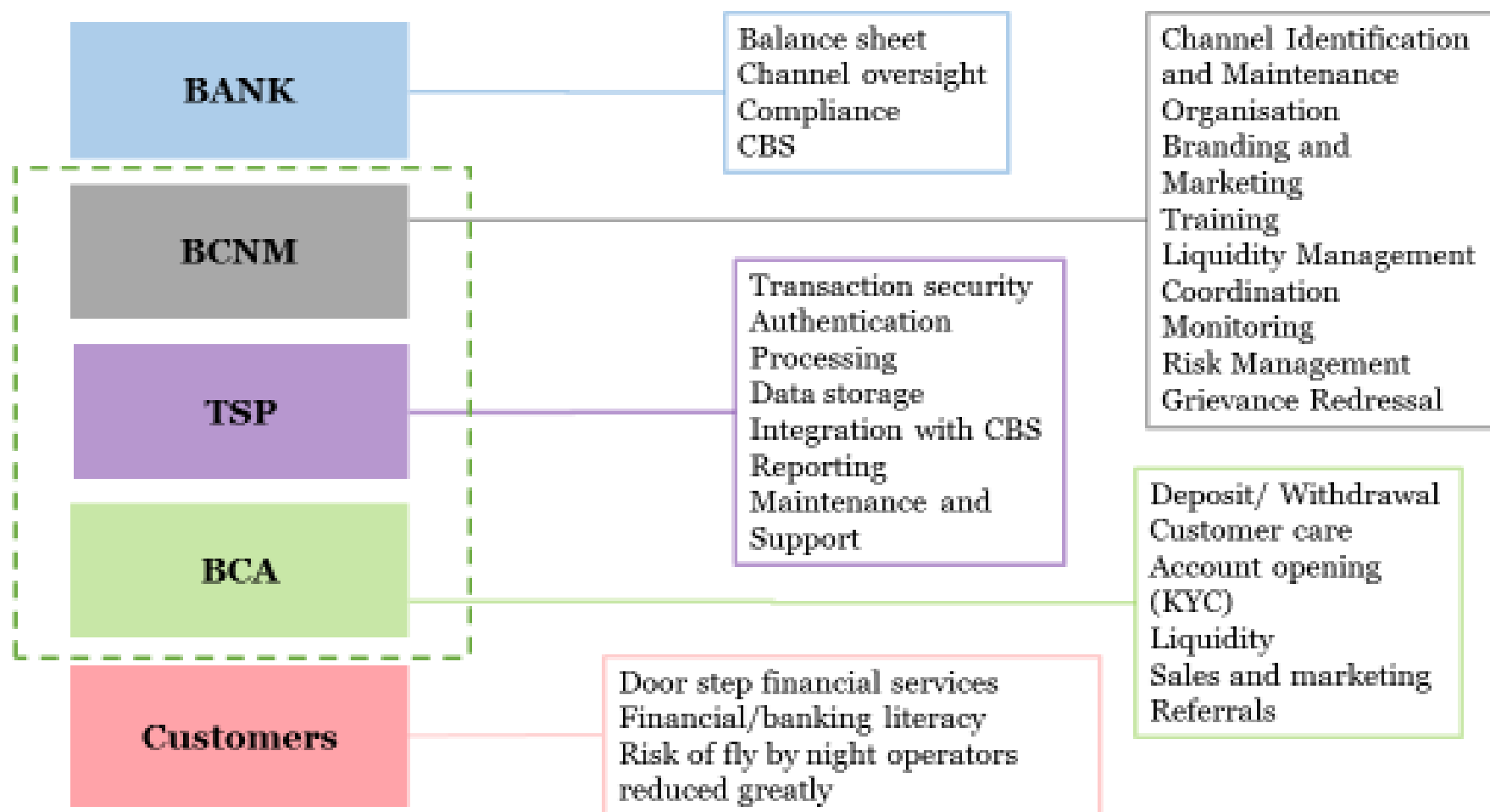
*** Based on Sub service area approach

Major Stakeholders



Channel Participants in Delivery of Financial Services to the Unbanked Customers

Channel Roles & Responsibilities



* In some cases the TSP is linked with the bank, and in others with the BCNM

Cost per INR 100 transacted

	Cost	Revenue
BANK	0.82%*	??
BCNM	0.96%	0.90%
BCA	0.85%	0.52%
Total	2.63%	1.42%

* Bank costs extrapolated based on report of the Task Force on Aadhaar-Enabled Unified Payment Infrastructure

BCNM costs do not include commissions paid to agents

Cost per Agent outlet per month

		In Rupees
BANK	❖ Average maintenance/service cost per agent per month	3,554[#]
BCNM	❖ Average maintenance/service cost per agent per month	4,169
BCA	❖ Monthly operating cost for a BCA	3,714[*]
Total	❖ Total costs for maintaining one agent outlet is	11,438

Bank costs extrapolated based on report of the Task Force on Aadhaar-Enabled Unified Payment Infrastructure

* BCA costs do not include the Opportunity Costs for the Agent

Bank Mitr Networks in India Have Been Weak in the Past

860 Surveyed in 2012

Tried to contact again in 2013
(15 months later)

A *MicroSave* analysis conducted across 41 districts in 9 states in November and December 2014 corroborates this and found that 31% of Bank Mitrs were unavailable at their stated locations.

500 remain agents

267 no longer agents

93 unreachable

Annualised attrition rates of 25% - 34%

- Its quite expensive to onboard a new agent
- When Agents turn dormant, it also becomes difficult to get another one in the same area as they are aware of low business potential.
- Dormant agents are a big threat to the success of the PMJDY

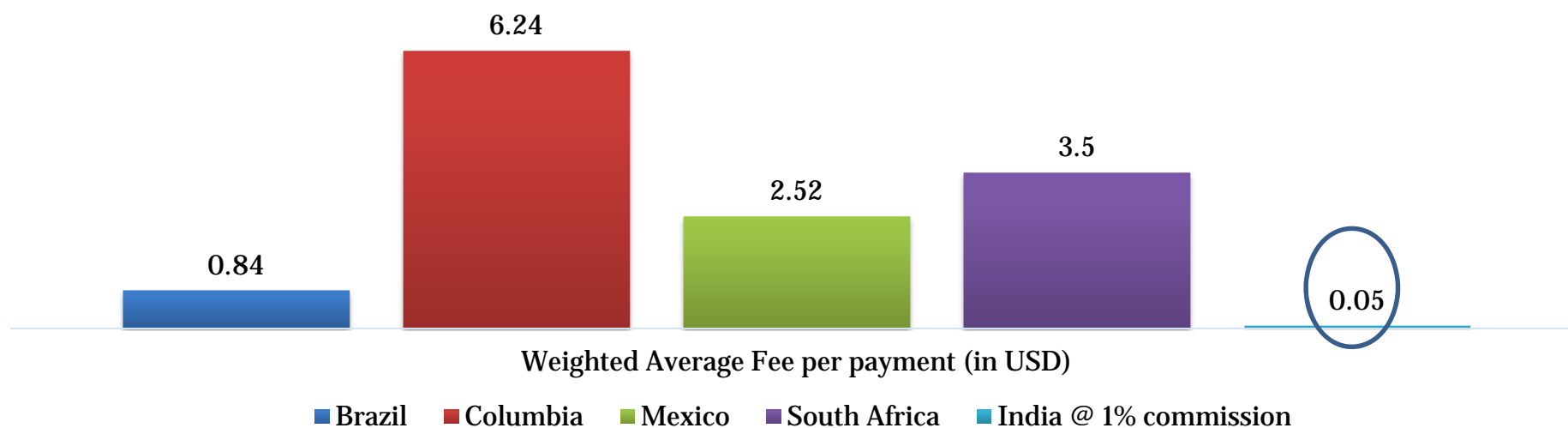
Sources:

2013 India: National Survey of Branchless Banking Agents, CGAP and College of Agricultural Banking



Agents in India are paid the Lowest for Processing G2P Payments

Fee per Payment for G2P Schemes



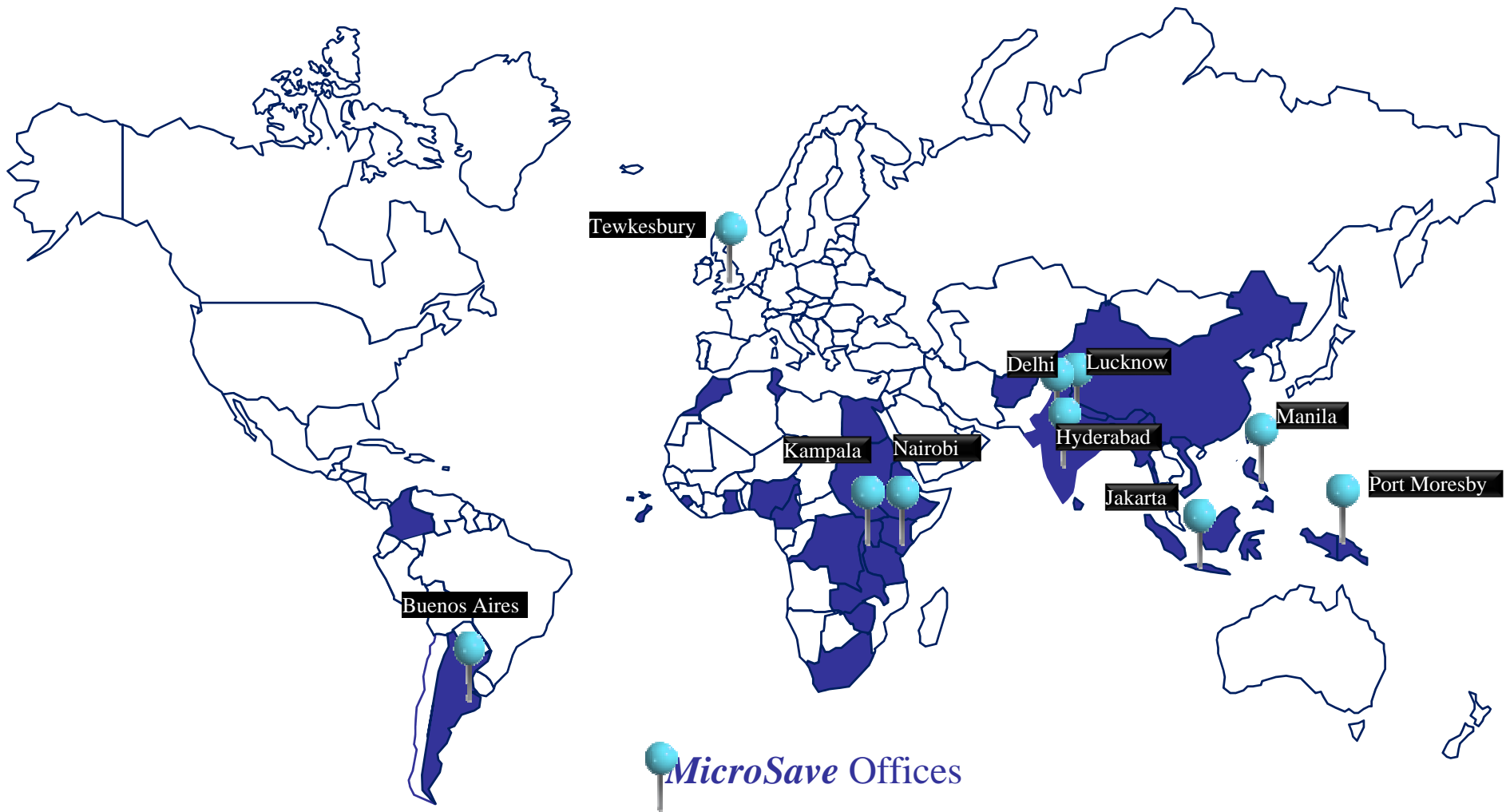
- The weighted average fee per payment, even at a transaction fee at 3.14% commission, is only USD .15 for India.
- The G2P schemes used for these calculations are MGNREGA, PDS Food subsidy and LPG subsidy
- The dollar exchange rates has been taken as constant; reference period being February 2012 in order to maintain parity

Sources:

“Social Cash Transfers and Financial Inclusion: Evidence from Four Countries.” Focus Note 77. Washington, D.C.: Bold, Chris, David Porteous, and Sarah Rotman 2012, February, CGAP

Recommendation for Building a Sustainable Financial Services Delivery Model

- ❖ **Consider the total cost of transaction** across the channel (Bank, BCNM, BCA)
- ❖ **Revenues can be on a sliding scale**; higher initially and tapering off as volumes build up.
- ❖ **Revenues should enable players in the channel to be gainfully engaged** and not seek exit at the first option. Agent churn significantly reduces trust in the channel.
- ❖ **Business volume is key to success** of the Bank Mitr channel - Cost per transaction will come down with increase in volumes which in-turn can be increased with relevant products
- ❖ To build trust and improve quality of service, **BCA skills need to be upgraded and a process of certification needs to be initiated.**
- ❖ **DFS can enable the conduct of a costing exercise** based on empirical data from Banks, BCNMs and BCAs. The exercise will enable realistic pricing and can be repeated once in two years or till such time that the model stabilises.



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