# **Payment Banks:** What Can We Learn From Indian Experience?

MicroSave

*Market-led solutions for financial services*

# Introduction

The creation of Payment Banks by the Reserve Bank of India promises to offer a range of exciting opportunities, as well as some challenges, for the provisional licensees. Many of these are discussed in this collection of *MicroSave*'s India Focus Notes and blogs, which provide deep insights from across India into options around strategy, product development and agent network development/management. These short articles are based on years of on-the-ground research and technical assistance dedicated to developing sound business models and operations to underpin profitable approaches to serving the mass market, thus advancing financial inclusion.

## What Does *MicroSave* Do?

*MicroSave partners with participants in financial services ecosystems to achieve sustainable performance improvements and unlock enduring value.*

We are an international financial inclusion consulting firm with nearly 20 years of experience, operating in nine offices across Asia and Africa.

Our mission is to strengthen the capacity of institutions to deliver market-led, scalable financial services to all people through guiding policy & facilitating partnerships to develop enabling eco-systems; comprehensive, customised strategic advice; and actionable, on-site operational assistance. We have worked to design and implement a variety of financial inclusion models.

## The *MicroSave* Team

We are a team of over 175 professionals who have strategic and technical skills honed through years of working with companies across various sectors to identify, understand and respond to the needs of the mass market. In the words of our clients, *"We are the world's local expert in financial inclusion"*.

More insights from India and across the globe can be found on our **websites:** www.*MicroSave*.net and www.*Helix*-institute.com.

MicroSave

Market-led solutions for financial services

# Content

# Strategy

# Reducing Friction To Succeed

*Puneet Chopra*

A wage labourer from Bihar, India, swipes a metro rail card, as he runs to catch a train to a construction site he works at in Delhi. A mother enters a few digits on her Equitel mobile phone to pay the monthly school fee of her daughter in remote Eldoret, Kenya. A small shop owner outside of Pokhara, Nepal, pays cash to an IME agent to transfer to a consumer goods supplier in the capital Kathmandu. A housewife in Badlapur in the deep suburbs of Mumbai, India, orders a new thirty-dollar smartphone through Amazon and selects the option of 'cash on delivery'. The smartphone is delivered to her next day by a boy running a small store around the corner. A garment worker in Dhaka hands over some savings in cash from his weekly earnings to a bKash agent to transfer to his wife in rural Chittagong, Bangladesh. A retired soldier swipes his fingers to authenticate and withdraw his monthly pension in cash at a SAVE agent in distant Gonda, Uttar Pradesh, India. A coffee farmer in Masaka, Uganda goes to a MTN agent to withdraw cash paid into her account by an aggregator for Nescafe.

What is common in these events? These are examples of massive and thriving, consumer demand-driven business models in emerging markets around the world. What leads to these success stories that many a business in the payments space would aspire to? A vital element is the low friction of these transactions from the standpoint of the consumers and the distribution/delivery channels. And what constitutes "friction"? Inconvenience, high tariffs, system downtime, low commissions, slow speed, poor service quality, inaccuracy, lack of an underlying compelling need and technology instability, to name the important ones.

**Reducing friction can make a difference**

An ability to reduce friction makes all the difference between the winners and the also-rans. For every Safaricom, bKash and MTN, there are hundreds of mobile money offerings that haven't reached any noticeable scale (a mere 21 out of 255 mobile money deployments across 89 countries, tracked by GSMA-MMU, had more than one million active accounts as of December 2014). Likewise, for every Alipay, Amazon and Flipkart, there are countless "alsoran" payment services and wallets.

In this blog, I present a perspective on the upcoming Payment Banks in India – what they will be up against; a reality check amidst the hype; and the acute need for a sharp focus on reducing friction through disruptive innovations and business models.

**Understanding the limited degrees of freedom for the Payment Banks**

Payment Banks is somewhat of a misnomer. They can certainly do more than provide just payment or remittance services. They can accept demand deposits (current and savings deposits) with an end of the day balance of up to INR 100,000 per individual customer. They can issue ATM/Debit cards and provide Internet banking; function as a business correspondent (or an agent) for a (full service) bank; distribute simple third party financial products such as mutual funds, insurance and/or pension products (albeit after prior approval from the central bank); and undertake utility payments.

However, unlike full service banks, they cannot accept time deposits or undertake any form of lending activities. At least 75% of their 'demand deposit balances' have to be invested in government securities or treasury bills as statutory liquidity ratio (SLR). The remaining can be held in current and time deposits with scheduled commercial banks. They need to maintain the stipulated cash reserve ratio (CRR) with the central bank for their 'outside demand deposit and time liabilities'.

This does considerably limits the degrees of freedom for Payment Banks. RBI data for all scheduled commercial banks for the period 2012 to 2014 shows that 66% of their total earnings are from interest on advances; another 21% are from investments; fee, commission and brokerage income is in the range of 6% to 7%; while 1% is earned on balances with RBI and other inter-bank funds. Therefore Payment Banks have an opportunity to target less than 10% of the revenue streams available to scheduled commercial banks. However they are expected to be game changers and should not be limited to traditional revenue streams. For one, they can potentially earn a lot more on fees from remittances, transfers and payments. Let us take a closer look at how that might pan out.

**Avoiding the danger of over dependence on consumer tariffs for a business case**
The most prominent, and much written about, remittance and payment business models in Africa, particularly East Africa (e.g. Lipa na M-PESA, M- Shwari, Equity Bank, MTN, Airtel Money), earn primarily from customer tariffs. Below is a comparison of tariffs for diverse mobile money models to transfer an equivalent of USD 100 in the respective local currencies on a purchasing power parity (PPP) basis.

As can be observed, the tariffs for most of the East African providers, and in Pakistan and Indonesia are quite high on a purchasing power parity (PPP) basis. Some providers like M-Shwari charge as high as 7.5% facility fee on small loans for 30 days. This is a flat rate and remains the same even if the loan is taken just for a day; and it translates to an annualised interest rate of at least 138%.

| Country | Tariff in USD to transfer an equivalent of USD 100 in local currency on a P P P basis)* |
|---|---|
| Pakistan | 5.8 |
| Indonesia | 4.6 |
| Uganda | 3.4 |
| Tanzania | 3.3 |
| Kenya | 3.0 |
| Bangladesh | 2.1 |
| India | 2.0 |
| Cambodia | 1.6 |
| Nepal | 1.6 |

** MicroSave analysis of tariffs of major MNOs and/or Banks in each country*

In India, earnings which are solely from high consumer tariffs are coming under pressure. The payments space is witnessing hyper competition with several national banks doing quite well along with many of the PPI (PrePaid Instrument) licensees or business correspondent partners who have not received a Payments Bank license (Oxigen, ItzCash, Suvidhaa, SAVE et al). In addition, new players/models are emerging. These include: Apple Pay, Samsung and Android Pay, besides a multitude of wallets (Chillr from HDFC Bank, Buddy from SBI, Pockets from ICICI Bank, FreeCharge from Snapdeal to name a few). Payment Banks' pricing models will compete head on with many of these, and face an added pressure to offer highly attractive tariffs to even draw the attention of consumers in such a crowded market place.

### Constant innovation to compete with disruptive models

The second and perhaps a more important factor will be disruptive pricing models. In China and India, some of these alternate models have already taken deep roots. Alipay and AliExpress with 800 million registered (and 400 million active) users making 171 million transactions daily, do not charge the buyers anything for their services. Instead, the business model depends on generating revenue from sellers or partners. Flipkart, Snapdeal and Amazon follow a similar model in India. In Nepal, eSewa virtually offers most of its services free to registered users. These include merchant and bill payments. Remember how mobile voice (and now data) tariffs fell from INR 16 per minute to a per-second pulse in a period of five years?

Coopetition with the right partners will be crucial. Partnerships to offer innovative micro-credit, micro-insurance and other financial products will be crucial to go beyond the limited 10% revenue streams that Payment Banks can target on their own. Fino PayTech and Snapdeal's announced partnership and Janajeevan prepaid card from Janalakshmi (a small finance bank licensee) with DCB Bank illustrates this need. Though collusion might prove to be short-sighted.

### Navigating the dynamics and limitations of retail distribution

Beyond reasonable price points, and assuming Payment Banks' products have a consumer pull, convenience through widespread, 24 hours and 7 days (or even 12 by 5) availability, and quality of service at the transaction points are very important considerations for consumers. To offer these, financial service providers are highly dependent on distribution channels. Nearly two thirds of the Payment Banks have received the licenses partly on the strength of their distribution networks. The caveat is – these are diverse, third party and multi-brand distribution / retail networks that function entirely on sound commercial opportunities. There is no aspect of loyalty or permanency to them. (This is one of the reasons that despite extensive distribution and outreach, MNOs as PPIs could not make significant inroads into mobile money business. What they will do differently as Payment Banks is yet to be seen).

Moreover, and sadly so, retailers can have considerable downward influence by bad-mouthing a product or simply by limiting its visibility on their shelves, until the product or service (even from a renowned brand) has attained high consumer pull. In their one-upmanship to gain adequate traction with distributors and retailers, Payment Banks will be required to offer large commissions. In the end, those with deeper pockets might survive this war. And as Vinod Khosla, the renowned investor put it, 'Bad ideas, and copycats will throw a lot of money in blowing each other's tanks, but might not eventually survive'.

Retail networks in India are best suited for quick, low-involvement, sales transactions - not for selling of new products or ideas. In a descending order of priority, retailers' strategy is to: (a) push what fetches them a higher commission; (b) sell what consumers ask for, without a willingness to explore alternatives; and (c) spend time on what provides a high return on time invested (ROTI) to them. As a result, achieving a desired service quality or directing retailers' behaviour is quite an uphill task (except within the organised retail outlets – company/ franchisee owned and operated (COCO/FOFO), that, given their cost structure, can usually be very small in numbers).

Does this mean, one of the fundamental reasons why several Payment Banks received a license in the first place, the strength of their distribution, might come to a naught? Possibly! Unless they can apply implement the various lessons learned and do more of what is really warranted.

**Making the right technology and user interface choices**

Another key factor that determines user experience (more importantly retailer experience, as self-service transactions by the masses are still a distance away) is technology - the cost and ease to install/access; the user interface design; the steps to navigate; the speed to transact; the accuracy of transaction fulfilment; the ease of exception management and grievance management. While the USSD channel is the most prevalent form around the world, in India, Internet enabled and POS devices (including micro-ATMs) have a substantial adoption and acceptance rate. Payment Banks with MNO lineage will enjoy some advantage with USSD. After all, the MNOs managed to vanquish Movida India, a joint venture of Visa and Monitise that was heavily dependent on viable pricing and availability of USSD channels.

Nevertheless, interface options beyond USSD will continue to be vital and so would be seamlessness of transactions routed through national switches. During a *MicroSave* internal market research, several retailers were found to be swapping providers that provided better navigation options or managed to contain failures of / delays in transactions routed through NEFT or IMPS at the back end. The decision to swap was taken almost instantaneously, without pondering much about the vintage of their previous relationship - so much for their loyalty! While this can be interpreted as an opportunity for the incumbent Payment Banks to make inroads into competitive retailers, it will require them to be always at the cutting edge of delivering a seamless retailer (and user) experience. And of course, there is always the risk that another smarter player will arrive and snatch a well-oiled network, proving *MicroSave*'s oft-repeated early mover disadvantage in mobile money and payments.

**Bottom line: Inevitable need for a compelling consumer value proposition**

The bigger question is, will efforts towards reducing friction eventually lead to a higher consumer demand and adoption? Not necessarily. These are necessary but not sufficient requirements. Consumer demand is the outcome of a compelling value proposition delivered through suitable products and services that address needs, better than prevailing options. Lower friction is a critical constituent but it does not complete the equation.

Nevertheless, as Nanden Nilekani says, 'There will be winners and losers in any hyper competitive market. The good news is, the sector will be transformed and customers will benefit". Watch this space for more views on strategies for Payment Banks.

# Can MNOs Lead the Way for Banking the Excluded? (1 of 2)

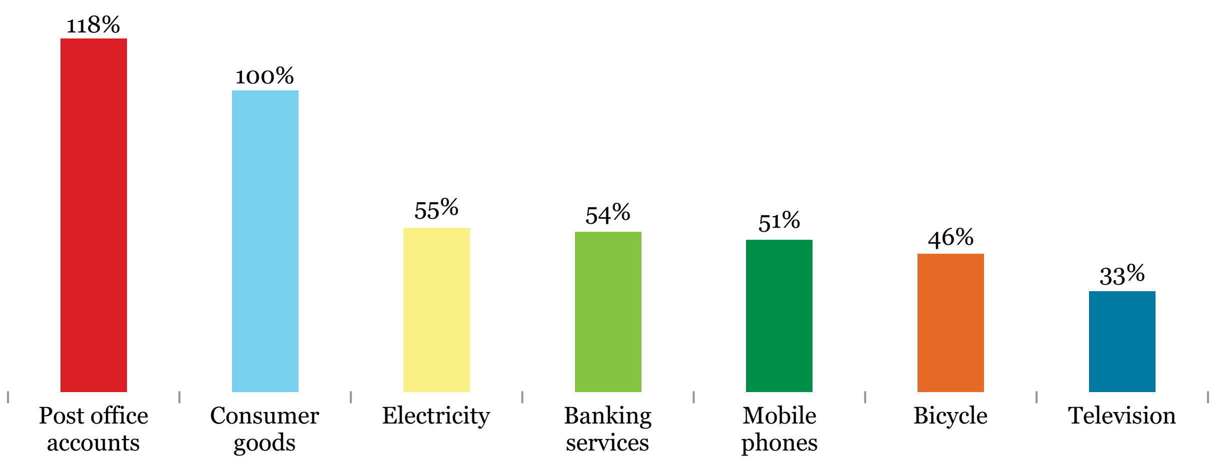
*Puneet Chopra and*
*Raunak Kapoor*

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 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.

## 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.

**Figure1:** 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.

**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 |

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.

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.

[3] Various research reports and *MicroSave* analysis

## 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 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 (e/m-banking). 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]

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

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 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? (2/2)".

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

# Can MNOs Lead the Way for Banking the Excluded? (2 of 2)

*Puneet Chopra*

The chapter "Can MNOs Lead the for Banking the Excluded? (1 of 2)" discussed the differentiating capabilities of MNOs that could help them attain leadership in electronic or mobile-banking (e/m-banking). 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 e/m-banking 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.

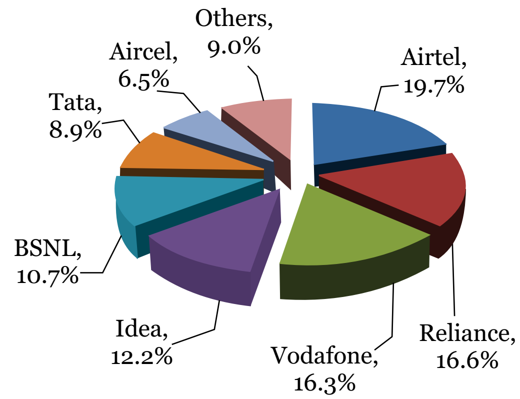
**Figure 1:** Market shares in select consumer retail sectors / services[2]

| 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, highinvolvement 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 shortrun 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 subdistributors 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, lowturnover, 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 ecommerce 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 talktime 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

# PRODUCTS

# Successful Banking Correspondents Need a Compelling Product Mix

*Christopher Murdoch and*
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## Introduction

Banking correspondents (BCs), or agents, are expected to underpin financial inclusion efforts in India. However, to date, the business case for BCs remains uncertain,[1] despite the Reserve Bank of India's (RBI's) efforts to relax policy to encourage successful growth of BCs. Nonetheless some commentators do still see the future of financial inclusion and microfinance in India dependent on successful BC models.[2] This Note lays out why a compelling product mix is central to a successful BC network.

## Product Up-Take Has Been Poor To Date

The 2009 Skoch Report[3] noted that 89% of No Frills Accounts (NFAs) were dormant. Subsequent *MicroSave* research has nuanced this, revealing that:

1. Dormancy may be marginally lower than this in part because of legacy issues: many NFAs were initially opened with little intent to create transactional accounts, but rather for banks to report numbers to the RBI or for political purposes.
2. The rate of dormancy depends heavily on: a) the through-put of electronic benefit transfers (EBTs) – particularly MGNREGA[4] payments; b) whether the BC is bank branch-based, or more convenient if the agent is located in, or regularly visiting, the villages.[5]
3. The cost of operating bank branch-based accounts is often high in terms of direct costs (transport etc.) and opportunity costs (travel and the time customers have to wait for service in many branches). 77% of respondents in a recent *MicroSave* study lose Rs.10-50 in direct costs for branch visits, more if lost wages are included.[6]
4. Poor people have aspirations for more than a "No Frills", "Basic" or "Tiny" account. As *MicroSave* research in South Africa also demonstrated, unsurprisingly, people do not like the implicit label of being poor, or unworthy of full banking facilities. They aspire to full service account - ideally with card and cheque facilities (even if they are unlikely to use these).

## Yet Research Shows An Enormous Need

An estimated 400 million Indians remain unbanked – and many more under- or poorly-banked. This despite the growing international consensus on poor households' need for savings services – most recently and powerfully elaborated in "Portfolios of the Poor"[7]. It is clear from research around the world that poor people need a variety of savings services to:

1. Smooth erratic cash flows, thus protecting nutritional in-take, keeping children in school etc.
2. Respond to emergencies and shocks arising from illness, accident, death etc.
3. Build-up lump sums to invest in business, land, social functions like weddings etc.

This variety of needs cannot be met by a single transaction account as characterised by the NFA. Poor people also need a recurring deposit account to give discipline and structure to the process of saving.

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[1] See *MicroSave* India Focus Note 24 "Making Banking Correspondence Work in India" and 32 "Crossing the Second Break Even".
[2] See *MicroSave* India Focus Note 60 "Speculation on the Future of Financial Services for the Poor in India"
[3] Kochhar, Sameer, "Speeding Financial Inclusion", Skoch Foundation, 2009.
[4] The Mahatma Gandhi National Rural Employment Guarantee Act, which provides guaranteed 100 days of paid labour for poor households across India.
[5] Platt et al. "No Thrills – Dormancy in NFA Accounts", *MicroSave*, 2011
[6] Cost & Willingness to Pay report, *MicroSave*, 2011
[7] Collins et al., "Portfolios of the Poor", Princeton University Press, 2009.

The deposits achieved by the itinerant agents of Sahara and Peerless bear testimony to the need for opportunities to save regularly through convenient channels.

| | Sahara | Peerless |
|---|---|---|
| # of agents | >415,000 | >140,000 |
| # of deposit accounts | 20,800,000 | Not available |
| Rs. Deposits (December 2010) | 18,055.7 million ($401 million) | Not available |
| Rs. Deposited & Redeemed since 1987 (Sahara) and 1956 (Peerless) | 415,630 million ($9,236 million) | 177,930 million ($3,954 million) |

In addition, some households also need a fixed deposit account to set aside harvest proceeds or lump sums generated from the sale of assets such as livestock etc.

## The Alternative Options For The Poor Appear Unattractive

Because of the pressing needs highlighted above, and in the absence of access to safe, convenient and easily accessible options to save in banks, the poor resort to managing their money through informal systems. These include hiding money in the homestead (typically in bamboo or under the mattress), joining village savings clubs or chit funds[8] or signing up with one of the itinerant deposit collectors that make the rounds in so many Indian marketplaces. All these options have risks:

1. Money kept at home is often spent, simply because it is there; which is exactly why almost all people interviewed in *MicroSave* studies talk about needing to "get money out of reach – out of the house".
2. Savings clubs and chit funds are risky, and sometimes members do not meet their obligations, or run off with the pooled money.
3. Even if the deposit collectors do meet their obligations, they charge exorbitantly for the service they offer. Typically, a deposit collector prints a card with 30 boxes on it (one for each day of the month) and the saver commits to saving a certain amount each time the deposit collector visits. Once the card is full, the deposit collector gives the saver the lump sum generated, less one box as a fee. Thus if the saver commits to saving Rs.50 per day, she will get Rs.1,450 at the end of the month.[9]

The willingness to pay really quite significant sums for the convenience of a deposit collector highlights the potential for delivering a convenient, lower risk formal sector alternative through local BCs operating in the markets and villages.

## High Volumes Are Required To Make The BC Model Viable

But it is not easy, or low cost, for banks to deliver savings services to the poor. Low income people typically make high volumes of low value transactions, and maintain limited balances in their accounts (or at least their transaction accounts). These behaviour patterns challenge the traditional economics of banking. In Africa, where transaction charges are commonplace, the charges levied by mobile phone-based banking systems are easily accepted. There are

[8] Chit funds are Rotating Savings and Credit Associations (RoSCAs) – under which a group of people pool their savings regularly (usually weekly or monthly) and give the lump sum thus generated to each member in turn until all the members of the group have received the lump sum. Thus a 7 person RoSCA completes after 7 meetings and all members have received the lump sum.
[9] 30 days of saving Rs.50 = Rs.1,500 less the fee of Rs.50 paid to the deposit collector.

concerns that this might not be the case in India. Indeed, initially the RBI prohibited the levying of transaction charges; however "reasonable charges" are now acceptable. However, research by *MicroSave* suggests that many people are indeed willing to pay for a safe, convenient and accessible service.[10] 56% were willing to pay 1% and another 23% were willing to pay around 1-2% of the value of each withdrawal. But there may be considerably more resistance to paying for deposit transactions.

Nonetheless, setting up a BC system is an expensive proposition. In addition to the very significant investments required in technology (particularly for card-based systems that require point of transaction devices), the development and rollout of an effective, well trained, appropriately incentivised and tightly monitored agent management is also a costly and challenging proposition.[11]

## High Volumes Will Attract Banking Partners

Commercial banks in India are under significant pressure from the RBI to set and then meet financial inclusion targets. These targets are now set in terms of both the number of accounts opened, and also of the activity in those accounts, so the old approach of opening accounts and then letting them lapse into dormancy is no longer a realistic option.

With the sanctioning of "reasonable fees", banks with a commitment to serving the low income market, such as the State Bank of India, now have the real opportunity to do this on a commercial basis and further extend their customer base. A well-managed network of BCs could provide the safe, convenient and accessible local banking service that so many poor households want.

By diversifying the range of services offered through the BC channel beyond the basic EBT and NFA, banks can drive the volumes and revenue streams to make the channel profitable. The latent demand for commitment savings is clear. Well structured and incentivised recurring deposit products could yield substantial stable balances and thus float for banks. In a similar vein, bancassurance products, which are largely used by poor households as long term savings mechanisms, are also likely to be a popular use of the BC channel. Over time banks can begin to offer automated overdraft/ emergency loan facilities on the basis of individual account holder's transaction history.[12]

This type of client-responsive product mix is likely to create the level of activity necessary to make the BC channel sustainable for both banks and the BC network manager, as well as for individual BCs themselves … thus creating true and meaningful financial inclusion.

[10] Cost & Willingness to Pay report *MicroSave*, 2011
[11] See *MicroSave* Briefing Notes 73 and 74 "Managing Agent Networks to Optimise E- and M-Banking Systems"
[12] Indeed some banks (including Central Bank of India, CBI, State Bank of Bikaner and Jaipur and Punjab National Bank) are already experimenting with this and offering very small overdrafts along with the NFAs as people open the account, in order to allow them to build a credit history.

# GRADUATING SBI *TATKAL* CUSTOMERS

*Abhishek Lahiri, Sharad Bangari and Swati Mehta*

## Introduction

*MicroSave* India Focus Note 68 discussed the success of the new *Tatkal* product, a direct deposit product offered by State Bank of India (SBI) through the business correspondent (BC) channel with specific reference to the case of Eko, a BC based out of Delhi. Eko has managed to use this product as the real hook, which now contributes more than 75% of gross transactions, thus, improving the business case for not only Eko, but also its agents.[1] SBI is particularly happy since this has decongested their branches in urban areas.[2]

This Note discusses when and why customers may be ready to try new services beyond the entry *Tatkal* product and how business correspondent network managers (BCNMs) could leverage the increased footfall at their agents' outlets due to *Tatkal* by cross-selling other financial products, to graduate customers to use a wider range of m-money services.[3]

## Customers' Readiness to Graduate

During *MicroSave*'s field research, three key drivers for *Tatkal* users' readiness to adopt new products and services emerged. These are:

1. ***Trust*** – Customer's trust in the bank's brand (SBI in this case) and the relationship built with the BC agent, a local person, are the main source of trust in the *Tatkal* product. More than the BCNM's brand, it is the bank's brand and logo, which inspires customer's confidence and belief that a) their money is safe and b) the agent appointed by the bank will be trustworthy.
2. ***Past Experience*** – The experience with *Tatkal* has also instilled confidence in the BCNM's brand, which was one of Eko's major challenges. The research showed that due to good past experience with the BCNM, customers perceive that any new offerings would also be need-based, convenient and cost effective.
3. ***Immediate proof of transaction*** - *Tatkal* users receive confirmation SMS (mobile banking) or a physical receipt (kiosk/POS banking) from the agents after each transaction. While a confirmation from the recipient is necessary, it is usually delayed unless the recipient has activated SMS or internet banking. In such cases, an immediate proof of transaction serves as a strong physical and visual evidence for them.

Customers who use *Tatkal* frequently were more open to trying new products sooner than those who do not use the product as often. Most customers who indicated readiness to try new services mentioned that they would like to first test the products and compare the benefits with other service providers. Once the initial set of early adopters is acquired, Eko could incentivise them to promote word-of-mouth publicity (through referral schemes) to other customers.

## What Products do *Tatkal* Customers Want?

The following section presents the products that existing *Tatkal* customers (interviewed during the research) were most interested in and which BCNMs can strategically cross-sell to this newly acquired, massive, customer base.

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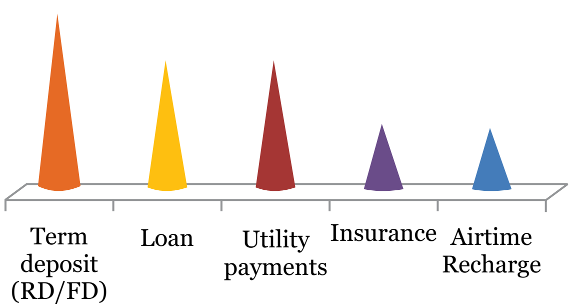
[1] CSPs, or Customer Service Points, are Eko and SBI authorised agents (typically a grocery/mobile airtime shop).
[2] During a research with *Tatkal* agents/customers, it was observed that bank branches consciously divert small-value deposits (less than Rs. 10,000) to BC agents to decongest their branches.
[3] This is based on brief qualitative research conducted with *Tatkal* customers and CSPs of Eko in Delhi and Bihar (23 customers and 6 CSPs were interviewed). This has been supplemented with another Action Research Partner of *MicroSave* offering the *Tatkal* product.

***Basic savings***[4] (already offered by BCNMs) was still important for *Tatkal* users, especially those using it for personal remittances[5] (i.e. sending money home) and wanting to set aside small amounts each day at home, or with their employer, before they send a lump sum home. BCNMs could cross-sell the no frills account (NFA or a typical savings account) already available at the BC agent to such users.

**New Product Demands- *Tatkal* customers**




***Recurring deposits (RDs)*** topped the wish list for new products across occupations. Those who were self-employed wanted the flexibility to deposit anytime in their RD account. The demand was also high with migrant daily wage labourers who do not have a local bank account to save in, due to lack of the necessary KYC documents.[6] Salaried customers were also highly interested in an RD, but the deposit frequency would need to be matched with their salary payments These deposits could be made through linking the NFA with the RD account. Salaried workers with fixed incomes, and the self-employed who often have seasonal income, also wanted fixed deposits (FDs).

***Utility payments*** for services such as electricity, water, and cable from other companies were also in demand due to the pain of travelling to the related offices and waiting in queue to pay the bills. This service was especially demanded by permanent residents of Delhi (mostly belonging to Segment 3 in the table below) who were willing to pay a premium to access these services at an agent outlet.

| Segment | Product demand |
|---|---|
| **1. Daily wage labourers** | NFA/basic savings + RD + Mobile recharge |
| **2. Salaried** | RD/FD + Loan products + Life insurance |
| **3. Self-employed: Petty shop owners / Small businessmen** | Savings account + FD + Loan products + Life/ general insurance (including payment of insurance premium) + Utility payments |

***Insurance,*** both life and general, was demanded mostly by segments 2 and 3 (as mentioned in table above). Businessmen want general insurance products for their inventory stock to save the hassle of going to insurance offices during business hours. Salaried users who are married want a life insurance product, as they want monetary security for their dependents.

Other product demands that came up during the research were overdrafts (ODs) on the savings account (mostly for the business community), loans and airtime recharge linked to the savings account.

[4] The basic savings account (or No Frills Account) is not included in the chart since it was already being offered by Eko and other BCNMs. However, it can be re-launched with changes in features and positioning to ensure better take up and usage.
[5] *Tatkal* customers use the service for business payments (to suppliers, etc.) in addition to personal remittances.
[6] *MicroSave* studies across Asia and Africa (and the book Portfolios of the Poor) have also shown that the poor often prefer RD products, as they provide flexibility in terms of tenure and amounts and instills discipline in saving regularly.

## Graduating *Tatkal* Users: A Phased Approach

A Phased Approach A phased approach (with at least 3-4 months for each phase) to graduate these customers would likely be prudent instead of introducing all products at once. This would provide an opportunity for the bank and the BCNM to understand customer response, identify marketing gaps, and also allow agents the time to manage these new products. These products could be introduced in the following two phases.

**Phase I: Introduce Savings and Payments Products**

- √ Focus on no-frills account (NFA) or savings account (SA)
- √ Recurring deposit (linked to NFA/SA)
- √ Utility payments
- √ Fixed Deposits

The overall goal would be to first encourage customers to open a savings account that would link to other products (such as RD/FD accounts and utility payments). The target segments would be migrant labourers and salaried workers who do not have a local bank account. The NFA could be offered to those who send their entire balance home each month. A regular savings account (with minimum balance, ATM access, and cheque deposits) could be offered to those who are slightly better off and who can maintain a minimum balance. The RD account can be promoted among migrants as an account to save for larger, planned expenses around festivals when they must send higher amounts home. Utility payments could be a natural extension of *Tatkal*. Given that people are willing to pay a premium for such convenience, this product could be marketed extensively especially amongst residents of bigger cities such as Delhi.

This product strategy could be supported with targeted marketing such as referral schemes, SMS blasts, initial free trials and discount schemes. Below the line marketing, such as informational and account opening canopies, would help the agents cross-sell these new services to *Tatkal* users.

**Phase II: Introduce loan and insurance products**

- √ Overdraft
- √ Working capital loans
- √ Other tailored, short-term loans
- √ Insurance products

Once the customers have an established transaction history with the bank and their creditworthiness can be ascertained, then asset products such as overdrafts and business loans can be introduced. The target segments for this would be small businessmen and petty shop owners. Anyone who has maintained a good savings history or has an RD/FD with a certain level of transactions or balances could be eligible for the overdraft.

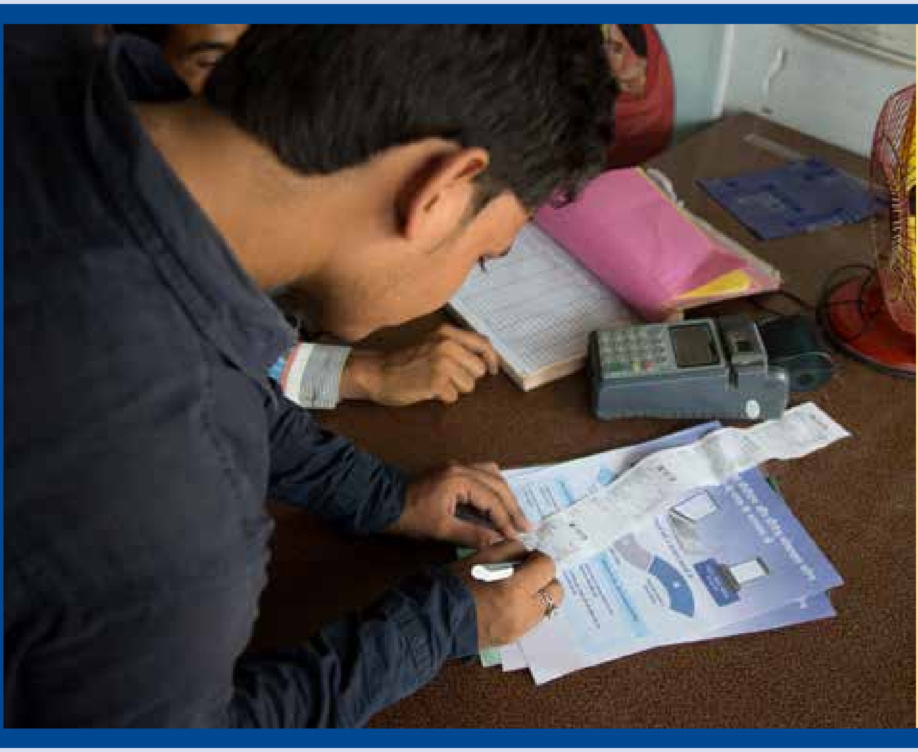
The BCNM could alternatively act as a sourcing partner for an MFI, which would conduct due diligence and take on the balance sheet risk for working capital or other short-term loans. Insurance products could be bundled with loans or offered separately, such as for life insurance, and then offered as a “utility payment” when premiums becomes due.

## Conclusion

*Tatkal* was introduced at a time when BCNMs were struggling to gain visibility and trust among their target segments, as the NFA product alone was not sufficient to meet customers' expressed needs.[7] This is evident from the widespread inactivity/dormancy experienced for NFA accounts. *Tatkal* has given BCNMs an opportunity to gain visibility and improve the business case through increased volumes. The focus should now be to maintain customer service levels and gradually expand the product mix.

[7] According to an aggregate estimate from *MicroSave*'s 2010 research reports, and 2008-09 CGAP, IFMR and Skoch Development Foundation figures, in most areas, only 20% or fewer use their accounts for small savings

# Can You Really Use Mobile Money for Microfinance? Lessons from a Pilot



*Akhilesh Kumar Singh,*
*Lokesh Kumar Singh*
*and Nishant Kumar*

Mobile money is receiving increasingly global attention as some observers hope that it will largely replace cash – in the long run at least. MFIs stand to gain immensely from the advent of mobile money as (inter alia) they have to deal with large amounts of cash, often in remote areas.

The potential benefits of replacing cash with mobile money, led to a partnership between a large mobile network operator (MNO) and a mid-sized MFI in Uttar Pradesh. The partnership has provided valuable lessons for the MFIs and MNOs seeking to set up a sustainable mobile money-based systems. In this Note we examine the evolution and mechanics of this partnership, and how MNO-MFI partnerships could be made mutually more rewarding in the context of mobile money deployments.

**Why Partner?**
For MFIs, the elimination of cash from the system addresses many of the risks related to it, and enables easy cash and account reconciliations. For MNOs the partnership brings a large captive client base making regular transactions. These benefits are hard to come by for both partners individually. Hence has the potential to be a mutually symbiotic relationship.

**Why This Pilot?**
The key objective of the pilot was to see if the, largely illiterate, borrowers were comfortable using a mobile banking system and willing to pay for the easy, doorstep and round the clock services.[1] If successful, of course, benefits would accrue to both the partners as discussed above.

**Pre-requisites for Successful Take-off**
Changing the customer interface from human to a mobile based platform, requires a behavioural shift in MFI clients. To facilitate this certain pre-requisites, or critical success factors (CSFs), were agreed upon by all the stakeholders. These CSFs are presented in the table.

**How Was It Positioned?**
Under the pilot, the MFI and MNO partnered to offer the MFI's clients the mobile money platform as an alternative window for making their weekly loan repayments. The MFI did not push its clients to use the mobile money channel as it would cost client around 1% of the transaction amount. Instead, the channel was offered as an additional option on top of the existing practice of physical cash collection.

As a Business Correspondent (BC) for a large bank, the MNO was able to offer savings accounts operated through the mobile platform. The larger, long-term idea was to offer a bouquet of financial services to the MFI's clients - including loan receipt and repayment, savings, remittance, bill payment, as well as insurance premium payment and claim receipt. However, to start with only savings deposits and loan repayments were piloted.

*MicroSave*, as a technical partner, supported the pilot by designing the pilot test plan, systems and processes right from communication and marketing to repayment and day-end closing.

[1] See *MicroSave* study on "Cost and Willingness to Pay" to understand customer demand and willingness to pay for door step banking services.

| CSF | Responsi-bility | Details | Respon-sible Partner |
|---|---|---|---|
| **Customer education and willing-ness to transact** | Marketing and communi-cation of the product | Behaviour change required to move to a self-assisted mobile based payment system Consistent messaging to highlight the benefits to the clients | **MFI** |
| | Responding to customer service and grievances | Once clients are on the mobile money platform they will have service related issues/ grievances needing redress | **MFI** |
| **Invest-ment of resources** | MIS support to MFI<br><br>Preparation of sales | Requires technical support from MNO in the form of user friendly reports for reconciliation To keep the sales pitch focused on benefits of using the mobile platform, and develop promotional material, for the channel and products. | **MFO** |
| | Capacity building<br><br>MIS modifi-cation<br><br>Process modifi-cation | MFIs staff to be trained to sell the new payment method.<br>MFI's MIS has to accommodate the additional payment method in account reconciliations.<br>Processes for the new mobile money repayment method provided to clients | **MFI** |
| **Infrastructure readiness** | Customer Service Points | Given that the mobile based platform attracts user charges, there should be customer service points close by (within 1 – 1.5 kms of clients' residences) | **MFO** |

**Outcome of the Pilot**

However, despite the meticulous preparation, the project quickly lost momentum as there was a deadlock between MFI and MNO on who should build and manage the agent network. The MNO wanted the MFI to manage it, while the MFI's contention was that managing agents would defeat the whole purpose of pilot as it wanted to get out of cash management.

Partnerships between MNOs and financial service providers at "Bottom of Pyramid" should be preceded by detailed deliberations about roles partners will play (see: The Role of Partnerships and Strategic Alliances to Promote Mobile Phone Banking at the Bottom of the Pyramid and Mobile Payments: Rethinking Partnership Strategies). However these issues were not given enough attention to upfront, as a result, this seemingly win-win arrangement failed because of lack of clarity of expectations amongst the partners. The initial understanding was that MNO would appoint agents within 1 - 1.5 kms of the MFI's group meeting places in order to promote mobile based repayments. Accordingly, the MNO went ahead with this understanding and mapped locations to appoint agents. However, when the business growth did not meet expectations, the MNO proposed that the MFI should manage the agents. The MFI did not agree to this arrangement and pilot came to a standstill.

**Lessons**

The most important lesson is the importance of setting reasonable and realistic expectations between the collaborating partners. In this particular case, the MNO promised to deliver services at locations very close to borrowers' residences. However once it started implementation, it realised the enormity of appointing such a large number of agents and, more importantly, managing these on regular basis.

One of the main reasons for difficulty in creating desired agent density was unfavourable agent-level business economics. This meant that, at the time of the pilot in early 2014, the MNO struggled to find the desired number of agents, and saw limited business growth for its mobile platform.

*MicroSave* has documented how important and difficult it is to ensure agents' satisfaction with mobile money business.[2] In this particular case a typical agent within the pilot geography had the potential to earn between Rs.500-600 ($8-10) per month.[3] This amount is only likely to be of interest to people with very limited business income of around Rs.3,000-4,000 ($50-67) per month, who may perceive it as a good marginal addition to top up their current business. However, the MNO pitched agency to larger businesses, run by better educated people, earning much more than this.

| Number of Clients and Repayments | |
|---|---|
| Number of centers linked to the agent (within a radius of 1-2 km) | 4 |
| Average borrowers per center | 17 |
| Number of repayments per member per year | 50 |
| Average amount per repayment (in Rs.) | 291 |
| Total number of clients per agent | 68 |
| Total number of repayments per agent outlets per year | 3,400 |

Assuming that clients take up the offer (and many may not of course) this could provide a good, but probably not sufficient basis for a credible business case for some agents. However, if other services are added on top of these basic repayments, and offered to the whole population rather than just the MFI's clients, the business case for the agent seems clearer. These services will include deposit mobilisation, insurance payments etc. as well as the direct benefit transfers/G2P payments that are proposed by the government. However, all these depend, on the proximity and accessibility of the agent to his/her potential clients.

[2] See *MicroSave* Policy Brief #6 "Assessing Agent Profitability: *MicroSave*'s Agent Journal Studies"
[3] Calculated based on the current business volume of the MFI in the particular geography

| Commission on Basic Loan Repayments, Top-ups & Savings Deposits/ Withdrawals in Rs. | | | |
|---|---|---|---|
| | Pessimistic | Neutral | Optimistic |
| Repayments | 4,947 | 4,947 | 4,947 |
| Saving[4] | 330 | 495 | 826 |
| Withdrawal[5] | 264 | 396 | 661 |
| Mobile Top Ups[6] (2.25% of recharged amount) | 557 | 743 | 929 |
| Total commission for the year | 6,098 | 6,581 | 7,363 |
| **Basic monthly agent income** | **508** | **548** | **614** |
| **Additional Potential Income From G2P Payments** (not including savings from the broader community) | | | |
| G2P (MNREGS[7] and NSAP)[8] | 321 | 483 | 643 |
| **Total monthly agent income** | **829** | **1,031** | **1,257** |

Our experience from this pilot is that there are obvious benefits from partnerships between an MFI and an MNO to provide mobile money facilities to the MFI's clients. Mobile money agents will also benefit beneficiaries of social benefit transfer schemes such as MNREGS and NSAP. This, in turn, will lead to better remuneration for agents. To realise these benefits, the business case for agents, that must form the backbone of this offer, has to be carefully analysed.

[4] Assumption – Rs.20, 30 and 40/week/client in pessimistic, neutral and optimistic case respectively and 0.5% commission on float
[5] Assumption – An average withdrawal of 80%/account/year and 0.5% commission on withdrawal amount
[6] Assumption - An average mobile top up of Rs.30, 40 and 50 in pessimistic, neutral and optimistic scenario
[7] Average MNREGS and NSAP payment of Rs.386,067 per village
[8] Assumption – 50%,75% and 100% G2P withdrawals through mobile money agent

# Why Mobile Wallets Might Work for ASHA – And Many Others

*Amit Maheshwari and Vartika Shukla*

It is 6 A.M. on a cold winter morning in rural northern India and Sangeeta Devi, age 40, is already at work. She is an ASHA (Accredited Social Health Activists) worker in Patna, Bihar, one of India's poorest states. Sangeeta's responsibilities involve ensuring every child is vaccinated and every pregnant woman receives the medical care she needs. Often, against the will of the male head of household, she works long hours, extending well into the night, without an escort home (which can be dangerous in Patna), and she seldom gets paid on time. These all make a difficult job more so, but her real problem, the one she worries about most, is withdrawing small amounts of money from her bank.

**A widespread dilemma**

*MicroSave* is well aware of the cash-withdrawal and the underlying technology and business issues all rural bank branches and their clients must cope with—in India and in the many other developing areas around the world. Sangeeta's situation is unfortunately one we see all too often in our fieldwork and report in our blogs and research papers.

Her bank branch is 12 kms from where she lives, so she needs a day off work, up to Rs.820/$13 in missed opportunity costs, and ~Rs.60/$0.98 for the journey. Significant sums for her (she earns Rs.1,500 – 2,500 in a month but never receives it on time). Once she has finally arrived at her branch, the queues are long, the bank staff can be rude and unhelpful, and the IT servers and other links governing her withdrawals frequently fail. Too often, she returns home without funds.

So she does what any of us would do in similar circumstances: if and when her money is actually available for withdrawal, she takes it out in one lump sum. In her opinion, her small savings are better housed elsewhere, not at her bank. (*MicroSave*'s series on savings risks in India provide extensive background and research on this topic.)

**An Emerging Solution**

The current favourite "solution" to all the above is a mobile wallet, an electronic account held on a mobile phone that can be used to store (or save) money and to make transfers or payments to participants in the same or partnering systems. These wallets can also offer promising business potential, even for low-income customers with even lower stored value in their accounts, from the bank's point of view and from mobile operators' as well. The recently released 2013 GSMA Mobile Money Unit (MMU) State of the Industry report and the State of Mobile Money Usage are brimming with upbeat statistics and projections worldwide.

And, in the glossy poster and brochure, mobile wallets would seem to benefit the customer, too, at least in rural India, with cash deposit, cash withdrawal, money transfer, bill payments, and ~4 percent interest on savings

But CICO (cash in/cash out) agents still perform poorly and impose hurdles in many districts for G2P withdrawals (and thus, by logical extension, far worse hurdles for personal, non-government withdrawals). Product Innovations on Mobile Money, a new paper by Ignacio Mas and Mireya Almazán, and Ignacio's recent blog for *MicroSave*, noted above, raise other issues to resolve, including:

- Over 90 percent of all mobile money transactions globally are airtime top-up or P2P (person-to-person) transfers.
- Many CICO agents encourage these faster, more lucrative over-the-counter transactions, rather than the much longer-term, customer-growth potential that mobile wallet business represents.
- Mobile money providers, for their part, are often limited by tiny budgets and smaller staff numbers managing inflexible platforms on closed systems with poor programming and interfaces. For many, innovation is more an expensive distraction than a solution to their business problems.
- Regulatory constraints that bar smaller, less risk-averse alternatives to network- and bank-sponsored CICO agents, and the even stricter limitations on who can offer savings and award interest.

The regulatory situation may be improving, however, at least in India, the world's third largest banking economy, thanks to the Reserve Bank of India's decision in early 2013 to expand who can apply for an receive banking licenses. The benefits for financial inclusion include better agent networks, sponsored by applicants from insurance, household finance, technology services, and other industries.

India Post, the world's largest postal service, has applied for banking license. Their plan is to install 2,800 ATMs around the country for government disbursements and other payments by next year can only help mobile wallets and the cash-out problem. For the first 6-8 months, the ATMs will only serve Postal Savings Account holders, but thereafter, the intention is to link to all banking networks and potentially most mobile operators as well. In addition to this, India Post has announced to set up nearly 135,000 micro ATMs at post offices across India for saving account holders by September 2015. (A microATM is a hand held device which will remain present at post office level).

Sangeeta's employer ASHA, managed by India's Ministry of Health and Family Welfare, will have fewer difficulties digitally coordinating Sangeeta's monthly payments to her mobile wallet than those outside the Indian government's aggressively expanding G2P electronic funds transfer system.

Estimates vary from 8-10.5 million government employees (pensioners and part-time employees for programmes like ASHA make the figure hard to specify) and there are many others who will doubtless have to wait longer, but even a few million paid by phone are far more likely to keep paying by phone. And when that happens, mobile wallets will finally become what the brochures and glossy posters are promising.

# Agent Network Management

# What Do Clients Want in E/M-Banking Agents?

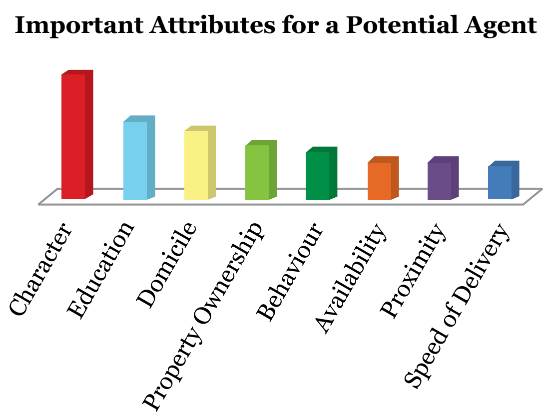
*Denny George and*
*Venkata N. A.*

## Introduction

With agent banking models being implemented across the globe as a viable alternative to branch-based banking, the selection of the right agent has become of paramount importance. Previous *MicroSave* Briefing Notes[1] dealt with this issue, but primarily from a viability standpoint. This Note describes clients' preferences for desired agent profiles in India, and looks at how this data could be used when selecting agents. The feedback was generated from several field research initiatives undertaken by *MicroSave* with its clients throughout India.

## What Do Clients Look For?

The chart[2] below shows the attributes clients generally considered most important in agents, with 'Character' and 'Education' being the most preferred attributes.




- ***Character:*** Honesty is the most important personal trait that clients look for in a prospective agent, who is (unsurprisingly) expected not to commit fraud. This is especially true when the primary focus of the service - as in agent banking models – is savings mobilisation. Many clients have already had bad experiences with agents for financial services, such as chit funds, who ran off with their savings, and are extremely cautious when it comes to conducting transactions with agents.

  ***"A person who is dishonest will speak more sweetly."***
  **– Clients on assessing character**

- ***Education:*** Respondents considered banking to be an activity involving complex processes, like book keeping, and felt only an educated person would be capable of undertaking such activities. Clients also felt that an uneducated agent would not be able to assist them in choosing suitable products.
- ***Domicile:*** Domicile indicates familiarity, and is an important attribute in establishing credibility as it also refers to the period the prospective agent has resided in the community. The longer the period, the greater the trust.
- ***Property Ownership:*** Clients prefer an agent owning property to reassure them that their money is safe; they feel that having immovable property could act as a deterrent for fraud and flight. Respondents also mentioned that property could act as collateral.
- ***Behaviour:*** For clients, being well behaved is critical to provide superior customer service. The importance of "behaviour" was brought up primarily as a result of bad experiences respondents have had with banks.

  ***"Behaviour of the shopkeeper holds the key. If he does not talk properly then no one will go."*** **– Clients on the importance of behaviour**

[1] See *MicroSave* Briefing Note # 81 "M-Banking Agent Selection"; #73 "Managing Agent Networks to Optimise E- and M-Banking Systems (1/2)" and #74 "Managing Agent Networks to Optimise E- and M-Banking Systems (2/2)"
[2] Based on a recent research project covering 395 respondents conducted by *MicroSave* on Agent Networks in Rajasthan and northern Uttar Pradesh. The 'Y' axis denotes relative importance as scored by the respondents on a scale of 1-5, 5 being high.

- ***Proximity:*** Proximity has direct bearing on the accessibility of the services and the time spent in going to/returning from the service point. The importance of this stems from transactional and indirect expenses, such as lost time and sales.
- ***Availability:*** Clients expected that the agent should be available for as many days in the week as possible and have long working hours to suit client needs.[3]
- ***Speed of Service Delivery:*** Speed of service delivery was mentioned to be important, since clients want to spend minimal time conducting financial transactions.

Surprisingly, some attributes, such as age, gender and space, did not come up as important, or received mixed reactions across locations. In some instances, younger people were perceived to be better as they understood technology; while in others, they were not considered trustworthy. Likewise, in areas where safety of the agent was a concern, men were preferred; while in others, women were preferred because they behaved better. Also, the space provided, in terms of appearance or adequacy, did not emerge as critical for most clients.

## Common Agent Profiles

For the purpose of simplicity, service providers tend to focus on different 'segments' of potential agents. However, clients tend to focus on individuals. Even though *MicroSave* research has identified common agent profiles below, one must be careful to identify key agent characteristics clients prefer based on local conditions.

Two *MicroSave* clients in India - one in the urban south and the other in the hill areas of the north - independently came up with the idea of using auto rickshaw/jeep drivers as agents, as they were ubiquitous and open to enabling transactions. However, the research in both areas indicated that clients do not consider these drivers as trustworthy due to their less than ideal reputation and their transient nature.

Provided below are the four most common categories[4] that clients identified as potential agents in India, and their performance on the customer preferences above.

- ***Grocery/Kirana Shops:*** These stores were popular because respondents were typically very well acquainted with the village grocer over a long period of time and generally perceived them to be approachable. They were also open for longer hours and accessible.
- ***Medical Shops:*** Medical shop (pharmacy) owners are typically trusted due to the nature of their service. (Pharmacists often provide medical advice for those who cannot afford doctor visits). Moreover, their shops are normally clean and well organised, and hence considered to be ideal for transacting. Pharmacists are also generally well educated and thought of as capable of delivering financial services.
- ***Mobile Recharge Shops:*** Mobile recharge shops received a mixed response. On the one hand, it was perceived that these shops are manned by people more knowledgeable about technology solutions and hence may facilitate fast and efficient service. On the other hand, they were considered to be very busy, thereby limiting their capability to deliver. Another negative aspect mentioned was that they typically were manned by younger people not considered especially trustworthy for money matters.

[3] See Platt et al. "The Answer is 'Yes'- Cost & Willingness To Pay" *MicroSave*, 2011
[4] Clients came up with other categories as well, but these were the most recurring profiles.

- ***Financial Service Agents:*** Existing financial service agents, such as those of Sahara, chit funds and insurance, received a mixed response. They were considered to be familiar with financial services, well behaved (in general) and were appreciated for providing doorstep service delivery. However, many clients did not like the fact that many were not from the same locality, and past experiences were less than satisfactory on account of misbehaviour and even cases of fraud.

## How to Incorporate Clients' Feedback?

Many of the attributes mentioned by clients are qualitative in nature and by definition, difficult to measure. This brings to the fore the need for field-based verification or putting in place adequate proxies while selecting prospective agents. For example, during the application stage, the community can be involved by providing referrals for obtaining agent profiles. Behavioural tests could, on occasion, act as proxy for character measurement.

The table below outlines some thoughts on how each of the key attributes can be measured during agent recruitment. Organisations may want to screen the agents on "easily verifiable" criteria first, and then run the more "qualitative" screening with a smaller group of potential agents so as to maximise efficiency.

| Attribute | Indicator |
|---|---|
| ***Easily verifiable*** | |
| Education | • Verification of educational certificates<br>• Test of literacy and book-keeping abilities |
| Domicile | • Proof of residence<br>• Feedback from clients and villagers |
| Property Ownership | • Physical verification of shop / store<br>• Verification of property documents |
| Availability | • Self reporting by potential agents combined with field observations<br>• Feedback from clients or shopkeepers |
| Proximity | • Physical location verification of the shop versus where most clients reside or work |
| ***Qualitative / Subjective*** | |
| Character | • Credential checks from clients, villagers, and community leaders covering the agent and his/her family, their profession, economic status, acceptance by villagers etc. |
| Behaviour | • Feedback from clients |
| Speed of Delivery | • Feedback from clients |

## Conclusion

Agent selection must consider many aspects key to the viability of the business, such as the capacity to scale up and the ability to manage cash. However, client preferences for agent attributes are perhaps more important than other considerations, since these will be one of the main factors driving transactions. Organisations wanting to adopt agency banking models should take cognisance of this and exercise adequate due diligence in identifying key characteristics that clients desire and selecting agents according to those traits.

# Assessing the most ambitious public financial inclusion drive in history An early dip-stick assessment of Bank Mitr's under Pradhan Mantri Jan Dhan Yojana

*Aishwarya Singh,*
*Manoj Sharma and*
*Mukesh Sadana*

## Introduction

*Pradhan Mantri Jan Dhan Yojana* (PMJDY) was launched by the Hon'ble Prime Minister of India on August 28, 2014. The goal of PMJDY is to provide all households in the country with banking facilities by January 26, 2015. PMJDY consists of six pillars:

1. Universal access to banking facilities;
2. Providing basic bank account with overdraft facility and *RuPay* Debit card to all households;
3. Financial literacy to enable use of financial products;
4. A credit guarantee fund to mitigate risks stemming from overdraft facilities extended to these accounts;
5. Microinsurance for all account holders under PMJDY;
6. Unorganised sector pension schemes such as *Swavalamban*.

Under PMJDY, all 600,000 villages across the country will be mapped to the "Service Area" of each bank, and at least one fixed point banking outlet will cater to every 1,000 to 1,500 households, known as a "Sub Service Area" (SSA). The SSAs are then serviced through a combination of bank branches and fixed point Bank Mitrs (BMs), often termed business correspondents or agents.

### Context

Against this backdrop, the Department of Financial Services (DFS) in the Ministry of Finance, *MicroSave*, and the Bill & Melinda Gates Foundation designed a survey with two objectives: 1) To understand the coverage and quality of Bank Mitrs across a sample of SSAs; and 2) To understand customers' experience with PMJDY. Over the next 12 months, the survey will be repeated quarterly.

### Coverage

Given time constraints and the need for real time data to enable course corrections, each quarterly wave will not cover all 664 districts. Therefore, the findings from this study should not be considered nationally representative, but rather a "dipstick" across a sample of districts. The first wave was conducted in November and December 2014 across 41 districts in 9 states. 2,039 BM locations and 8,789 beneficiaries were surveyed. Each subsequent quarterly wave will cover more states and districts.

### Study design

For the quantitative part of the study, 20% of BMs/SSA locations were surveyed in each of the 41 sample districts. In addition, at least five PMJDY account holders were interviewed at each BM outlet.

BMs were assessed on several dimensions, including:

a) Availability based on the physical address and contact details provided to DFS by banks
b) Transaction-readiness
c) Branding

| Table 1: Number of Districts covered under the survey | |
|---|---|
| **State** | **# of Districts** |
| Andhra Pradesh | 4 |
| Bihar | 7 |
| Chhattisgarh | 2 |
| Gujarat | 4 |
| Jharkhand | 4 |
| Madhya Pradesh | 6 |
| Odisha | 2 |
| Rajasthan | 5 |
| Uttar Pradesh | 7 |
| **Total** | **41** |

PMJDY customers were asked several questions about their experience with PMDJY, including:

a) Was the account opened under PMJDY your first bank account?
b) Have you received a RuPay card?
c) Do you have an Aadhaar number and is it linked to your PMJDY account?

**Methodology**
Every month, banks submit to DFS a report detailing the BMs they have established in each SSA. From this list, *MicroSave* and DFS then selected a sample of districts for the initial survey. *MicroSave* then used a simple random sampling technique to select BM outlets to be visited in each SSA. The assessment involved both a quantitative survey and qualitative interviews of BMs and PMJDY account holders.

## Key Findings

We highlight below key findings from the Wave 1 survey (Note that Wave 1 was conducted just two months after the launch of PMJDY):

a) 69% of Bank Mitrs were physically present at the stated location. An additional 11% were working locally, but from a different location than that stated in the lists provided by banks. Therefore, 80% of BMs could be considered "available". However, it is unclear what portion of the 11% are fixed point locations (with incorrect address details) and what portion are "roaming" BMs. Note that all BMs established under PMJDY should be fixed point locations.
b) Only 48% of BMs were "transaction ready" when the BMs were visited. We define "transaction ready" as a customer being able to walk in and conduct a transaction. The 52% of BMs who were not transaction ready cited several factors, including the recentness of their appointment as a BM, lack of a transaction device, technology issues (e.g. downtime) and BM dormancy (often due to inadequate remuneration). Interestingly, lack of liquidity was not cited as a significant issue by BMs, but this may emerge as a challenge once transaction volumes increase.
c) As mentioned, 11% of BMs were untraceable - they were not found at the address mentioned in the official list, residents did not know about them, and their contact numbers were not reachable.

d) 48% of BMs had signage of some sort displayed. The bank logo was visible at 22% of outlets and the PMJDY logo was visible at 13% of outlets.
e) BMs who were present conducted an average of 195 transactions per month (or 6 transactions per day). As a benchmark, the typical (median) agent in Kenya conducts 46 transactions per day. This low level of transaction activity raises concerns about BM willingness to continue offering the service. Moreover, only 53% of BMs have received their commission on time.
g) 86% of PMJDY account holders reported that this was their first bank account. While this number is very encouraging, we should recognize that PMJDY services (e.g. overdraft, insurance) are marketed to "first time" account holders, so PMJDY account holders have a strong incentive to report that this is their first account.
g) 45% of account holders have an Aadhaar number, of which 79% had linked their Aadhaar number with their PMJDY accounts (this linkage enables government departments to deliver government payments using the recipient's Aadhaar number).
h) 18% of account holders had received their RuPay card.

**Issues at Bank Mitr's Level**

BMs cited several concerns which impact their availability and service quality:

a) Low transaction volume;
b) Delay or non-receipt of commission;
c) Multiple SSAs were mapped to a single BM. As a result, some BMs were forced to split time between multiple locations, thus limiting their availability at any given location;
d) Technological issues, such as downtime, device breakdown, and connectivity;
e) Lack of training and technology support from banks and/or Business Correspondent Network Managers;
f) Delay in account activation and delivery of passbooks;
g) Lack of PMJDY branding at BMs and branches, making it difficult for customers to identify where they can open a PMJDY account; and
h) Low awareness about PMJDY amongst the target clientele.

**Best Practices**

We also identified several best practices:

a) Use of e-KYC for account opening, which automates the account opening process, prevents customers from having to submit multiple KYC documents, and reduces the paper processing burden for BMs;
b) Better targeting of unbanked households through effective database management by banks and local authorities. For example, the 2011 census provides data on households without a bank account. This could be used to better target households for PMJDY account opening. Similarly, some banks first conducted a village-by-village survey to set up a database of unbanked households. This minimised the risk of opening duplicate accounts.
c) Fixed monthly commission and regular monitoring by banks and BC network managers ensures high rates of BM activity and better customer service.

**Recommendations for Improvement**

The implementation of the scheme can be improved by:

a) Stipulating a clear process and maximum turn-around-time for paying BMs their commissions;

b) Using of a standard format for reporting BM data, such as location, address etc.;
c) Rationalising BM and SSA mapping methods to ensure BMs are not assigned multiple SSAs;
d) Establishing clear operational guidelines for BMs;
e) Conducting monthly on-site training and monitoring of BMs by banks and BCNMs;
f) Stipulating a maximum turn-around time for issuing passbooks;
g) Establishing a helpline facility for BMs and beneficiaries.

## Conclusion

This Wave 1 survey was conducted just over two months after PMJDY was launched. The results show that availability of Bank Mitrs has considerably improved compared to the situation few months ago (see "The Curious Case of Missing Agents"). Similarly, banks appear to be making a genuine effort to open accounts for previously unbanked households. Banks also appear to be working to resolve the remaining barriers to the PMJDY roll-out, including branding, transaction-readiness, and proper database management by local authorities and banks to identify unbanked households.

Assuming these teething issues are properly dealt with, PMJDY is well positioned for success. Some challenges will take longer to resolve, such as the delivery of RuPay cards, Aadhaar enrolment and account mapping, and the commercial viability of overdraft and insurance services. But there is clear evidence of significant progress towards expanding account access.

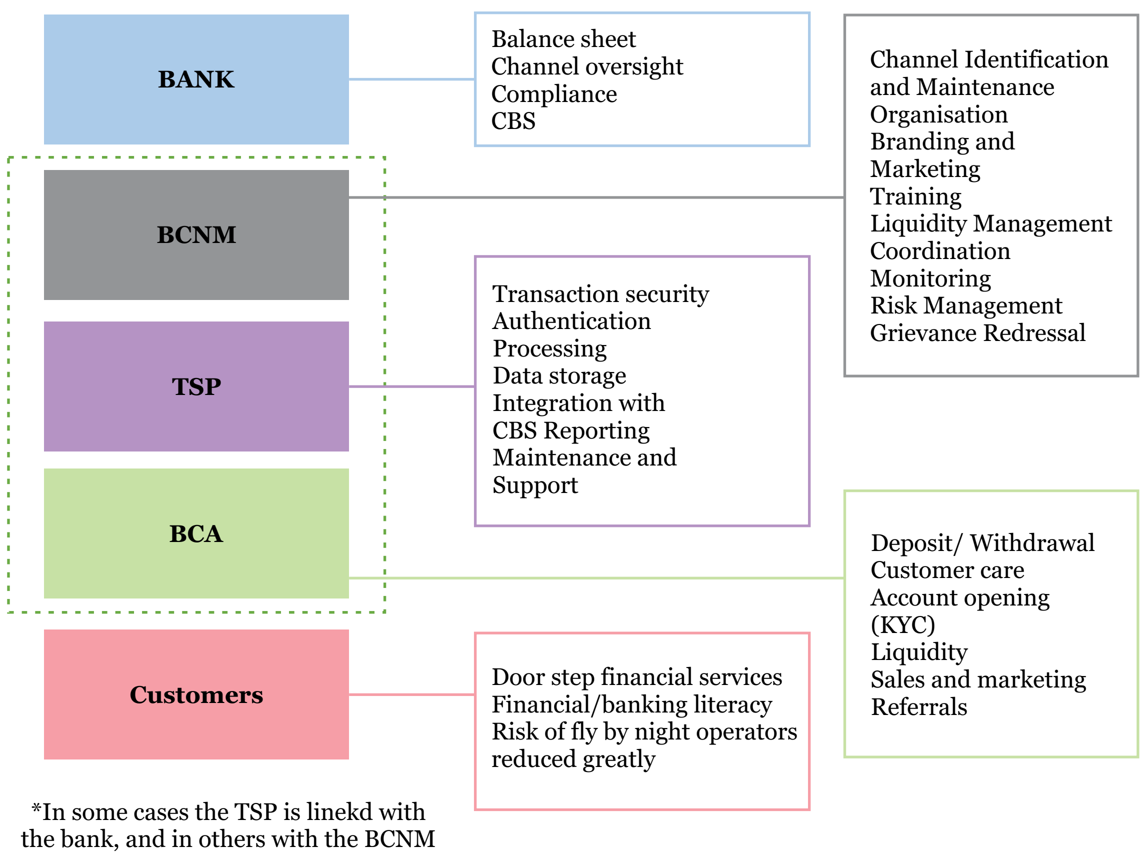
Of course, account access alone will generate limited impact in the lives of the poor – it is account usage that matters. We will delve deeper into account quality and BM quality in future waves of this quarterly survey.

# Lessons from the Costing Study on BC Networks

*Jitendra Balani,*
*Prabir Barooah,*
*Sakshi Chadha and*
*Raj Kumar*

At the request of Business Correspondents' Federation of India (BCFI), *MicroSave* conducted a costing study on four Business Correspondent Network Managers (BCNMs) and their Business Correspondent Agents (BCAs) to ascertain the costs involved in providing savings, withdrawals, deposits and remittances to the under-banked population. In this Note we present the findings, discuss some of the lessons learnt and assess how these may be useful in developing a sustainable delivery channel offering financial services to bottom of the pyramid market.

**Channel Roles & Responsibilities**




BCNMs form a critical link in the financial inclusion value chain by managing a network of agents who perform banking services in underserved areas. We reviewed BCNMs using different technological models (computer-enabled kiosks, mobiles and POS machines) to conduct banking transactions. At the level of BCAs, we covered both rural and urban agents. Key findings included:

## Total channel costs are higher than total revenues

Total channel cost[1] is defined as the cost incurred at the level of the BCA along with the average cost incurred by the BCNM to manage one agent outlet. In our study, we found that the total

[1] We have not included bank in this analysis

channel costs for an agent outlet is Rs.7,883 or $127 (cost weighted for number of agents per BCNM). For BCNMs, we have considered all staff and non-staff costs excluding commissions paid to BCAs. Instead, we substituted the BCA commissions with their actual costs. This helped us determine separate costs at both the BCNM and BCA levels. BCAs were treated as separate entities and their full cost structure was analysed to get the real cost at their level. The combined revenue per outlet (sum of revenue earned by BCNM and BCA) is only Rs.6,156 ($99). The difference (Rs.1,727 or $28) between revenue and costs highlights the challenges facing BCNMs and BCAs as they seek to achieve break-even.

**Split of costs varies across different models**

In the overall channel costs, the BCNM and BCA split varies greatly across the model assessed. Kiosk modelsincur a lower share of costs to the total cost at the network management (BCNM) level compared to other models.

The monthly agent maintenance costs (total cost of BCNM divided by the average number of agents managed) was Rs. 1,775 ($29) for kiosk model (rural and urban areas); and Rs.5,214 ($84) for mobile (rural) and Rs.5,169 ($83) for mobile (urban). Conversely, the BCA level cost is highest for the kiosk based model. In absolute terms the BCA level cost was Rs.14,796 ($239) per month for kiosk (urban), Rs.8,338 ($134) per month for kiosk (rural), Rs.2,913 ($47) for mobile (urban), and Rs.1,185 ($19) for mobile (rural).

| Technological Model | BCNM share of total channel cost | BCA share of total channel costs |
|---|---|---|
| **Kiosk (R)** | 18% | 82% |
| **Kiosk (U)** | 11% | 89% |
| **Mobile (R)** | 81% | 19% |
| **Mobile(U)** | 64% | 36% |

This is hardly surprising, given that mobile based BCNMs are more likely to take on a significant amount of cash handling and management compared to their kiosk based counterparts, who leave this function largely to their agents. In addition, a kiosk incurs much greater monthly fixed and variable costs, since a kiosk is more likely to be an exclusive ("dedicated") business establishment requiring full allocation of all the fixed and variable expenses; whereas for most mobile models the costs incurred for the BC business are marginal (incremental).

**BCAs who fared better offered more than standard CICO products**

Better performing BCAs offered more services than the standard CICO products. They were providing insurance, fixed/recurring deposits, mobile top-ups and Business Facilitator services in addition to standard deposit, withdrawal, account opening and remittance services.

**Business volumes are the key**

As in any business, the viability and profitability at both the BCA and BCNM level depends on the underlying business volumes. We found that where the BCNM was able to establish its BCA network on vibrant remittance corridors, the BCAs were profitable. One of the BCNMs was actually able to perform comparatively better because of its lower cost structure and higher business volumes – because it largely confined its operations to busy remittance corridors. Similarly, for other BCNMs, business volumes influenced the extent of losses. Where the BCNM has its network spread over areas with lower business potential, both BCAs and the BCNM struggled financially. This is because most fixed costs like field and non-field staff salaries, and rent must be incurred to manage and service the BCAs. This was clear in the case of one BCNM which is operating extensively in low density rural areas (e.g. villages with <2000 households). The costs to transact Rs.100 ($1.61) ranged from Rs.0.20 to 52.64 ($0.003 - $0.85)[2] for now stable BCNMs that have been in business for more than four years. The range of this ratio is mostly accounted for by the variations in underlying business volumes. In most cases, BCNMs are mandated by banks to set up agent networks in defined geographies leaving little choice for the BCNM to balance its revenue stream through a mix of high and low business potential areas. Remittance corridors have some potential to cross-subsidise BCNMs exposed to remote rural areas.

**Business volumes affect the revenue structure**

While revenue arrangements differed across banks (and often within the same bank as well), the revenue pay-out is often in relation to how much business a BCNM is able to do.[3] Since the revenue structure at present is driven by the business volume, there seems to be an inherent assumption that there will be enough business for the BCAs and BCNMs to be able to make profits. Our finding, however, contradicts this assumption. The weighted average cost to transact Rs.100 ($1.61) through the channel is Rs.1.81 ($0.03).[4] However, the total cost range for the entire channel ranges from Rs.0.81 (($0.01) to Rs.64.61 ($1.04) to transact Rs.100 demonstrates that there is a huge variability in the business volumes. This is substantiated by the fact that there were a very small number of BCAs, earning monthly gross income of up to Rs.70,000 ($1,120) as opposed to agents who are barely able to gross Rs.300 ($4.8). On an average an agent earned Rs.2,249 ($36) per month – however, the median is much lower. Given that the minimum weighted cost incurred by a BCA is about Rs.3,714 ($60)[5] per month - it is easy to understand the BCA churn rate (already in the range of 30-40%)[6] and BCNMs' concerns about remuneration. Given that BCNMs are not allowed to choose their business geographies, linking revenue to the business volume does not seem to be the best pay-out arrangement.

**Basic minimum remuneration must be ensured but left to the BCNMs**

To ensure the sustainability and quality of financial inclusion, the government must ensure that all BCAs are able to make profits, equivalent to prevailing skilled wage rates, on a monthly average basis. This will serve to sustain their interest in the business. How this remuneration will be ensured is something that needs to be further debated.

Our learnings from the costing exercise and other research done by *MicroSave*[7] reinforces the view that the government needs to play the role of a market maker in these formative years of financial inclusion business. It is, however, very clear from the study that remuneration of BCAs can never be a "one size fits all" formula.

[2] Though cost per Rs.100 transacted could go much higher if business volumes are inherently low
[3] BCNM and BCA remuneration most often is linked to the business volume attained during that period
[4] The total cost to transact Rs.100 goes up to Rs.2.63 if we include bank in the channel
[5] In POS and Mobile technology models in rural areas
[6] See *MicroSave* Policy Brief 2: The State of Business Correspondence - Agent Networks in India – The Supply Side Story
[7] See *MicroSave* Policy Briefs 8: What Will It Take To Deliver 'Direct Benefits / Cash Transfer' Programmes Successfully? and 11: Optimising Commissions and Payout Mechanism For G2P Payments Under Electronic and Direct Benefit Transfer

Further, if BCNMs are to be held accountable for customer service to ensure smooth financial inclusion operations and management of related risks, the importance of their role needs to be recognised and remunerated. BCNMs must be remunerated to cover their costs, ensure at least the basic minimum remuneration for their BCAs, and make a reasonable return on investment. Subject to BCNMs ensuring a minimum defined pay-out for their agents, how they remunerate their BCAs should be left to their prerogative. A BCNM's remuneration model for its BCAs could be a function of location, which impacts business potential of a BCA. This in turn could determine the technological and delivery model of the BCNM.

It is fair to argue that BCNMs that want to offer quality banking services to the underserved will remunerate their agents in a way to incentivise them to build, grow and sustain banking markets. If banks or the government were to start remunerating BCAs directly, this may compromise the role and ability of BCNMs to manage the BCAs. The risk of BCNMs exploiting the BCAs could be better managed through efficient audit mechanisms to ensure BCAs are compensated in line with regulatory guidelines as and when issued. BCNMs should be given freedom to develop their agent networks. Currently this remains a bank mandated exercise. We believe that this needs to be changed to allow BCNMs to appoint agents in high business volume areas subject to agents being appointed in the underserved areas – as is the case with bank branches. Again, the remuneration to these BCAs in different geographies should be left to the BCNMs, subject a minimum floor. This will create an even playing field and contribute to the viability of financial inclusion as a business.

**Going forward**

There is a clear need for common performance metrics essential for benchmarking and assessing BCNMs' performance. Metrics such as maintenance cost per BCA and cost per Rs.100 transacted are vital efficiency benchmarks. Transparent benchmarking and reporting at this stage will enhance competition, and may evolve over time as the sector achieves sustainable business models to support financial inclusion. This, however, is subject to the government creating a level playing field for the BCNMs by allowing them to demonstrate their business models and by allowing them the freedom to remunerate and manage their agents.

# Whose Cash Is It Anyway? Several Agent Solutions to Cash Security


*Amit Maheshwari*

Agents everywhere have trouble breaking even. Reasons are numerous, but first and worst among their complaints is how to manage all that tempting, eminently stealable money—both in their shops or kiosks and en route to and from designated bank deposit/withdrawal locations.

Bank branches are too far, and often too unwelcoming, for poor, rural and urban clients expecting government disbursements and/or with their own earnings to remit or deposit. This is particularly true in India where close to 70 percent still live in villages, internal migration to industrial cities continues apace (two out of every ten or ~240 million Indians are migrant workers), and many of them have too little income to ever really interest retail banks anyway. Agents, or business correspondents (BCs) as they are known here, manage cash-in and cash-out transactions for these individuals near their home and work with easier hours and surroundings.

For the past five years, the Reserve Bank of India (RBI) has been well aware of the daunting—and expensive--security risks these BCs experience daily in their role as local bank representatives. One RBI solution has been specified "cash routes" with transit insurance paid for by the sponsoring banks, but these secured routes are not available to all agents in all areas. Unreliable technology and lack of bank interoperability also complicate agents' liquidity management and liability. The result is high BC turnover and dissatisfaction—plus too many robberies and very few bank reimbursements to date for these losses.

**But wait...**

This is not just another hand-wringing dirge about the Plight of the Poor Agent and the failure overall of the BC model. In fact, a *MicroSave* field research team recently came across BCs in Bihar, a state in Eastern India, who are competing successfully with, and even occasionally attracting more customers than, regional rural banks in the area with lower commissions and more flexible hours, most notably during peak-volume holidays and festivals.

Nevertheless, theft is an ever-present problem for them as well. Many of these agents in different districts of Bihar are handling INR.500,000 -1,000,000 /USD 8,333- 16,666 and 100+ customers a day. This can mean at least two visits to the link bank to replenish cash or deposit one morning's intake. These frequent trips are not along the secure "cash routes" mentioned above, and most agents have no formal insurance, nor do their customers. The BC network managers and the link banks are theoretically responsible, but most apparently do nothing to reimburse the loss. So agents and customers must somehow cope.

**Agent 'Arrangements'**

And cope they do. Surprisingly well in many cases. Here are several strategies we observed in our field work:

- ***Arrangement 1:*** Amarendra Prasad Singh, age 38 years, has had all the usual problems most agents do: a large personal investment (INR100,000 /USD 1666) up front to establish his bona fides with his corresponding bank and to start the business; power shortages and weak internet connectivity which he must supplement with auxiliary electricity, data cards, and multiple SIM to create backups for system failures; and, of course, robbery which could easily erase his daily profits and INR 30,000/USD 500 monthly commissions.

Initially, Amarendra had high hopes RBI or his link bank would come up with a remuneration scheme in the event of theft, but he has since taken it upon himself to manipulate public perception regarding his cash flow. He opens his shop next to his house (where he has ample cash reserves) at 10am sharp, but he allows no withdrawals until 10:45 because, as he tells his customers (and anyone else who might be listening), his associates are at the bank collecting cash and won't be back before then.

He also lets it be known that he does his own bank business early when the branch opens. In fact, when he has to withdraw or deposit large sums, he goes at noon as inconspicuously as possible. And though he has business hours on Sunday, he only offers account opening and balance enquiries, again to deflect the notion that he keeps any cash at home.

- ***Arrangement 2:*** Shailesh Kumar's profile is similar to Amarendra's, but his strategy differs. He makes at least two trips a day to his link branch located 5kms away. Each visit he withdraws INR 200,000 - 300,000/USD 3,333- 5,000 and carries it back to the shop. But he never goes at the same time or takes the same route. And he tells no one his schedule except the person accompanying him. He varies his withdrawal routines as well, using ATMs instead of his link branch and multiple debit cards for smaller denomination withdrawals. Shailesh also uses only four-wheel vehicles instead of two-wheel bikes or motorcycles to conduct bank business as he believes cars are safer and the money is easier to hide.
- ***Arrangement 3:*** Ajay Kumar, an agent operating in one of the more remote villages in the area, has already been robbed once. He claims he never even realised that his activities were being tracked on his regular visits to his link branch. He lost INR 80,000/USD 1,333 and even after six months of repeated requests to the bank and his network manager, he has received no reimbursement. Ajay now rents a shop much closer to the branch and has moved most of his business there. He well understands that this is very inconvenient for his village customers, but by substantially reducing his former operations, he also reduces his chances of losing large amounts of their money and his profits.
- ***Arrangement 4:*** In a few cases, link branch managers actually seem to understand agents' security concerns and try co-operate to the extent they can. One manager granted agents in his operating area a "green channel" which meant the bank cashier allowed BCs to withdraw cash privately from a special chamber in back of the bank. (This practice ended when a new branch manager arrived and now all agents for that link bank wait in long queues along with everyone else, with minimal safety measures, often for hours at a time.)

- ***Arrangement 5:*** Several BC network managers are also making an effort to improve security for their agents and have created insurance pools whereby every agent contributes Rs.500 each month. These sums are then used to help cover losses. A four-member committee which includes the BCNM head decides which claims are valid and how much to award. At present, BCNMs are not in a sufficiently strong position to offer better money insurance and their agents do not earn enough to pay the premiums for real cash-in-transit insurance.

Arrangements 4 and 5 only serve to underscore what agents know already: they take the hit for cash that is never actually theirs. The money belongs to the customer while the bank, the institution with the full deposit-guarantee insurance, holds the funds until the customer withdraws them. Agents are only the luckless, uninsured intermediaries.

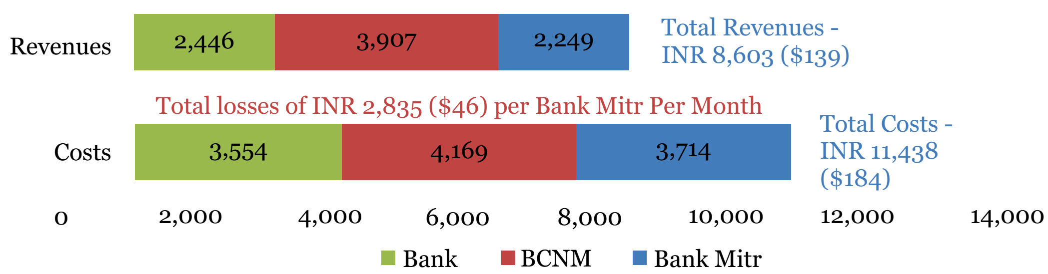
No one thinks this is fair (except possibly the banks) and RBI has finally, in a recent notification, acknowledged that the responsibility of cash insurance should indeed rest with banks. BCNMs now have huge expectations. We would like to believe they are justified, and in the meantime, we look forward to more and ever-better coping strategies from enterprising agents.

# What's Undermining India's Financial Inclusion Progress?

*Pawan Bakhshi,*
*Manoj Sharma and*
*Graham A.N. Wright*

The Government of India is undertaking the most ambitious financial inclusion drive in history. The effort has two key elements: the financial inclusion plan called Pradhan Mantri Jan Dhan Yojana (PMJDY) and direct benefit transfer (DBT) payments from the government into beneficiaries' bank accounts. The success of these efforts hinges on one factor above all: the quality of the last-mile banking agent (Bank Mitr - "friend of the bank") networks that will disburse DBT payments and enable customers to access their bank accounts.

**Costs and Revenues in INR - Per Month per Bank Mitr**



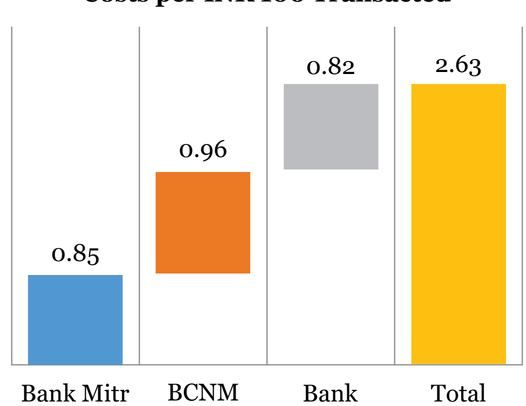

**Low commission rates are driving losses for Bank Mitrs and BCNMs**

All participants in the value chain make losses. Banks incur a loss of INR 1,008 ($16), BCNMs incur a loss of INR 262 ($4), and Bank Mitrs incur a loss of INR 1,465 ($24) per Bank Mitr per month

Bank Mitr networks in India have been weak, with a recent study showing an annual attrition rate of 25-35%. A recent *MicroSave* analysis found that nearly one-third of Bank Mitrs are unavailable at their stated locations. Many have stopped offering services because commission rates for processing government benefit and subsidy payments are too low. Business correspondent network managers (BCNMs) also make losses, but have invested heavily in anticipation of the emergence of a viable model and so are loathe to pull out (but are probably being forced to cut corners on training / quality control). Banks also make losses, but absorb them as this is a government programme in which they (particularly public sector banks) must participate.

The Ministry of Finance's Department of Expenditure released an Office Memorandum (OM) on 16th January 2015 that fixes commissions for banks distributing DBT payments for rural areas at 1% (and even less for urban areas). For Bank Mitrs, this means that, currently, processing DBT payments result in a loss.

**Costs per INR 100 Transacted**

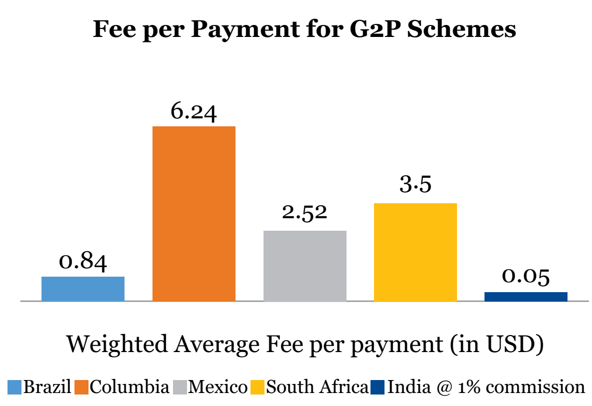



With such low commissions, there is no business case for Bank Mitrs to distribute these government subsidy payments. Therefore, the low commissions could potentially derail the entire financial inclusion effort. Indeed, the Task Force on Aadhaar-Enabled Unified Payment Infrastructure estimated in its 2012 report that a 3.14% DBT commission would be needed to ensure a robust rollout of Bank Mitrs.

A new *MicroSave* costing exercise found that the cost to banks of processing transactions through the agent network is at least 2.63% of each transaction – and (since this is an average) considerably more in remote rural areas.

Banks have been losing money when handling DBT pay-outs. Based on our on-the-ground research and analysis of costing data from the Bank Mitrs and Business Correspondent Network Managers who manage the Bank Mitrs, we concluded that a 3% DBT commission would be needed to ensure a viable distribution channel.

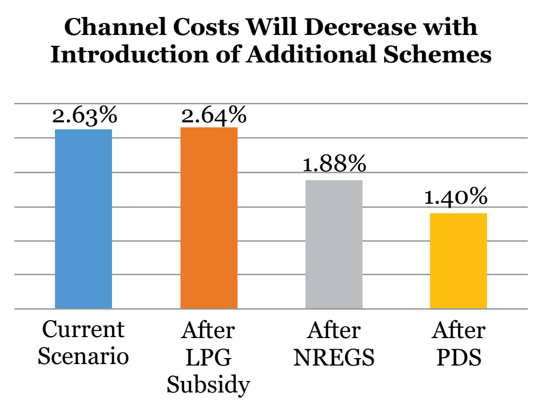
While the cost to the government of paying DBT commissions may seem high, it should be evaluated in light of the significant savings that the government will realise through reduced administrative costs and reduced payment leakages to unintended recipients. A 2011 McKinsey & Company analysis of India's government payment system, estimated it to be Rs.100,000 ($22.4 billion) annually.




The 1% commission rate is also remarkably low in the international context. We re-analysed data from CGAP's "Social Cash Transfers and Financial Inclusion: Evidence from Four Countries," and found that India's weighted average fee per transaction (basis calculations using MNREGA income support, public distribution system food subsidy and LPG subsidy payments) was just 6% of the next lowest country (Brazil). Of course, this is in part driven by the low value DBTs made in India, but the costs of conducting the transactions, whether large or small, are largely the same.

Another point to consider is that the government need not pay 3% commission to Bank Mitrs in perpetuity. According to *MicroSave* estimates, as the network of Bank Mitrs expands and more DBT programs flow through these accounts, the cost of processing DBT payments through an agent could potentially fall to as low as 1.4%.

In Policy Brief #12, we recommend that the government set an adequate rural DBT commission rate of at least 3% for the first few years of PMJDY. This would help ensure quality services and build a Bank Mitr network that is more sustainable. Over time, as payment volumes increase and the cost of processing DBT payments decreases, market forces and the bargaining capacity of banks will lead to lower commissions

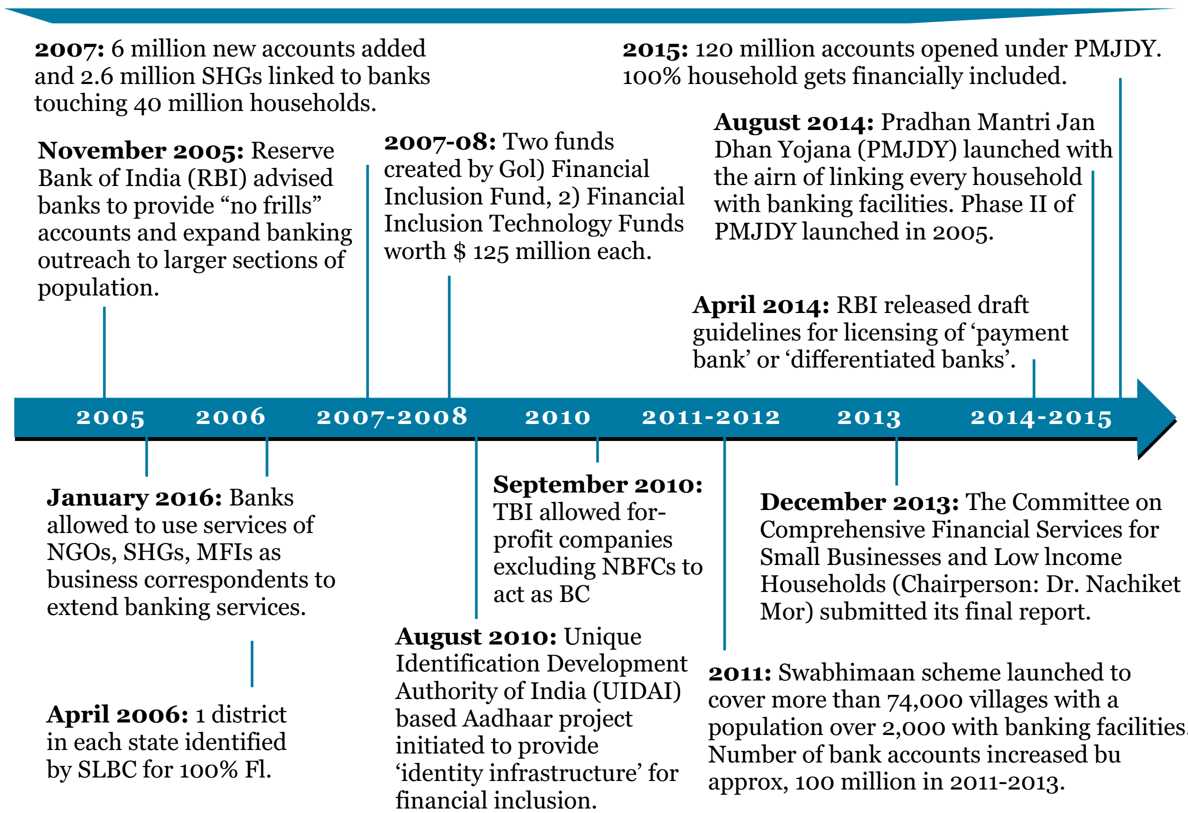


# Digital Financial Inclusion In India – A Long Road To Take-Off?

*Graham A.N. Wright*

The history of India's efforts to achieve digital financial inclusion has been diverse, but largely top-down. These efforts have produced a mixture of RBI regulations and advices for banks, and government policies and directives. Most recently, the RBI provided guidelines for differentiated banks (Payments and Small Finance Banks) specifically designed to deepen outreach and enhance financial inclusion. And in August 2015, the RBI issued provisional payments bank licenses to a fascinating array of 11 very different organisations and consortia.

## DFS/Financial Inclusion (FI) Timeline India

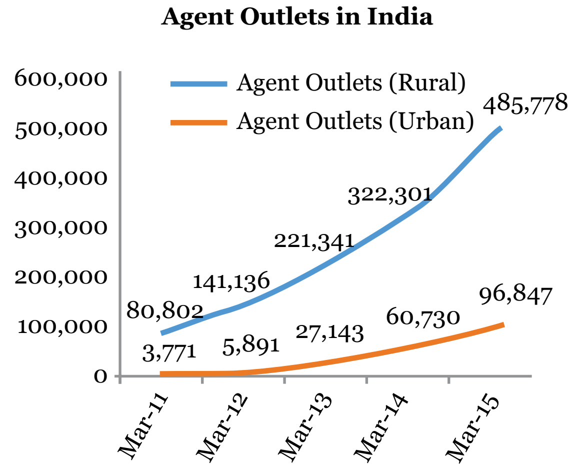



*Source: The Helix Institute of Digital Finance Agent Network Accelerator Survey - India Country Report 2015*

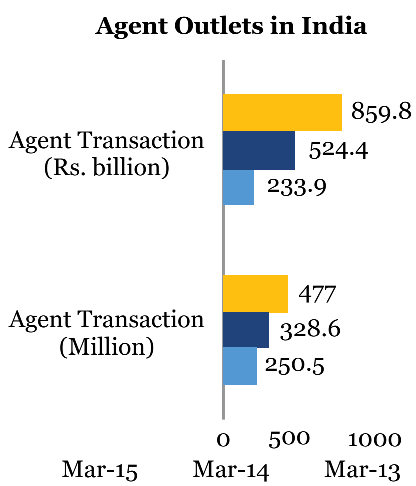
However, on occasions, most notably in 2012, the advices and directives have provided conflicting signals, making the road to achieving financial inclusion considerably more fraught than it need have been.

Despite this, the number of agents available in India has continued to grow — in both rural and urban areas. Given India's sheer size, it is perhaps unsurprising that the number of agent outlets is considerable. Kenya has around 100,000 agent outlets; India (despite its faltering efforts at digital financial inclusion) has nearly six times this number. The annual growth rate of Indian urban and rural agent outlets remains in the range of 50%-60%.

However, questions remain about the levels of churn and dormancy amongst this apparently impressive spread of agents. In early 2012, “The Curious Case of Missing Agents in Rural India” documented how:




- only 7% of the villages had transaction ready (*MicroSave* defines “transaction ready” as a customer being able to walk in and conduct a transaction) agents;
- only 4% had agents available to transact every day (because of the high number of mobile or roving agents);
- a little over 2% of the appointed agents were doing more than 10 transactions a day; and
- less than 4% are earning more than Rs. 2,000 a month; with a median monthly income as low as Rs. 1,500, and quite likely to quit the business soon.



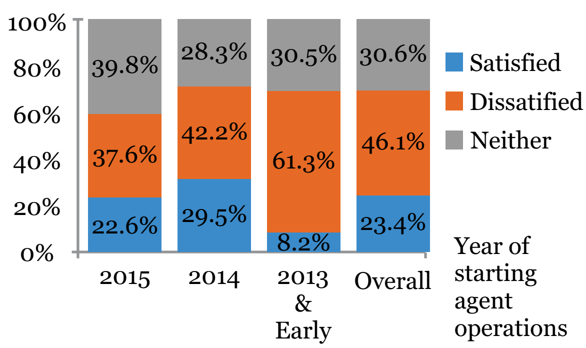

However, two years later, 54% of the agents were “transaction ready” (and this rose to 79% by mid-2015) and were on average earning a gross revenue of Rs. 2,724 (US$42) per month (this rose by 45% to Rs. 3,951 or US$61 per month by mid 2015)[1].

Some of the growth can be attributed to the government’s financial inclusion drive — the Pradhan Mantri Jan-Dhan Yojana (PMJDY) — which directed banks to push transactions through agents. As a result, the fiscal year to March 2015 saw a 45% rise in the number of transactions at agents to 477 million and a 64% increase in the value of transactions at agents to Rs. 859.8 billion (US $13.2 billion). As the government extends digitalisation of its direct benefit transfer schemes — building on the success of “Pahal”, the programme for liquid petroleum gas subsidies — we can expect this growth to further accelerate.

But it will have to accelerate fast if the agent network is not to face further churn and dormancy. Our April/May 2015 survey revealed that 72% of agents started this business less than 18 months ago. Further, at an aggregate level, the proportion of dissatisfied Bank Mitras is almost double (46.1%) of those who are satisfied (23.4%). A closer look at the data shows that a higher proportion of agents, who have been appointed recently (fiscal year to March 2015), belong to the “undecided” category (who are neither satisfied nor dissatisfied), while others who have spent one year or more are mostly dissatisfied.

[1] Source *MicroSave* Surveys of Bank Mitra agents conducted for the Department of Financial Services in September/October 2014 and April/May 2015.

Agent Satisfaction Level




Previous *MicroSave* studies ANA 2015 India survey found that 52% of agents report monthly profits below US$18 and 44% report profits below US$11. Clearly, there is a long way to go to address this problem. The government needs to use the potential that its direct benefit transfer schemes offer to significantly increase the agents' income on a priority basis. *MicroSave* analysis shows that it can afford to do so. But it cannot afford to see further churn and dormancy in the rural agent networks that are expected to provide the backbone for the nation's financial inclusion programme.

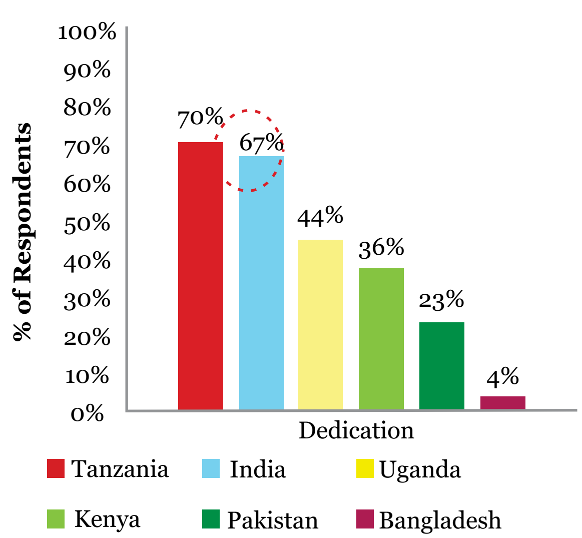
Low agent profitability is not solely due to the low levels of transactions performed by agents in India, but also because of their high operational expenditure (opex). Part of the high opex seems to be driven by high liquidity management costs, indicating that Indian agents have to travel much further to rebalance than agents in other countries *MicroSave* has studied. Perhaps as a function of the 2011 Swabhimaan scheme, many agents are in relatively remote villages. This means that they have to travel a median of 6.6 km (journeys taking a median of 26 minutes, nearly twice that of agents in Uganda and Tanzania; and nearly three times that of agents in Kenya) to rebalance. In Pakistan and Bangladesh, a small section of agents have to travel to rebalance; instead agent network managers deliver liquidity to agents' outlets. Furthermore, Indian agents travel an average of 16 times/month to rebalance. This is more frequent than in any other ANA country (compared to Kenya: 8 times, Tanzania: 6 times and Uganda: 10 times). This may be because Indian banks require their agents to report to branches regularly.

Additionally, more (67%) Indian agents are dedicated to solely performing financial transactions than most other countries. These agents have no other source of income or business over which to spread fixed and semi-variable costs.

This is in contrast to what is perhaps expected by RBI and other architects of India's digital financial infrastructure, who have typically talked about agents operating out of local stores, thus spreading their opex costs across a range of businesses.

The ANA 2015 India survey showed that only 35% of agents in metro areas were dedicated and thus offering only financial services. Conversely, 70% of rural agents were trying to earn a living from just offering

Dedication In ANA Countries



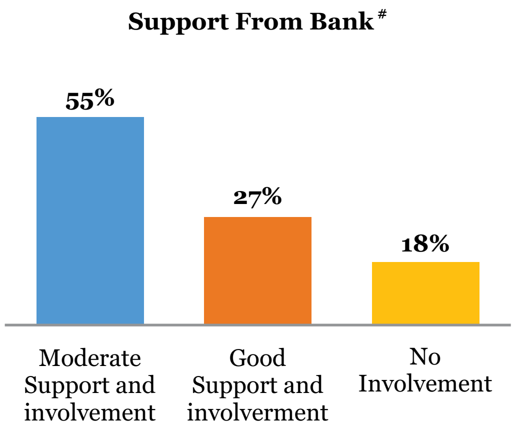
agent banking services. This will remain a challenge while G2P commissions are low and the PMJDY financial inclusion drive remains in start-up mode. Introduction of the JanSuraksha, mass market insurance programme, may help drive some transaction volume, but, until savings account holders start to use the facilities regularly, decent profits will remain a distant dream for these agents. A part of the solution will rest in involving agents in loan origination and collection, something that we highlighted in “Great Business for Banks – So Why Are They Slow To Build Agency Banking?”. Another key component could be through Payment Banks offering creative savings products appropriately tailored for the mass market — and sold and/or serviced through these agents.

The road to financial inclusion in India has been tortuous, fraught and replete with pot holes, but the early signs of more positive future are coming into sight. Let’s hope that the government continues to create an enabling regulatory and policy environment to nurture the green shoots that are emerging.

# Training, Monitoring & Support – Necessary Or An Opportunity To Cut Costs?

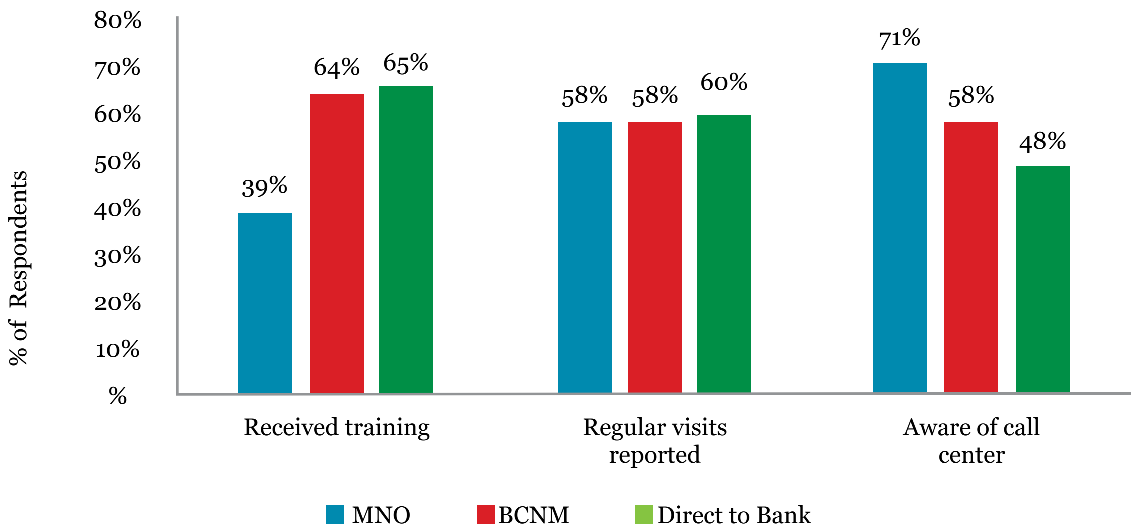
*Graham A.N. Wright*

While only 27% of agent network managers receive good support and involvement from the banks for which they are providing services, another 55% do say that they receive moderate support, as per *MicroSave*'s recent State of the Industry Report 2015 on India note. The India 2015 ANA survey results enable us to understand this further by highlighting important differences across the different types of service providers.

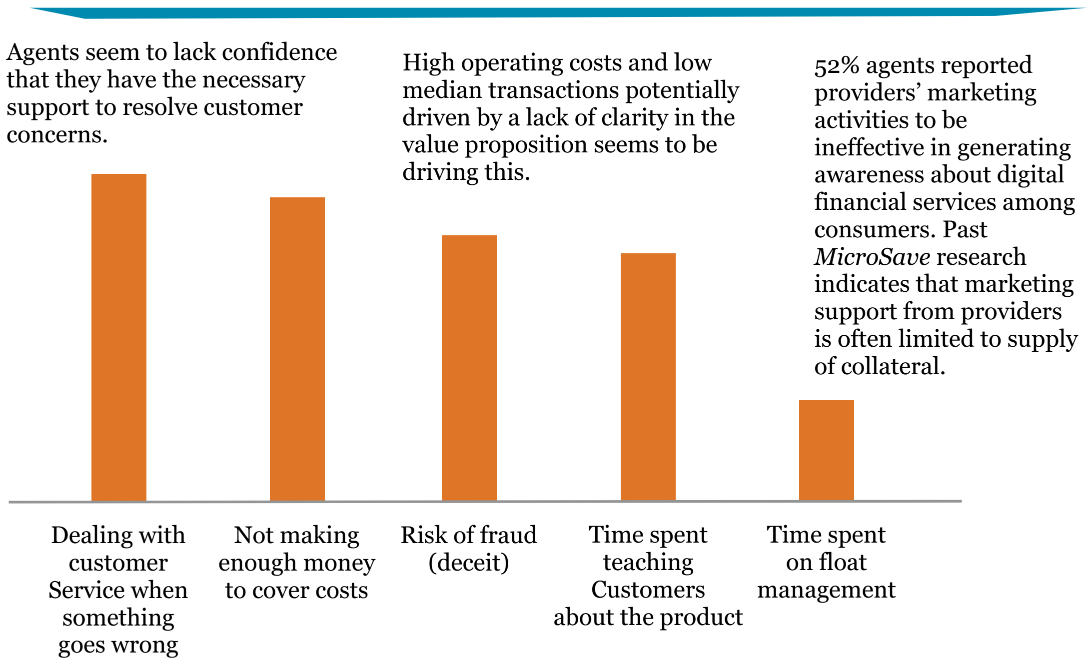



Perhaps unsurprisingly, MNOs show a higher use of call centres to support their agents – but sadly, deliver training to a much smaller proportion of them. This is evident from the fact that by and large, a much smaller proportion (59%) of Indian agents are trained than in other countries: Pakistan (62%) Bangladesh (68%), Kenya (92%), Tanzania (79%), and Uganda (94%). Of the 59% trained in India, 61% agents have undergone a refresher training. 36% of these have received refresher training only once.

Indian agents also receive less monitoring/support visits than their counterparts in other countries. 58% of Indian agents reported regular visits (in contrast to 68% reported in major cities). The comparable percentages in other ANA countries are: Bangladesh (69%), Pakistan (76%), Kenya II (86%) Tanzania (76%) and Uganda (33%). Of those agents who received a visit, 60% were visited at least monthly and 32% reported 'no fixed frequency' of visits. All this matters enormously because the ANA survey highlighted that agents' biggest perceived challenge was to "deal with customer service when something goes wrong". If they were adequately trained, monitored and supported (on-site and through call centres), agents would be more confident about their ability to serve their customers – and (one reckons) things would "go wrong" less often.



**Top Challenges To An Agent's Business***



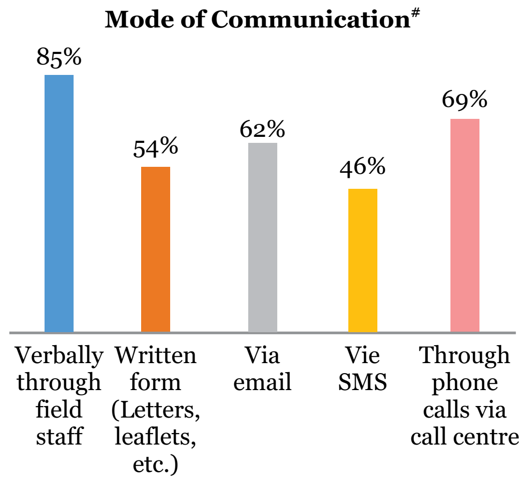

** Agents ranked a minimum of three of these five dimensions. The above figures are a weighted average of the fist three choices, where taller bars mean a higher relative ranking.*

Furthermore, an elegant study by The *Helix* Institute and Harvard Business School revealed that, "Agents who are more transparent with their pricing and more knowledgeable about mobile money policies experience significantly higher transaction demand than their less transparent and less expert peers. More knowledgeable agents also experience an even greater increase in demand when there are competing agents nearby." So, the quality of service matters and directly affects agents' ability to build trust and grow their business. Indeed, the study concludes, "the ability to answer a difficult question about mobile money policy increases demand by over 10%. ... The implications of this work to mobile money operators and agents are clear: service quality is critical to a healthy agency."

Regular monitoring and support visits are essential to ensure that agents' outlets are complaint in terms of branding, transparent pricing, liquidity balances and transaction processing. Similarly, training (as well as monitoring and support visits) is the foundation for creating confident, knowledgeable and thus trustworthy agents that are both capable of, and interested in, delivering high quality digital financial services. And, as we have seen in multiple countries, trust is a key determinant of levels of uptake and usage of digital financial services.

Agent network managers in India seek improvements in two key areas from the banks they serve. The first, perhaps unsurprisingly, is the level of commission they are paid. The second is that of the marketing support they receive.

When *MicroSave* conducted the State of the Industry survey in 2012, most of the agent network managers were dependent on banks for marketing – in 2015, most are responsible for marketing and communication themselves. Thus, the burden of promoting digital financial services largely falls on the shoulders of agents and their network managers. As a consequence, they use a variety of exclusively below the line approaches to promote uptake and usage of their services.




**Naturally, agent network managers have a series of "asks" of the banks:**

- Share marketing & communication, and customer enrolment campaign expenses.
- Co-brand marketing collaterals.
- Design and run financial education campaigns for customers to increase awareness of banking products amongst and build trust that customers place in agents and the digital finance model.
- Provide ID cards and certificates of association to agents with bank logo and signature to increase the perception of legitmacy amongst customers and gain their trust.
- Create special queues for agents at bank branches (as privileged customers or DSA), as currently they have to stand in the same lines as customers to meet their liquidity requirements, which limits their availability for end customers.

**Additional appropriate and necessary "asks" that we, at** *MicroSave* **recommend, are:**

- Make agent performance a key performance evaluation criteria for bank branches to which these agents are linked, and by which they should be serviced/supported.
- Enhance both above and below the line marketing in support of agent banking and the opportunities it provides to rural communities.

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With the advent of payment banks, it will be in the interest of the commercial banks that these agent network managers are responded positively to these modest requests.

# Keeping the Channel Happy for Quick Scale-up: A Case from the Mumbai Remittance Market

*Ritesh Dhawan and*
*Sakshi Chadha*

Remittances have emerged as the most common anchor product offered by alternate banking channels, (banking channels used by the unbanked such as money transfer agents), particularly in large Indian cities like Delhi and Mumbai. Huge unmet demand for sending money home efficiently and quickly, combined with willingness to pay for the service, has made over the counter (OTC) remittances an attractive proposition for many digital financial service providers. Competition in this space has increased tremendously and every provider is keen to hold on to, and increase, their share of the pie.

The delivery channel for remittance services comprises a range of stakeholders from the bank to the front-line agent, and all the managers and facilitators in between. Such is the importance of the channel offering remittances that the provider chosen to make the remittance is often not decided by the customer, but rather by the front-line agent, who makes the decision based on the commission he/she will receive. Customers sending money using OTC are often oblivious of the provider used to send their money. Their primary concern is confirmation that money has reached the intended beneficiary.

Recently the OTC remittance business in Mumbai has caught the eye of First Rand Bank (FRB) a multinational bank, which has entered into this arena with an innovative and disruptive business model that focuses on keeping the channel happy. The business model, which is still in its nascent phase, has been (according transaction agents and distributors) efficient enough to wrest nearly 20% of the business from well-established Business Correspondent Network Managers (BCNMs) within six months of the bank entering the OTC market.

**Practices adopted by the new entrant (what we observed)**

- **Competitive channel compensation:** One of the reasons for M-PESA's remarkable take-off in Kenya was the generous commissions Safaricom paid to their channel in the start-up years in order to gain traction. For example, in 2010 the average agent received $420 commission per month. Since M-PESA has become so well entrenched, and with the growth of the agent network, this had fallen to $129 by 2013. In Mumbai FRB gained much needed traction and, in turn, made in-roads into the well-established remittance market by offering better compensation to channel partners. Master agents or "distributors" and front-line agents were offered lucrative commissions to attract the early adopters among them. Below is a brief comparison based on the feedback we received from the field.

| Channel Partner | Commission offered by FRB | Commission offered by established players |
|---|---|---|
| Distributor | 0.25% of Cash handled | 0.17% of Cash handled |
| Agent | INR 150 per INR 25,000 | INR 57 per INR 25,000 |

- **Direct involvement of bank in channel recruitment:** In this model, the bank has done away with BCNMs and is directly recruiting distributors and agents in the field. The bank carries out extensive due diligence prior to finalising the distributors. They target distributors who have worked with other providers since they already have an agent network working for them. This experience of distributors is then leveraged for agent selection. A team from the bank is deployed on field to monitor the agent selection process, conduct background checks, and assist the distributor in finalising agent recruitment.

- **Advance credit limit to agents:** Shortage of e-float at agent counters is a perennial issue that every provider grapples with – this has been repeatedly highlighted in The *Helix*'s agent network assessments (ANA) surveys across the globe. This problem becomes even more acute when the agent is unwilling to increase his/her liquidity with increasing business volumes. To ensure that shortage of liquidity is no more a roadblock to scale-up operations, the bank has given a credit limit of Rs.5,000,000 (US$8,333) to its agents. This is given to the agents without any physical collateral or security deposit. And as the conservative eyebrows rise, it is worth mentioning here that there are a few (but only few!!) mechanisms to prevent fraud.

- **Hourly reports:** Distributors and the agents get hourly reports of all transactions. These reports keep the distributor informed of the cash position of the agent. The distributor's field staff collects any excess cash from the agent. Instead of the traditional method of liquidity rebalancing, where the field staff member visits the agent counter only once a day, the frequency of visits to agent counter is not fixed and varies depending on the volume of business. This helps the distributor to collect cash and not leave the agent overloaded with cash. While in principle this collection exercise should be religiously followed on an hourly basis, non-adherence to this leaves the bank exposed to risk of flight by the agent with large amounts of cash exchanged for e-float that has been taken on credit.

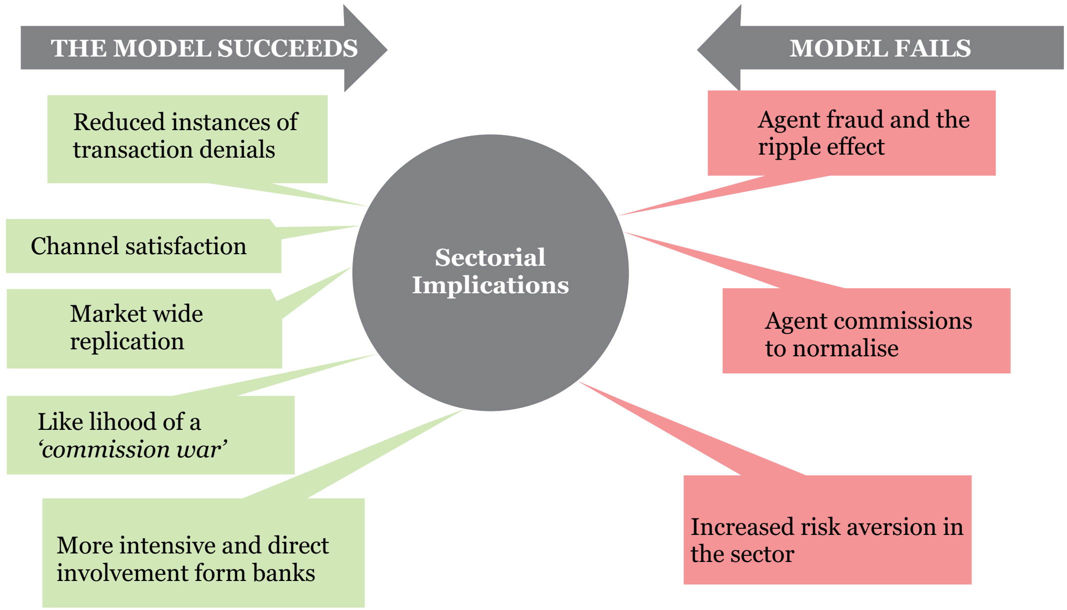
- **Distributor's personal guarantee:** Since this model is inherently exposed to cash risk, the bank has adopted some control measures. The bank has communicated that any fraud committed by the agents will be the distributor's responsibility and reinforces this through constant in-the-field monitoring. This ensures that distributors are cautious during agent recruitment and also in cash management. Thus they recruit only those agents with whom they have an existing business relationship and can trust. The bank, through these measures, leverages the existing relations of the distributor and the agents to its benefit.

The bank, through its real-time monitoring framework keeps a bird's eye view on the entire business landscape. Whenever the cash balance increases beyond an acceptable level with any distributor, the bank intervenes to ensure that the cash is deposited in a timely manner.

*MicroSave*'s presentation to RBI in January 2014 highlighted that agent commissions and liquidity management are among the most important aspects that contribute to a sustainable agent network. With minor tweaks in the business model, FRB has made major in-roads into the well-established remittance market of Mumbai. This was made possible also because a portion of the channel commission is sourced through higher customer charges. *MicroSave*'s prior research suggests that customers are willing to pay for the service this sector offers.

## Potential implications

The market share that the bank was able to capture in such short span of time guarantees that the tactics adopted have been observed by the competition. We are yet to see how the competition will react to the erosion of their market share. In the meanwhile, what we can assess are the potential implications for the sector. The figure below examines these in two eventualities – 1. Where the model succeeds and 2. Where it fails.




The table below examines these potential implications in greater detail.

| Potential Implications | | | |
|---|---|---|---|
| The Model Succeeds | | The Model Fails | |
| ***Implication*** | ***Explanation*** | ***Implication*** | ***Explanation*** |
| Reduced instances of transaction denials | Liquidity practices in this model will ensure that the channel has float available at all times, leading to reduction in customer transaction denials.<br>This can solve liquidity management concerns that DFS delivery channels have grappled with for long. | Agent fraud and the ripple effect | The risk associated with the advance credit limit cannot be ignored. It can potentially lead to high levels of fraud by agents and/or distributors. This eventuality could lead to significant bank loses which may also have ripple effect on the customers. |
| Channel satisfaction | FRB's practices address key concerns of agents. Adoption of these practices will improve satisfaction and reemphasise the importance of the channel in urban remittance markets. | Agents official commissions normalise | Failure of this model could lead to agent commissions in the sector going on a downward spiral until it equates with the nominal commissions which are traditionally paid. |

| | | | |
|---|---|---|---|
| Market wide replication | We do expect aggressive private banks or new entrants to quickly innovate and try to grab as much market share as they can. Eroding market shares are likely to push veteran players also in the same direction eventually. | Increased risk aversion in the sector | Any instance of significant agent fraud and/or failure of the model could result in apprehensions among service providers and regulators. Innovations may then be difficult to implement and this can lead to a brief period of sectorial stagnation. |
| Likelihood of a *'commission war'* | The competition could potentially react by rolling out lucrative commission structures for channel partners making way for a 'commission war' which can result in the weeding out of smaller players and lead to more market consolidation. | | |
| More intensive and direct involvement from banks | Banks could, taking a cue from these practices, be more directly involved in managing the channel, and reduce the dependence on BCNMs. This will in future leave the banks with a larger share of the risk for the business. This can also lead to more standardised systems including (including stringent agent selection practices). | | |

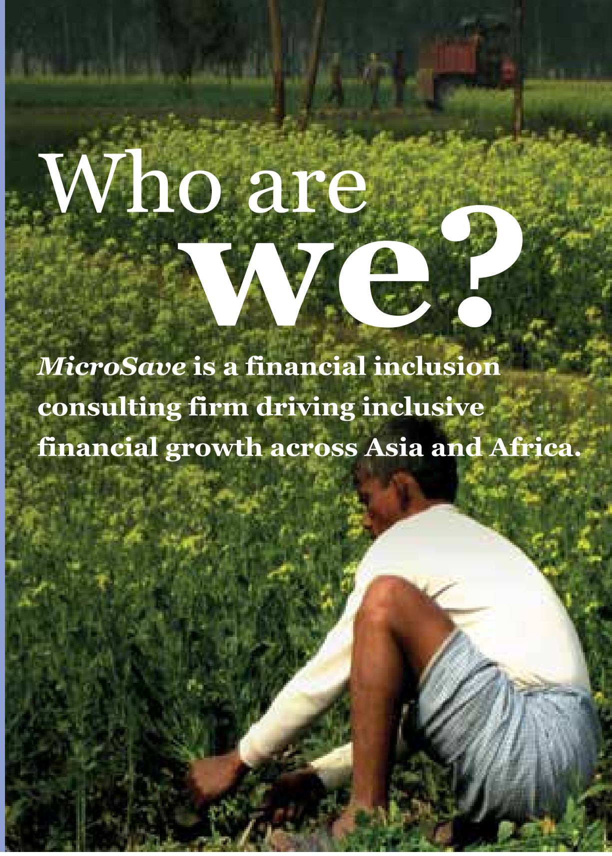
Initial success of First Rand Bank's approach seems to indicate that ensuring the channel's happiness is the key to success in this model. It is too early to comment on the efficacy of the model itself. By exposing itself to some credit risk, FRB has addressed some of the most difficult challenges facing agent network managers. If the bank is able to monitor the operations effectively and manage the risks, such innovations are a clear indication of interesting times ahead in the sector and might evolve as a "to be replicated" key to success in future. Fingers crossed!!While all this is speculative at the moment, we still have to wait and see what turn the market in Mumbai takes.




# Market-led solutions for financial services

**Corporate Brochure**

***MicroSave***

# Who are **we?**

***MicroSave*** **is a financial inclusion consulting firm driving inclusive financial growth across Asia and Africa.**

# Who do we **work** with?

Influencers and decision-makers amongst financial service providers - banks, microfinance institutions (MFIs), mobile network operators (MNOs), cooperatives and governments, donor organisations (foundations, multilaterals, bilaterals) and other groups including regulators, industry networks, etc. who in some way or the other contribute to financial inclusion.

# Where do we **work?**

We have implemented projects across **Africa, Asia and Latin America** including: Afghanistan, Argentina, Bangladesh, Cambodia, Cameroon, Cape Verde, China, Colombia, Democratic Republic of Congo, Egypt, Ethiopia, Fiji, Ghana, Haiti, India, Indonesia, Kenya, Lao PDR, Liberia, Malawi, Mexico, Morocco, Mozambique, Myanmar, Nepal, Nigeria, Pakistan, Papua New Guinea, Peru, Rwanda, Samoa, Sierra Leone, Solomon Islands, South Africa, South Sudan, Sri Lanka, Tanzania, Thailand, The Philippines, Timor-Leste, Tunisia, Uganda, Vietnam, Zambia and Zimbabwe.

# What do we offer?

*MicroSave* offers consulting services in the areas of Inclusive Finance & Banking, Digital Financial Services; Micro, Small and Medium Enterprises and Private Sector Development.

## Areas of Expertise

## 1 Inclusive Finance and Banking

We provide consulting services to banks and MFIs to develop strategies, build innovative products and services, and design delivery systems to cater to the unbanked and underbanked segments. We give technical assistance to help clients focus on impact and value creation supporting the double bottom line.

## 2 Digital Financial Services

We offer consulting services to financial institutions, agent network managers, technology service providers, mobile network operators and government/government bodies to help them achieve financial inclusion. We also help clients design new business model architecture, implement solutions and improve systems to deliver financial products and services using digital platforms.

## 3 Micro, Small and Medium Enterprises

We expand access to finance for MSMEs, by supporting investors, financial institutions and enterprises. We build strategy, design business models, develop new products, manage risk, strengthen capacities, and optimise processes and systems.

## 4 Private Sector Development

We engage with donors, multilateral agencies, governments, non-government organisations, banks, MFIs and community-based organisations for agriculture value chain development, water, sanitation and hygiene (WASH), energy and housing. We assist these institutions to assess markets; formulate strategies, develop, test and deliver financial and non-financial products and enhance staff capacity.

# Clients speak:

***"MicroSave has made important contributions in the field of financial inclusion by successfully partnering with diverse stakeholders such as financial institutions, investors, donors, corporates and regulators for providing, what its corporate tagline claims, 'Market-led solutions for financial services'.***

Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the Stakeholders' Workshop on Financial Literacy organized jointly by the UNDP, NABARD and *MicroSave* at Mumbai on February 4, 2013

***"I got a lot of knowledge from this DFS course as well as more content to implement in our country. I would definitely recommend this course to others. If anyone wants to establish this business, they must take this course."***

Sadab Tabani, Senior Executive, Distribution & Retail Sales - Grameenphone (Bangladesh), alumni, *The Helix Institute of Digital Finance*

# What can we do for our clients?

## Product and Channel Innovation

We innovate products and delivery channels to increase sales, optimise costs, and improve efficiencies. We reduce risks associated with new product design and channel augmentation, using our flagship Market Insights for Innovations and Design (MI4ID) approach.

## Strategy Development and Governance

We formulate strategies and business models, develop financial and tactical plans, facilitate development and establishment of institutional branding and strategic marketing. Advise clients on institutionalising best practices in governance.

## Research

We conduct market research (informed by behavioural economics), undertake sectoral analysis, feasibility studies, competitor analysis and industry assessments. We also conduct in-depth research on customer needs, behaviour and perceptions to support policy reviews, innovation and the design of financial services.

## Organisational Strengthening and Risk Management

We deliver solutions designed to strengthen products, processes, systems and policies. We support delivery optimisation and development of risk mitigation frameworks. We also help institutions setup HR structures, supported by staff incentives.

## Dissemination

We are a financial inclusion knowledge-hub and an inspiration source globally. We have decades of hands-on experience in designing and developing financial services. Our knowledge and insights are packaged in the form of research publications, technical notes, blogs and videos.

## Training and Workshops

We design, develop and deliver training courses and workshops on subjects including market research, digital financial services, banking, process analysis, management of microfinance institutions, MSME financing, water & sanitation product development, savings mobilisation, strategic marketing, entrepreneurship development, financial education and youth microfinance.

## Investment and Donor Services

We support investors and donors to assess financial institutions and service providers by conducting thorough institutional and portfolio assessments and due-diligence. We deliver capital advisory services-valuation of institutions and capital structuring. We conduct impact studies, monitoring and evaluation for donors and investors to assess the impact of grants/investments.


## We forge Long term associations that transform & build clients

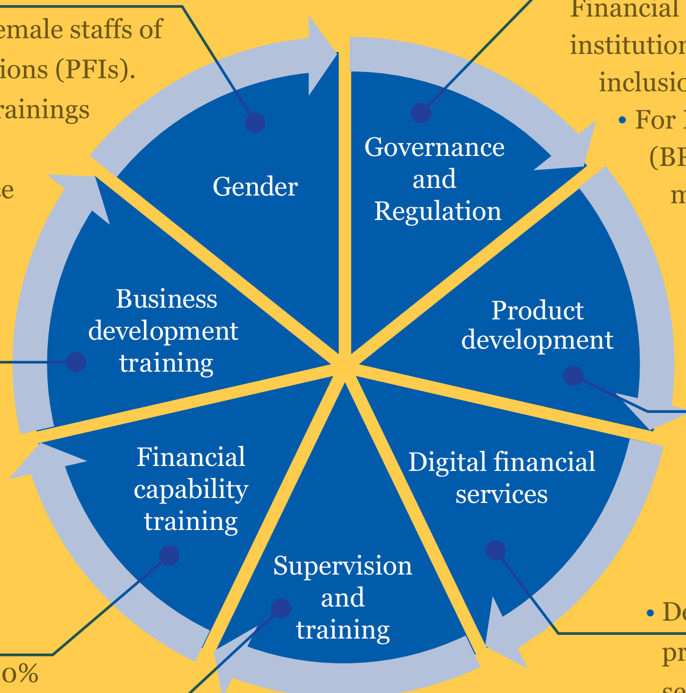
In 2001 Equity Building Society in Kenya approached *MicroSave* to understand the reasons for low uptake of their credit products. The resulting research and re-structuring of the products put Equity on the path to transformation into a bank and subsequent listing on the Nairobi Stock Exchange. *MicroSave* walked every step of the way with Equity, supporting its product innovation, costing & pricing, business process re-engineering, risk management, strategic and product marketing, staff incentives, etc. Recently, we have worked with Equity Bank to implement its digital finance strategy, drawing up the blue-print for its agency channel, optimising agent network management, developing products, digitising value chains and strengthening customer service. Over these fourteen years of close collaboration, the bank's customer base has grown from 109,000 to more than 10 million in six countries and it remains the most respected and celebrated mass market bank in Africa.

## We change financial landscape in countries where we work – Papua New Guinea (PNG) Example

Since 2011, we have been working on a long term project in PNG, with support from Asian Development Bank (ADB), AusAid, and Government of Papua New Guinea (GoPNG) to increase access to finance. Additionally, we have worked on several short term projects with multiple partners.

- Financial literacy training to 34,276 females.
- 1,220 person days training to female staffs of Participating Financial Institutions (PFIs).
- 147 participants attended the trainings and workshops conducted by regulation team of Microfinance Expansion Project (MEP).

- Established Centre for Excellence in Financial Inclusion (CEFI), an apex national institution to coordinate all financial inclusion activities in PNG.
- For Bank of Papua New Guinea (BPNG), drafted regulations for microfinance services and guidelines for mobile banking.




- Target to train 22,000 entrepreneurs in business development strategy by 2017.

- 27 new financial product concepts developed. 16 products are in pilot testing stage.

- Trained 72,224 PNGians to enhance financial capability. 30% of participants have opened bank accounts post training.

- Designed processes and pilot tested products for the digital financial services product of a leading bank in the country.

- Enhanced customer centric market research capacities of 1,558 MFI staff, trained BPNG staff on supervision of MFIs and 'Saving and Loan societies' units.

## We improve G2P programme designs and execution

**We helped the Mahatma Gandhi National Rural Employment Gurantee Act (MGNREGA) payments become efficient and user friendly.** Our work with Ministry of Rural Development, Government of Jharkhand, **saw an 87% decrease in the time taken (from 15 days to 2 days) to pay a MGNREGA beneficiary.** We assisted the Ministry to design processes and monitoring protocols. We mapped and documented the processes and trained front line staff to use alternate practices. **Our intervention has the potential to benefit about 2 million MGNREGA wage recipients who receive payments through Post Office in Jharkhand - and our methods will be expanded across India.**

## We inform DFS providers in agent networks through cutting-edge research, knowledge based on global data

We co-founded* *The Helix Institute of Digital Finance*, in November 2013, to provide world-class training based on ANA data and knowledge to digital financial service providers. The training courses are designed explicitly for mobile network operators, banks, financial institutions and third party providers to enable them to increase the efficiency and profits of their digital finance business – thus facilitating more client-centric and sustainable delivery of financial services. **We have run nearly 20 training courses and trained over 300 participants from more than 115 digital finance roll-outs by institutions serving over 650 million customers in more than 30 developing countries.**

*The institute was established by *MicroSave*, with the Bill & Melinda Gates Foundation, the International Finance Corporation (IFC), and the UN Capital Development Fund (UNCDF).

## We help providers offer responsible financial services

We help institutions achieve improved social performance ratings and client protection certifications**.** More importantly, we enable them to remain client- focussed and deliberate in putting their mission into practice. This creates a firm foundation for client loyalty and business growth. Our achievements: Trained > **150 people from 36 MFIs** in client service & protection, conducted social performance audits for **23 institutions**, and conducted client protection assessments for **9 MFIs.**

***MicroSave* partners with participants in financial services ecosystems to achieve sustainable performance improvements and unlock enduring value.**

*MicroSave*
*Market-led solutions for financial services*

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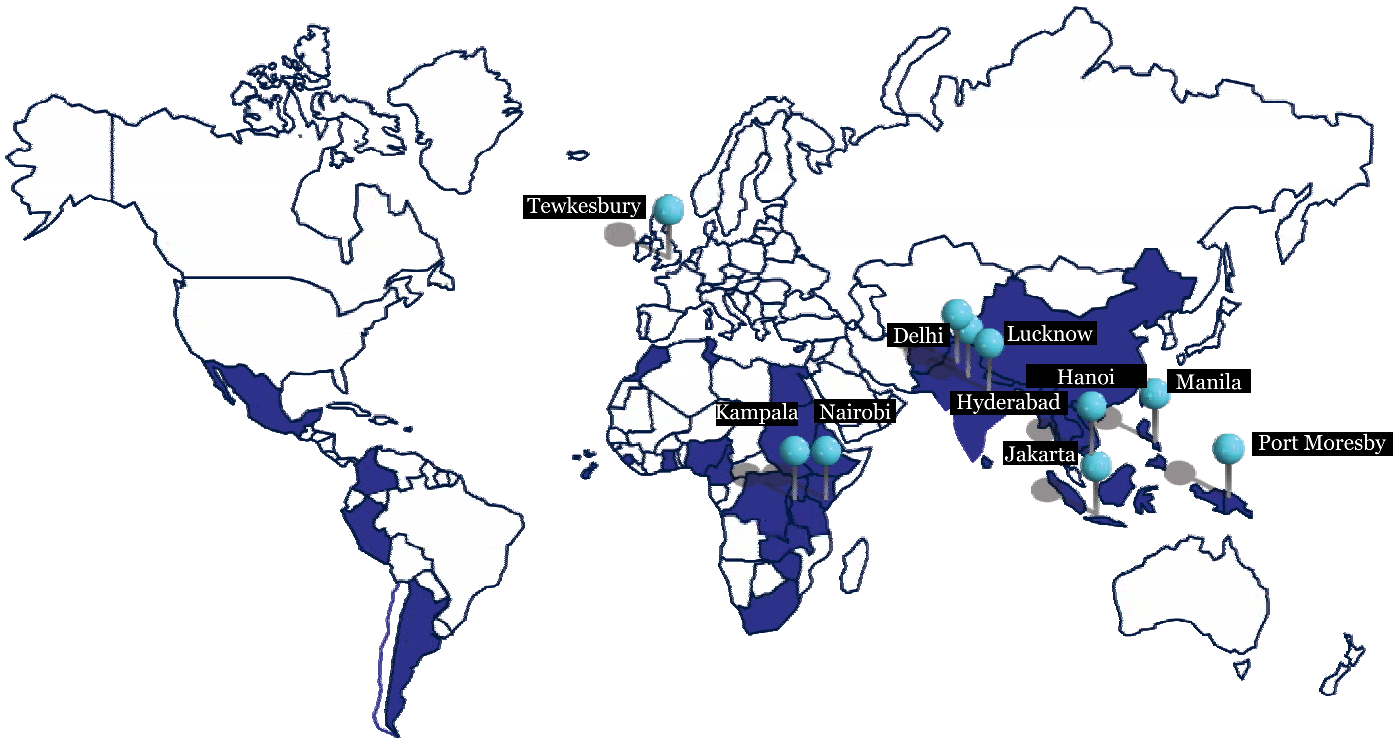


**MicroSave**
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