Business Correspondent Model
An Analysis of the Financial Viability of Customer Service Providers
and Client Satisfaction

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About the Centre for Micro Finance

The Centre for Micro Finance (CMF) is a non-profit, non-partisan research centre housed within the Institute for Financial Management and Research in Chennai. The mission of the Centre for Micro Finance is to improve the accessibility and quality of financial services for the poor through rigorous research, knowledge dissemination and evidence-based policy outreach.

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Bankers Institute of Rural Development (BIRD), Lucknow is a premier institute for providing training, research and consultancy services in the field of agriculture and rural development banking in India. The Institute was established in 1983 by National Bank for Agriculture and Rural Development (NABARD).
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EXECUTIVE SUMMARY

The Business Correspondent (BC) Model was initiated by the Reserve Bank of India (RBI) in 2006 to promote financial inclusion in India. Under this framework, banks are permitted to use the services of third party agents as BCs to provide banking and financial services, such as credit and savings, on their behalf.

Since the inception of the BC model, a large number of organizations have begun working as BCs for banks. However, while these organizations have been experiencing business growth in terms of client outreach and transaction volumes, many are struggling to remain financially viable. In addition, Customer Service Providers (CSPs) or BC appointed agents who are crucial to the success of the model are also struggling to meet costs and maintain business viability.

Thus, before endorsing the effectiveness of the BC model as an effective channel for financial inclusion, a few key issues need to be addressed: Namely, is the model financially viable at the level of each stakeholder (The BC, the agents and the clients)? Is the present institutional setup of the model efficient and scalable? What are the major challenges and issues with the current BC model? What are the areas that require greater clarity and regulation?

However, at present, little knowledge on the cost and revenue patterns of the various BC models (specifically at the agent or customer service provider level) is available in the public domain. In addition, while BC agents serve as a crucial element in the success of the BC model, little is known about the behaviour and perspective of agents, as well as the issues/challenges faced by them. Lastly, there is a dearth of information about the reasons behind dormancy of accounts, low transactions in client accounts and client drop-out—these are critical issues that have to be addressed if the BC model is to eventually achieve financial viability.

In order to fill this knowledge gap, this study attempts to understand the financial viability and behaviour of agents in order to assess the feasibility of the BC model from the perspective of
the CSPs – the most important pillar of the model. The study also attempts to assess the clients' perspective and their satisfaction levels. For the purpose of our study, a randomly sampled list of agents and clients were surveyed. Agents chosen were stratified according to location (rural and urban) and operations/services handled by them (regular transactions or remittances or disbursement of govt. aids and loan repayments).

The report reads out in the following way. Chapter I provides a brief introduction of the BC model and highlights the relevance of our study in developing a more thorough understanding of the viability of the BC model. It also describes the objectives, scope, methodology and limitations of our study. Chapter II uses the findings from the agent survey to discuss agents’ behavior, financial viability and major challenges and issues faced by agents. Chapter III looks at the BC model from the clients' perspective and examines client satisfaction levels with services and products offered using the client survey. Chapter IV looks at the BC model from the perspective of the BCs, with regards to the major challenges and operational issues that they face. The final chapter summarises our findings as well as policy recommendations to improve upon the existing BC model. Two Annexures are also provided. One, as an outline of existing RBI guidelines and notifications on the BC structure and two, as a portfolio of case studies of BCs that have participated in our study.

KEY FINDINGS

1. Agents are struggling to make their work profitable and financially sustainable as the current commission structure is inadequate to cover agents’ costs. This situation is further exacerbated by reported low rates of usage of No Frills Accounts (NFAs) by clients, particularly in the rural areas.

2. Based on our survey, the premise that clients desire an account with limited usability appears to be weak. On the contrary, clients surveyed widely expressed a desire for more products and facilities to be attached to their NFAs. Thus, the ambit of an NFA
should be broadened so as to improve its usability and efficiency and to allow clients to access more services through NFAs served by CSPs. More government schemes as well as some government employee payments should be channelized through the BC channel to fulfil clients’ requirements and ensure a more stable and regular source of income for CSPs.

3. Agents face a multitude of problems, of which the most prominent are cash management and liquidity issues. One reason for this is the unwillingness of the both BCs and banks to share risks associated with cash management, leaving agents to bear extensive risks on their own.

4. Despite the immense potential of the BC model in promoting financial inclusion in India, surprisingly little effort has been made to promote the model and its benefits amongst prospective clientele. This is because neither the banks, BCs nor CSPs are willing to invest time or money in promoting the model and its product and services. Clearly, the RBI and principal banks should engage and invest time and effort in promoting the BC model and its benefits.

5. There is a dearth of financial literacy amongst clients regarding the usability of NFAs opened through the BC channel. Our survey revealed that most clients are unaware of the uses of NFAs. There have even been cases where, due to lack of awareness about the account and its usability, clients are unable to provide account details to access their insurance reimbursement. At the same time, clients are also largely unaware of transaction limitations placed on NFAs that disallow them from accepting such large deposits. Therefore, a certain level of financial literacy education amongst clients is essential to the success of the BC model.
Chapter 1  INTRODUCTION

Business Correspondent model (BC Model) or the third party agent model of banking, is one of several measures being used by the Reserve Bank of India (RBI) to accomplish the larger goal of financial inclusion\(^1\) in India. This model, propounded by RBI in 2006 on the recommendations of the Khan Committee report\(^2\), permits banks to appoint third party agents to offer banking and financial services on their behalf. To this end, a wide range of institutions and individuals can work as business correspondents on behalf of the bank.

**Business Correspondents – Business Models**

In January 2006, RBI issued an official circular\(^3\), permitting banks to use the services of NGOs/MFIs set up under Societies/Trust Acts, Societies registered under Mutually Aided Cooperative Societies or the Cooperatives Societies’ Acts of States, Section 25 companies and Registered NBFCs (not accepting public deposits and post offices) as intermediaries in providing financial and banking services. However, to mitigate reputation risk, banks were instructed by the RBI to engage only intermediaries who were well established, reputable and had the confidence of the local people. In addition, RBI has widened the list of eligible entities and individuals that can be appointed as BCs from time to time. For instance, banks could also engage for-profit companies as BCs from September 2010\(^4\).

On the whole, it is seen that a three-tier setup with an interface of a technology provider is the most common BC model with banks at the apex level, the BC playing the intermediary role and the agent/customer services provider dealing with clients at the ground level. In some cases,

\(^{1}\) The Rangarajan Committee Report on Financial Inclusion (2008), defined- “Financial Inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.”

\(^{2}\) “Report of the Internal Group to examine issues relating to rural credit and microfinance”, RBI, July 2005, Chairman-H.R. Khan

\(^{3}\) “Financial Inclusion by extension of banking services- Use of business facilitators and business correspondents”.

the bank themselves have tie-ups with the technology company à la SBI’s tie-up with TATA Consultancy Services (TCS). In others, the BC collaborates with a technology service provider, which is often a sister company of the BC itself. For example, FinoFintech Foundation’s technology partner company is FINO (Financial Inclusion Network and Operations), Eko Aspire Foundation’s technology service provider is Eko India Financial Services Pvt. Ltd and Zero Mass Foundations’ technology service provider is A Little World.

Agent banking models are using a variety of new technologies as delivery channels, the most common of which are Point-of-Sale (POS) enabled devices and mobile phones for securing and processing transactions.

**About the Study**

Since the inception of the BC model, a large number of organizations are now working as BCs/BFs for banks and, while these agencies are experiencing business growth in terms of client outreach and transaction volumes, many are struggling to remain financially viable. A study conducted by the Skoch Development Foundation revealed that, at the end of two years, the gap between costs and what banks pay their BCs is between Rs. 26.25 to Rs. 73.45 per account. Nonetheless, even though the current model seems to be unviable for most BCs, a large majority of BCs continue to believe that this model has the potential to thrive in the long run by expanding the existing client base and adding value added services.

However, little knowledge on the cost and revenue patterns of the various BC models (specifically at the agent or customer service provider level) is available in the public domain. In addition, while BC agents serve as a crucial element in the success of the BC model, little is known about how the behaviour of agents is affected by different incentive mechanisms employed in different models. Lastly, there is a dearth of information about the reasons behind dormancy of accounts, low transactions in client accounts and client drop-out - issues that critically affect the viability of the BC model in the long run.

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Hence, our study undertook a two-step analysis. First, we looked at the crucial aspects of cost and revenue pattern of agents / customer service providers of BCs. Second, we focused on issues related to agent and client behaviour in order to critically assess the feasibility of the BC model.

**Scope and Objectives of the Study**

Our study attempted to understand the financial viability of the customer service providers or agents in order to assess the feasibility of the BC model. The study also attempted to assess the clients’ perspective and their satisfaction levels.

Primarily, we sought to answer the following questions from our study of selected BCs:

- What are the different components of establishment and operation costs for agents/CSPs of BCs?
- What is the commission structure offered by BCs and how does that affect the operation strategy of agents?
- Is the BC work a viable activity for the BCs and agents?
- What are the major challenges, issues and risks faced by agents?
- What are the major risks associated with the BC business model?
- What factors affect clients’ transactions in the BC model?
- Are the clients satisfied with the products offered through the BC channel? What are their expectations from the channel?

**Methodology and Sampling Design**

At the outset, a literature review was conducted to understand various issues related to the financial viability of Business Correspondents; special focus was placed on Customer Service Providers (CSPs or agents), client profile, and existing regulatory framework. With regards to the study itself, detailed data on the cost and revenue pattern of selected CSPs/agents and details of selected number of clients and agents’ behaviour were collected through surveys.
Of twelve major BCs initially approached, five agreed to participate in the study. We have decided to sample districts first for the purpose of the survey and then from each district we decided to randomly select CSPs/agents. With regards to district selection, the districts were selected to achieve maximum diversity in terms of economic and social conditions (rural or urban) and in terms of operations handled by the BCs (financial inclusion drive, serving regular bank clients, remittances/money transfer, disbursement of government aids and microfinance loan repayments). Agents were selected randomly at the district level using the CSP information available with the BCs. In addition, CSPs were required to be functioning for a minimum of six months in the BC business. Clients, however were not selected randomly due to time constraints and practicability issues. Instead, the following methodology was adopted: In the urban districts, clients coming to the agents’ location for transaction purposes were randomly approached, and in rural districts, clients in the agents’ vicinity were identified by the help of the CSP and then a fraction of these clients were randomly surveyed. The field survey was conducted during November 2011 to April 2012.

Views from the following five business correspondent companies were collected for this study –

1. FINO Fintech Foundation (FFF) - Financial Inclusion Network and Operations (FINO)
2. Eko Aspire Foundation- Eko India Financial Services Pvt. Ltd.
3. A Little World- Drishtee Foundation
4. Samvridhi Trust- Samvridhi Inclusive Growth Network
5. Janalakshmi Social Services (JSS) – Janalakshmi Financial Services (JFS)

Additionally, a caselet for CASHPOR Micro Credit (CMC) has also been included in the study.

**Limitations and Challenges of the Study**

1. Most of the BCs were unwilling or unable to share their financial data. This made it difficult for the researchers to comment on the viability of the model at the level of the BC. However, from discussions with various stakeholders and the senior management of BCs, it was understood that the overall viability of the model crucially depends on the viability of the CSPs/agents. As a result, assessing the viability of CSPs/field agents was given highest
importance in this study. For instance, if the field agents/CSPs are not viable, low motivation levels for work would eventually lead to doubts about the viability of the BC organization itself.

2. Due to time constraints, we could not do a random selection of clients for the survey purpose, rather we had to adopt purposive sampling where we surveyed clients residing in the vicinity of the agents and clients who happen to have come to the CSPs during the commencement of our agent survey in urban areas. Hence, specific transportation or opportunity costs of clients are not considered in our study analysis and also the results cannot be used for making inferences about the population.

3. The widespread geographical coverage of the study, covering multiple districts in multiple states, led to many logistic challenges and extremely time consuming.
Chapter 2  CUSTOMER SERVICE PROVIDER

The success of the Business Correspondent (BC) model relies on the ability of banks to position a sufficient number of BCs across the country to provide services anytime and anywhere. Hence, BCs deploy a network of agents or customer service providers (CSPs) to interface with customers on the ground. These agents or CSPs are individuals, shops or other outlet points responsible for direct contact with the clients. They open bank accounts, conduct Know Your Customer (KYC) verification, carry out money transfers and transactions, and in some cases, extend credit by linking the client to the base branch.

For the purpose of our study, a stratified random sample of agents was surveyed. They were stratified according to location (rural and urban) and operations/services handled by them (no-frills accounts- regular transactions or remittances or disbursement of government aid and loan repayments). The sample survey consisted of 67 agents, of whom 22% were working in an urban area and, 78% in a rural area. Further, 51% of sample CSPs had been in the BC business for two years or more, 37% were in business more than one year and 12% of the CSPs were in business for the last six to twelve months. Figure 1 summarises the profile of the agents surveyed:

![Figure 1: Percentage of CSPs surveyed according to operations/services](source: CMF CSP Survey, 2012)

The CSP survey tried to further understand the CSP’s selection criteria, their function, their level of motivation for BC work, the commission structure they work with, finances, the kind of
training they were receiving, issues and challenges they face in their BC business, what were their further expectations from the BC and their views on clients’ satisfaction.

Selection criteria of agents

As the CSPs/agents are critical to the BC model, we wanted to understand the selection of the agents by the BCs. The BCs surveyed were questioned about the selection norms and skill sets required for agents. The selection criteria used by different BCs is summarized in the table below:

Table 1: Selection Criteria of Agents

<table>
<thead>
<tr>
<th>BCs</th>
<th>Age ¹</th>
<th>Education ²</th>
<th>Location ³</th>
<th>Reference by other agencies ⁴</th>
<th>Prior experience</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINO</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓ Indemnity bond is taken (Rural) ✓ Fixed business outlet-at least 10 years old (Urban)</td>
</tr>
<tr>
<td>EKO</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Samvridhi</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓ Mostly depends on Local bank branch recommendation</td>
</tr>
<tr>
<td>Drishtee</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓ Basic computer skill proficiency ✓ Shouldn’t be any existing Drishtee franchise.</td>
</tr>
<tr>
<td>Janalakshmi</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

1. Most BCs prefer young people as agents.
2. Educational criterion considered by most BCs is that the agents should have completed school (10th-12th class pass).
3. Residents of same villages/areas are preferred.
4. Other agencies include police, local bank, CIBIL (Credit Information Bureau of India Limited) and local Gram Panchayat and village committee.

Source: CMF Survey of BCs 2012

Thus, from the above table it seems that educational achievement and references play a major role in the selection of agents for most of the select BCs. In the next section we use the findings from the CSP survey to explore the profile of the CSPs.
Agent Profile

The average age of agents surveyed was 33 years and a majority of them (78%) were engaged in some form of business. This suggests that BCs prefer to appoint existing business people (mostly shopkeepers) as agents to manage the BC business at customer interface points. For the agents themselves, the BC business becomes an additional channel to increase their revenue and expand their customer base. Overall, only 36% of the agents considered their BC business to be a primary activity, while 64% considered BC business to be a secondary activity. The monthly median income of agents from their other activity was Rs. 15,000.

Box1: Inter-operability of Agents

Recently, RBI has decided to permit inter-operability at the retail outlets or agents of BCs (i.e. at the point of customer interface) provided, the bank’s technology supports inter-operability. This move will result in more competition among BCs and as a result, BCs will have to stay focused to ensure that their agents offer their products. This is especially important in urban centres, where higher commission and better and faster services for the clients will be crucial.

Thus far, it has been observed that some CSPs in Delhi and Mumbai have taken agency of multiple BCs and are functioning more or less like mini-banks, providing a bouquet of remittance options to clients and giving them ample choice to choose what suits them. However, this option is only available to those CSPs who have the capacity to meet the balance required to associate with multiple agencies.

Overall, 19% of agents surveyed were selling other financial products and schemes along with their agency work and some had taken up agencies of multiple BCs to increase their business viability. In some cases, however, it was observed that agents were cross-selling products like insurance in the name of savings—such ill practices need to be addressed.

Source: CMF Survey, 2012
Motivation – the agency work

A large section of agents stated that, in addition to income, the BC business adds a lot of value to their social network and reputation in the local area. It was also observed that, in rural areas the clients treated the kiosk as a branch of the principal bank and the agent as its employee. Thus, their expectations from agents were similar to those from a bank’s branch. Though, 64% of the agents surveyed considered BC business to be a secondary activity and the monthly median income of the agents from their other activities was Rs. 15,000, they gave desired priority to their BC business as it added value to their social network and enhanced the prosperity of their existing business as well by extending financial services to their client along with their existing services.

Functions of Customer Service Providers (CSPs)/Agents

CSPs/Agents open bank accounts, conduct KYC verification, cash out withdrawals, receive payments and in some cases, extend credit by linking the client to the base branch.

Opening Accounts

It has been observed that different approaches are used to enrol clientele into BC operations. In BCs other than FINO and Janalakshmi, the CSP/Agent has the primary responsibility of acquiring clients and opening their bank accounts through the BC channel. FINO and Janalakshmi, on the other hand, have dedicated teams (known as Customer Acquisition/Sourcing Teams) to source clients for their BC business.

Customer Acquisition or Sourcing Teams:

Janalakshmi and FINO have dedicated Customer Acquisition/Sourcing Teams to source clients for their BC business. For example, FINO has a Customer Acquisition Team (CAT) that specialises in opening accounts. When FINO expands its operations to a new village, the CAT spends 2-3 days there and opens NFAs for all the adults of the village with help from the Sarpanch or community leaders of the village. On the other hand, Janalakshmi has a Customer Relation Executive-Sourcing (CRES) team for sourcing clients for its BC business and a Customer Relation Executive-Collection (CREC) team for collecting savings etc. from clients.

However, even though dedicated teams have been useful to acquire clients in the field, some agents have faced inconvenience in serving customers whose accounts have been opened by an external team. For example, agents have had to deal with procedural problems like ghost account holders, wrong names and addresses for such customers.

Thus, it is felt that it might be more practical to ask the agents to open accounts since the local people can relate to the agents better. Unlike the present scenario, this process would be demand-driven rather than supply-driven which would help to decrease the currently high rate of dormancy in these accounts to some extent.
Box 2: Agent Case 1- Involvement of community leaders/Sarpanch
Presently, Panchayat workers are actively involved in account opening following which, in some areas, incidences of caste dynamics have been observed. In these instances, agents are often seen not wanting to visit the houses of people from different communities or castes. The involvement of community leaders/Sarpanch also sometimes creates an unhealthy atmosphere for the clients and prevents them from easily participating in the channel. Ram, a weaver of benarasi sarees opened his No-frills account (NFA) through the account opening camp organized in his village by the local BC. However, Ram is reluctant to save in the NFA because the brother of the former village Sarpanch is the bandhu (agent) of his village.

To mitigate these occurrences, the base branches of banks need to play a more proactive role. The principal bank and the BCs also need to set a better strategy to deal with such dynamics.

Source: CMF Survey, 2012

Marketing

One-third of the agents surveyed reported that they do not visit their clients to market the banking products they offer. Different BCs use different approaches to market their products and acquire clients. FINO agents market their products from door-to-door in rural areas, while in urban areas, since most of the agents are retailers, customers are informed about the

Box 3: Agent Case 2- Promotion (or lack thereof) of the BC Channel
Ravi started working as an agent in January 2011 and has opened around 50 NFAs to date. He is paid Rs. 20 per account opened and an additional Rs.10 if he opens more than 10 accounts in a month. In Ravi’s opinion, more accounts could have been opened if people in his area had a better understanding of the BC and NFAs. He strongly feels that, like any other Fast Moving Consumer Goods (FMCG) product, the products offered through BC channel should also be promoted, especially by the BC.

As for earnings, Ravi is paid 0.3% of the deposit and withdrawal amounts as commission but, since hardly 10-15 transactions of each type are carried out in a week, he barely manages to earn Rs. 60-70 a week. Ravi also felt that there isn’t much clarity about the interest rates received on deposits in accounts, and wants the transaction limit of Rs.10, 000 to be raised.

At present, Ravi feels very discouraged about continuing with agent work as he sees no point in devoting effort to a product about which clients have almost no ideas.

Source: CMF Survey, 2012
banking services offered through shop displays and banners. Eko similarly partners with retailers, while Drishtee and Samvriddhi open kiosks dedicated to BC work. Janalakshmi and CASHPOR usually market their savings products to their loan (micro credit) clients, and hence do not hire marketing agents.

Further, some BCs conduct launch meetings to market their products and services when they start their business. However, it was observed that many BCs who had initially spent money on marketing eventually stopped doing so. This is because, given the high marketing costs involved, BCs realised that sustaining their business would be difficult if they continued to spend on marketing inputs. Eko, for instance, initially marketed and promoted its products in Bihar but stopped doing so after realising the high expenditures involved. They complained that SBI hardly makes any effort to promote the BC at their branch offices or even inform customers about this alternate channel through which transactions can be made.

Indeed, in a few areas, agents themselves were seen to be taking the initiative to generate local awareness by conducting client meetings. However, since such meetings/campaigns are also extremely costly, not many agents are willing to bear these costs. On the other hand, some branches of Union Bank of India in Mumbai put up posters in their branches and display addresses and phone numbers of their CSPs. In some areas of Siliguri,(West Bengal) awareness generating meetings were conducted and the Kiosk operators were subsequently introduced to the village through the local SBI bank manager and the village Sarpanch.

**Transactions**

We have collected information on the number of transaction that take place in a day for the CSPs. There exists a good amount of variation in the data, especially between the urban and the rural CSPs. The data shows that on average, agents undertake 31 transactions per day.
Table 3: Average no. of transactions by agents, area-wise

<table>
<thead>
<tr>
<th>Area</th>
<th>Location</th>
<th>Average Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>Delhi</td>
<td>51</td>
</tr>
<tr>
<td></td>
<td>Mumbai</td>
<td>57</td>
</tr>
<tr>
<td>Rural</td>
<td>UP (Chandoli, Varanasi)</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Bihar (Samastipur, Nawada, Patna, Sheikhpura, Darbhanga)</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>West Bengal (Siliguri and Darjeeling)</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Assam (Darrang, Kamrup)</td>
<td>23</td>
</tr>
<tr>
<td>Overall</td>
<td>Average transaction per day</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: CMF CSP Survey, 2012

From Table 3, it is evident that the number of transactions is much higher in remittance-heavy urban areas such as Delhi and Mumbai. In comparison, based on the number of daily transactions, rural centres in Bihar, West Bengal and Assam do not look as promising for the BC business. (See also Figure 3)

![Figure 3: Location-wise Average number of transactions](source: CMF Survey, 2012)

**Actions to increase transactions- Agents’ View**

Sustainability of the BC model critically depends on the volume of transactions. In many cases, low transaction volume creates a significant challenge to motivate the agent to be pro-active. Given its importance, in our agent survey, we asked the agents about their perceptions regarding the ways to make the clients more transaction active. According to agents, around 41% of the clients having NFAs transact at least once in 3 months, with the remainder either transacting more infrequently or not at all. In agents’ opinion, this high dormancy of accounts is
closely linked to client satisfaction, with clients wanting more products and services through this channel.

Thus, the agents believe that in order to increase the usage of this channel and, eventually, the financial viability of the BC model, steps such as marketing, as well as the provision of more products and better services for clients at lower charges have to be taken.

**Box 4: Agent Case 3- Low transactions in No-Frills Accounts**

Ramesh* has been working as an agent since March, 2011 and devotes around 5 hrs per day for BC work. Though he has an office space for which he pays a monthly rent of Rs.1000, he also travels to meet his clients for the purpose of facilitating transactions. Till date, he has opened around 700 NFAs but regular transactions occur in only 150 of these.

Ramesh feels that the chief reason for such low transactions is the limited banking facilities available through this account. For instance, clients often complain of not having been given a cheque book facility or even RD or FD facilities. Also, since this account is not linked to the core banking system, one can’t even use this account to do transactions with other accounts. In Ramesh’s opinion, the only way account activity will increase (and agents will earn more revenue) is if clients are offered more products and facilities.

*Names and other personal details of the agents and clients have been changed in the cases to maintain confidentiality.

**Source:** CMF Survey, 2012
Value-added products and services offered

The survey team observed that some BCs and agents offer value-added products and services to their clients, a great initiative which might help in meeting clients’ requirements. It is felt that the BCs should scrutinize the merits of the product that they are channelling /selling through this channel so as to make that more efficient. For instance, FINO’s D-solar light program is a great initiative but the pricing of the product has led to low demand. In addition, FINO offers a few more value added products like FINO-Seva\(^6\), general insurance (with benefits in case of accidents) are some of the worthwhile initiatives that needs to be promoted. However, a better incentive and commission structure needs to be worked out along with clients’ requirements should be given importance at the time of designing/adopting such products through this channel.

Commission Structure

Different BCs follow different commission structures for their agents. The following data (as reported by the agents) was collected during our CSP survey:

1. **Account Opening**- A flat commission per account is typically paid to agents for opening accounts. The average commission is Rs. 20/account (It ranged from Rs. 15/account to Rs. 25/account).

2. **Deposit and Withdrawal facilitation**- Most of the BCs offer tiered commission structures and remunerate the agents a percentage of the value of deposit or withdrawal facilitated. These commission percentages vary from 0.2 % to 0.5% and were usually higher for withdrawals than deposits. A few of the BCs surveyed, however, do pay a flat fee per transaction. This flat fee ranges from Rs 0.50 per transaction in rural areas to Rs 2.00 per transaction in some of the urban centres.

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\(^6\) FINO-Seva is an online micro-payment and delivery platform which facilitates services such as mobile recharge, DTH recharge, railway ticket booking/bus booking, insurance premium collection, utility bill payments and SIM card connection selling. FINO Seva is available to its customers through secured mobile-transaction systems as well as Points of Transaction and Backend processing platform. [http://fino.co.in/Utility-Services](http://fino.co.in/Utility-Services)
3. **Transfers within and outside network**- Akin to the commission structure for deposits and withdrawals, both a flat fee and a tiered commission structure are observed for money transfers.

Tiered commission structures usually remunerate the agents a percentage of the amount transferred or facilitated and its advantage is that it provides an incentive for agents to target clients who make higher volume transactions. However, in the same turn, there might be a disincentive for agents to serve clients who make low volume transactions.

On the other hand, a flat commission structure might give agents an incentive to do artificial transactions. For example, agents can make a debit and credit transaction one after the other or with some time gap. In this way, the balance of the account is not disturbed, but the agents are counted as having made two transactions.

**Targets**

One of the BCs sets a monthly target of 250-300 transactions for its agents. Since achievement of targets is a prerequisite for payment of salary and commissions to agents, most agents achieve this target. However, this does not negate the scope for artificial transactions wherein, without disturbing the balance in the account, agents can make false transactions for ignorant clients and dummy accounts. Thus, the efficiency of the target-based approach needs to be re-examined.

In urban areas, FINO and Eko both give additional incentives for opening accounts but no specific targets. Samvriddhi agents in Darbhanga reported account opening targets of around 400 clients per month.
Finances

The financial data of the BCs could not be procured (as mentioned earlier as a limitation of our study). Hence, costs and revenues of the agents were taken as a proxy for the financial viability of the BC model. This is based on the assumption that the channel or model could not be financially viable if there is no business case for field agents. To this end, extensive data on costs and revenues was collected from the agents to analyse their viability. For this section, data from only 59 agents was considered as 8 agents in the sample were inactive.

Agents incur the following costs:

A. **Refundable costs on security deposits** - the CSPs used to deposit lump-sum money with their respected BCs as a security deposit to get access to operate as a Customer Services Provider for the BC, which is refundable. In the Agent model, the security deposit varies from Rs. 2500 to Rs. 5000 in case of rural operations and Rs. 15000 to Rs. 25000 in case of urban operations. However, in Kiosk model the range is from Rs. 20000 to Rs. 50000.

B. **Non-refundable costs** – the non-refundable costs are the initial investment of the CSP to set-up its office and business unit to start the BC business. Normally, the investments are on furniture, computer, phone etc. These type of costs mostly occurred in the Kiosk model, whereas in the agent model this cost is very negligible. In Kiosk model, about Rs. 1 lakh is required as initial investment.

C. **Recurring costs** – recurring costs are the regular revenue expenditures that CSPs are spending to operate the BC business. Specifically, CSPs are spending on travel, office/shop rent, employee wage, phone charges, water bill, electricity, hospitality and others.

**Revenue:** Under the BC business, the major source of the revenue for CSPs is the commission on various transaction heads as explained above in the commission section. Normally, agents earn commission income from client enrolment/ account opening, deposits and withdrawals in

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7 For this section, data of only 59 agents was considered as 8 agents in the sample were inactive.
NFAs and regular accounts, money transfers etc. Apart from their regular commission from the transaction, in a few cases, CSPs are used to get fixed salaries. Further, CSPs can generate revenue in case of offering any other value added product and services to their clients.

Cost-Revenue Analysis
To establish better understanding on the financial viability of the BC business, cost and revenue data were collected in BC business operation-area, location wise as well as business model wise. We present a cost-revenue comparison based on two classifications – location and model.

We have considered the monthly recurring expenditure and monthly recurring revenue of CSPs in the analysis of cost and revenue. The data were collected on various cost heads on a monthly basis and the revenue details were calculated based on the number of specific transactions (monthly) and multiplied with the commission CSPs are getting on such transactions. Further, the income from fixed salary and commission from value added products and services are considered in account. Finally, the average figures are taken into account to understand the current financial viability of the CSP operation.
ANALYSIS I: Location (rural-urban) wise Cost and Revenue Analysis

For this analysis, the costs of funds for agents have not been considered- only the recurring costs incurred have been taken into account.

A. Recurring costs

Table 2.3 summarises the average monthly expenditure by the CSPs on travel, rent, employee wage, phone, water, electricity, hospitality and others.

Assumption- Rent, electricity and water expenditure were reduced by half for retail based CSPs as their periodic costs are shared between the BC business and their other business (most of the CSPs are from FINO urban, Eko Urban and Eko rural)

<table>
<thead>
<tr>
<th>Costs</th>
<th>Overall (INR)</th>
<th>Frequency</th>
<th>Rural (INR)</th>
<th>Frequency</th>
<th>Urban (INR)</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel</td>
<td>1703</td>
<td>32</td>
<td>1510</td>
<td>30</td>
<td>4600</td>
<td>2</td>
</tr>
<tr>
<td>Rent</td>
<td>2097</td>
<td>50</td>
<td>996</td>
<td>35</td>
<td>4667</td>
<td>15</td>
</tr>
<tr>
<td>Employee wage</td>
<td>4162</td>
<td>21</td>
<td>3553</td>
<td>17</td>
<td>6750</td>
<td>4</td>
</tr>
<tr>
<td>Phone</td>
<td>528</td>
<td>47</td>
<td>368</td>
<td>37</td>
<td>1120</td>
<td>10</td>
</tr>
<tr>
<td>Water &amp; electricity</td>
<td>921</td>
<td>36</td>
<td>1095</td>
<td>24</td>
<td>573</td>
<td>12</td>
</tr>
<tr>
<td>Hospitality &amp; others</td>
<td>699</td>
<td>25</td>
<td>651</td>
<td>23</td>
<td>1250</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5461</strong></td>
<td><strong>59</strong></td>
<td><strong>4441</strong></td>
<td><strong>44</strong></td>
<td><strong>8452</strong></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>

* Data considered is from 59 agents
**The total cost has been calculated by dividing the overall cost from different sources (avg. cost*frequency) by total no. of active agents (=59).
Source: CMF Survey, 2012
B. Revenues

Table 2.4 summarises the monthly average commission income for the agents. As discussed in the previous session, we have considered the commission that CSPs are generating from various sources, such as commission on various transactions, by serving to ‘no frills’ accountholders as well as services to regular SB accountholders. Further, it also considered their income in terms of fixed salary, if any and commission on money transfer transactions and account opening.

<table>
<thead>
<tr>
<th>Commission Income</th>
<th>Overall (INR)</th>
<th>Frequency</th>
<th>Rural (INR)</th>
<th>Frequency</th>
<th>Urban (INR)</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Salary</td>
<td>816</td>
<td>19</td>
<td>816</td>
<td>19</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Client enrolment/account opening</td>
<td>1094</td>
<td>47</td>
<td>1062</td>
<td>33</td>
<td>1169</td>
<td>14</td>
</tr>
<tr>
<td>Revenue from deposits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NFAs</td>
<td>986</td>
<td>36</td>
<td>979</td>
<td>31</td>
<td>1027</td>
<td>5</td>
</tr>
<tr>
<td>Regular SB Accounts</td>
<td>7912</td>
<td>14</td>
<td>472</td>
<td>5</td>
<td>12045</td>
<td>9</td>
</tr>
<tr>
<td>Revenue from Withdrawals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NFAs</td>
<td>1150</td>
<td>35</td>
<td>1113</td>
<td>30</td>
<td>1370</td>
<td>5</td>
</tr>
<tr>
<td>Revenue from Money transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NFAs to NFAs</td>
<td>203</td>
<td>9</td>
<td>203</td>
<td>9</td>
<td>No obs.</td>
<td>0</td>
</tr>
<tr>
<td>NFAs to SB Accounts</td>
<td>7736.5</td>
<td>8</td>
<td>284</td>
<td>3</td>
<td>12208</td>
<td>5</td>
</tr>
<tr>
<td>OVERALL**</td>
<td>5376</td>
<td>59</td>
<td>2712</td>
<td>44</td>
<td>13187</td>
<td>15</td>
</tr>
</tbody>
</table>

*Data considered is from 59 agents
**The overall income has been calculated by dividing the overall income from different sources (avg. income*frequency) by total no. of active agents (=59)
Source: CMF Survey, 2012

From the above table, it is evident that rural agents earn a much lower commission than urban agents. Especially in the case of money transfers, rural agents hardly earn any commission in comparison to urban agents for whom commission from money transfers forms the bulk of urban agents’ commission.
Comparing the cost and revenue figures as reported in the survey, it seems that on average, the cost incurred is higher than the income earned from commissions, however, the results are very different when we compare the differences in rural and urban operations. For rural agents in particular, the cost incurred is almost three times the income they earn from commissions, whereas the urban agents seem to fare much better, with commissions exceeding expenditures by a fair margin.

Looking at the revenue and cost tables, it seems very clear the revenue from the money transfer (remittances) is the main driver of the overall revenue earned by the urban agents, which is very insignificant portion of the revenue of the rural agents. So, from this analysis, it seems that in order to make the BC model feasible, more useful products need to be served through the agents in the rural areas.
ANALYSIS II: Model (Agent-Kiosk) wise

This analysis has been done to compare the costs and revenues of the Kiosk and Agent Models. In this analysis, in addition to the recurring costs, the cost of funds (specifically refundable costs) incurred by the agents is also considered.

- **Kiosk Model:** Drishtee and Samriddhi employ agents who operate the Kiosk Model. In the Kiosk Model, agents have to keep an average security deposit of Rs. 35,000.

- **Agent Model:** Most BC companies employ agents who could be either mobile, (such as the FINO bandhus) who will travel to the clients’ houses for undertaking transactions, or based at a fixed location (such as EKO CSPs), mostly on premises that are accessible to the clients.

In this analysis, we have used data from 21 Kiosk agents and a total of 38 agents, (who are either mobile or operate in fixed locations) out of which a total of 23 agents are from rural areas whereas 15 agents are from the urban locations.

**Refundable costs**

CSPs used to deposit lump-sum money with their respected BCs as a security deposit to get access to operate as a Customer Services Provider for the BC, which is refundable. In the Agent model, the security deposit varies from Rs. 2500 to Rs. 5000 in case of rural operations and Rs. 15000 to Rs. 25000 in case of urban operations. However, in the Kiosk model the range is from Rs. 20000 to Rs. 50000.

However, under this section, for the purpose of cost and revenue analysis, cost of funds on average refundable costs (the deposit money) have been considered at the rate of SB account interest rate i.e. @4% p.a.

**Non-refundable costs**

Average initial investment required for the KIOSK model ranges from Rs. 1-1.2 lakhs. Investment is required in the following areas: computer, furniture, phone and data card, marketing, internet charges, annual maintenance fee of the CSP, registration fee and others.

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8 A total of 21 agents surveyed in CMF’s agent survey.
(printer, scanner, and camera). Evidently, the investment required for setting up the infrastructure in the Kiosk model is substantially higher compared to other models.

For example, to become an agent with Drishtee, a minimum investment of Rs. 1 lakh is required. However, of this 1 lakh, Rs 60,000 is loaned from the bank, Rs 25,000 is given by the Government as a subsidy and the remaining Rs 15,000 is invested by the CSP himself. In addition, to run this business efficiently, Drishtee gives business development training to all its CSPs and assists them in setting their monthly business targets. In many cases, the CSPs are encouraged to acquire new clients to maximise their revenues. Non-refundable costs incurred by agents have not been included in the analysis.

**Costs**

<table>
<thead>
<tr>
<th>Costs</th>
<th>Kiosk Model</th>
<th>Agent Model</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Refundable Costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Fund (Security deposit @ 4% p.a.)</td>
<td>117 21</td>
<td>12.2 23</td>
</tr>
<tr>
<td><strong>Recurring Costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td>1424 17</td>
<td>1623 13</td>
</tr>
<tr>
<td>Rent</td>
<td>1417 18</td>
<td>550 17</td>
</tr>
<tr>
<td>Employee wage</td>
<td>3635 14</td>
<td>3167 3</td>
</tr>
<tr>
<td>Phone</td>
<td>493 21</td>
<td>204 16</td>
</tr>
<tr>
<td>Water and electricity</td>
<td>1332 18</td>
<td>384 6</td>
</tr>
<tr>
<td>Hospitality &amp; others</td>
<td>790 12</td>
<td>500 11</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>6878 21</td>
<td>2218 23</td>
</tr>
</tbody>
</table>

Source: CMF Survey, 2012
Revenues

Table 7: Details of the Recurring Revenue of CSP

<table>
<thead>
<tr>
<th>Commission Income</th>
<th>Kiosk Model</th>
<th>Agent Model</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rural</td>
<td>Frequency</td>
</tr>
<tr>
<td>Fixed Salary</td>
<td>1000</td>
<td>8</td>
</tr>
<tr>
<td>Client enrolment / account opening</td>
<td>968</td>
<td>16</td>
</tr>
<tr>
<td>Revenue from deposits</td>
<td>NFAs</td>
<td>1775</td>
</tr>
<tr>
<td>Revenue from deposits</td>
<td>Regular SB Accounts</td>
<td>No obs</td>
</tr>
<tr>
<td>Revenue from withdrawals</td>
<td>NFAs</td>
<td>2134</td>
</tr>
<tr>
<td>Revenue from Money transfers</td>
<td>NFAs to NFAs</td>
<td>120</td>
</tr>
<tr>
<td>Revenue from Money transfers</td>
<td>NFAs to regular SB Accounts</td>
<td>120</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2805</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: CMF Survey, 2012

Cost-Revenue Analysis for agents (model-wise)

Figure 6: Cost-Revenue Analysis for Agents
Source: CMF Survey, 2012
Training of the Customer Service Providers

Training of the Customer Service Providers / agents on aspects of BC operation is essential to operate the BC business efficiently. Business Correspondents are offering training to their CSPs/agents as one of the binding components for CSPs to function as an interface point between BCs and clients. To really understand various components of CSP training and take a note of the CSPs’ views on it, we asked a set of questions to agents about the training which they received at the time of joining as a CSP.

Box 5: Agent Case 4 - The Importance of Product Diversification (1)

Mukesh is a Drishtee – SBI agent in the Darrang district of Assam. He started his agency in November 2008 and devotes close to 12 hours a day for agent work. Apart from the regular BC products, such as opening accounts, taking deposits, withdrawals, money transfers, fixed deposits etc. the agent is also engaged in diverse activities such as loan recovery, for SBI, processing loan applications under Kisan Credit Card scheme, car loans etc. for which the agent gets extra commission. In the last financial year, he was able to recover close to Rs. 6.5 lakhs and processed about 29 loans, including one car loan. Accounting his entire income from the last financial year, which comes to about INR 9976/- as average monthly income, he spent (including his loan instalment - EMI) on an average about INR 5400/- per month, which earned him a monthly profit of about INR 4576.

As Drishtee facilitates the functioning of agents as both Business Correspondents and Business Facilitators, this enable the agents to offer multiple products, including a number of non-financial products apart from the regular financial products under the BC arrangement. This arrangement of performing both roles gives them an upper edge and make his finances comfortable. It seems that product diversification by combining both BC and BF services can help agents earn more revenue.

Source: CMF Survey

Box 5: Importance of Product Diversification
Training content mainly consists of technical know-how on operating devices, facilitating transactions and basic related dos and don’ts. However, according to EKO, it is difficult to engage agents in trainings as most of them are retailers and see little value-addition in learning anything beyond the basics required to function as agents.

SBI runs a learning centre which trains Dhrishtee’s CSPs, but training happens only sometime between two to three months after CSPs join the BC. In Assam, to become a recovery agent of SBI, agents need to undergo a two week training conducted by IIBM\(^9\) by paying Rs 5,500. ILFS\(^{10}\) conducts training for Samvriddhi’s agents in Darbhanga and the programme is funded by NABARD.

From the agents’ perspective, all agents surveyed felt that the training was adequate in clarifying any doubts or uncertainties that they had. In addition, they appreciated the fact that training was largely free of cost, unlike in areas such as insurance where agents have to pay for their training.

However, some agents felt that a basic level of training on banking subject would be very useful. A few of them expressed interest in bank training—rules and regulations related to services they are getting from the linked branch or service areas, and things such as the right procedure (time duration, for instance) of getting completion of transactions. This is because many clients look at agents as mini-banks and have a lot of expectations from them but, as agents are typically not taught the basics of banking, some agents struggle to understand products and services.

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9 Indian Institute of Bank Management, Guwahati, Assam
10 Infrastructure Leasing and Financial Services
## Training Content

### Table 8: Training Content

<table>
<thead>
<tr>
<th>BCs</th>
<th>Information Training*</th>
<th>Technology Training</th>
<th>Business development/operation training**</th>
<th>Banking Training</th>
<th>Soft Skills Training</th>
<th>Process training</th>
<th>Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>EKO</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drishtee</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Samvriddhi</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Janalakshmi</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>FINO</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

*Information training consists of providing agents with basic information of banking products, services and dos and don’ts related to services like transactions facilitation, account opening etc.

**Business development training consists of managing business profitability and products offered

Source: CMF Survey, 2012

### Agents’ Experiences and Perception about the Channel

In the BC model, an important challenge is to maintain a healthy relationship with the agents so as to ensure that the agents remain motivated. In order to assess the agent-BC relationship, in our agent survey, we collected information about the experience of the agents with their BCs. Two-third of agents surveyed reported being highly satisfied with their BCs. A large majority of the agents said that even though they understood the constraints faced by their respective BCs, they wanted better and more sustainable solutions to their problems. The following section presents the major issues that require proper care.

### Perception: Support from the BCs

Almost all the agents wanted more support from their BCs in various dimensions. Commission and salary related support is the most frequently quoted (43% of CSPs) by the agents, while handholding support and expanding product range are also highly demanded by the agents to attract more clients. The figure on the next page presents the findings from the data.
Perception: Actions to increase customer satisfaction

To assess the factors that might help increase customer satisfaction and hence, transactions in the NFAs, we also collected agents’ perceptions.

There is a general consensus amongst agents that there is a large scope for expansion and service delivery in the BC business. For instance, most agents are of the view that clients should be offered more products and services to increase their satisfaction levels. Agents also had issues with discrepancies between charges on products. This is especially because there is a huge difference between what a bank branch charges and what the agents are asked to charge their clients by the BC and bank for identical services. For instance, for Tatkal services, Eko CSPs charge Rs. 100, but for the same deposit, SBI charges Rs. 25. In places where clients’ opportunity cost of directly visiting bank branches is low, the higher charges severely undermine agents’ business.  

Figure 8: Actions to increase customer satisfaction
Source: CMF Survey, 2012

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11 The totals do not add to 100 since the respondents can choose more than one option
Operation managers of some BCs said that they offer Overdraft facilities and RD facilities to their clients, but researchers did not see these facilities being offered to the clients in the field. We have observed that one of the BCs operating in Kiosk model is able to offer multiple products and services to its clients. It is not clear what prevents the other BCs from offering additional products and services when it can possibly increase the viability of their business.

Box 6: Agent Case 5- Need for Product Diversification for Long-term Sustainability (2)
Jagdish has been an agent since November 2010 and devotes around 2 hrs daily to agent work. He also owns a Paan (betel vine) shop. When Jagdish initially became an agent, he was assigned to open accounts in nearby villages, for which he was paid Rs.4 per card. He would make around 100 cards in a day and managed to earn around Rs.10,000 in a month.

At the moment, Jagdish is not opening any new accounts but handling transactions in existing NFAs opened in his village and two other villages assigned to him by the BC. Jagdish also offers HDFC accidental insurance to his clients and earns Rs. 15 per policy. In total, he has sold around 200 policies to date. Assuming that he offers the same number of policies every month (=200/12), he earns Rs. 250 per month from insurance. Thus, he barely earns enough to cover his costs from this policy even if we assume that his insurance selling productivity is the same for every month.

<table>
<thead>
<tr>
<th>REVENUES (monthly)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>750</td>
</tr>
<tr>
<td>Commission from deposits (600 in no., Rs 0.50/- per deposit)</td>
<td>300</td>
</tr>
<tr>
<td>Commission from withdrawals (600 in no., Rs. 0.50/- per withdrawal)</td>
<td>300</td>
</tr>
<tr>
<td>Sub-total Income</td>
<td>1350</td>
</tr>
<tr>
<td>Insurance Commission</td>
<td>250</td>
</tr>
<tr>
<td>Total Income (including insurance commission)</td>
<td>1600</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COSTS (monthly)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel for facilitating transactions (30*Rs30)</td>
<td>900</td>
</tr>
<tr>
<td>Other expenses (food et al.= 30*Rs 15)</td>
<td>450</td>
</tr>
<tr>
<td>Total monthly costs</td>
<td>1350</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROFIT (per month)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>350</td>
</tr>
</tbody>
</table>

It is evident from this case that the profit earned by the agent is very little. And, though his income is supplemented by commission from the sale of insurance, even that little amount of earnings will also hit a ceiling soon, given that he operates in only three villages.

In conclusion, the scope of the channel should be broadened to include more products so that agents can earn sufficient revenues – especially if the operational area is small. The commission structure offered to agents should also be designed such that agents can sustain their incomes even after completing the initial enrolment/account opening phase.

Source: CMF Survey, 2012
Perception: Banking products and services expected by clients

![Banking Products and services expected by clients](image)

**Figure 9: Banking products and services expected by clients (*48 agents*)**

Source: CMF Survey, 2012

15-20% of CSPs surveyed believed that more government schemes as well as some government employee payments should be transferred through the BC channel to fulfil clients’ requirements and ensure a stable and regular source of income for CSPs. Furthermore, for programs which require authentication, the process should be simplified so that a larger section of clients can access these facilities. For instance, a biometric authentication system should be initiated to ensure better client service, especially for the illiterate clientele.

With respect to government payments in specific regions, MNREGA and Mahamaya students’ scholarship payments should be attached with the ‘no frills’ account in UP and, in addition, ASHA and Mamta workers payments, utility bills, NREGA, SSP payments etc. should be allowed through this channel in Bihar. For example, in Dharbanga, there is a lot of potential for agents to open accounts for ‘Indira Awaas Yojana’ beneficiaries but, as the program payout is high, beneficiaries cannot transfer this payment to NFAs opened by CSPs.
Issues faced by Agents

It is very important to identify the major issues that the agents are facing so that appropriate remedial measures could be taken to ensure efficient functioning of the BC model. The major issues as faced by the agents are presented below:

1. Issues with base branch

Some BC agents reported that the local base branch of the principal bank takes an excessive amount of time (around 2-3 months) to process account opening requests. They also felt that the branch managers of the local branches should have a clearer idea about the BC channel and that the head offices should instruct branch managers to engage with the CSPs in a more productive manner and to support them in their work.

Currently, agents feel that there are a myriad of procedural delays which places unnecessary pressure on them. For example, branch officials restrict agents to opening only 5 accounts per day and even simple requests to display account numbers on cards given to clients take months to be processed.

2. Communication issues with the BC

Multiple agents of a particular BC mentioned that they were unaware of the actual commission structure and were not given timely notifications about policy changes. Such proper and timely communication is needed for agents to make business plans. For instance, agents are often credited commission directly without a break-down of earnings from individual products. Informing agents about earnings on each product could incentivise agents to market their products differently and more efficiently. Some agents even mentioned that they hadn’t received the commission at all or some target-based incentives were declared but were not given to them.
3. Cash Management and liquidity issues

The balance that BCs typically transfer to agents is equal to the security deposit they collect from them. In addition, agents are expected to facilitate withdrawals from the cash received from the clients during the day but this seldom happens as there is typically a huge gap between amounts deposited or withdrawn at particular service points due to location-specific characteristics. For example, locations such as metropolitan, urban centres, areas in and around market places or highways in rural centres are deposit-heavy while rural areas are typically withdrawal-heavy. In the former, the agent needs to deposit money in the distributor’s account very often to maintain sufficient balance to facilitate withdrawals. In the latter, i.e. if the location is withdrawal heavy, the agents run out of money frequently and have to turn away clients who come to make withdrawals.

Thus, a major issue faced by agents is that they never seem to have enough cash for withdrawals (Almost half of the agents surveyed reported facing a liquidity crunch when serving their customers). As a result, agents are commonly unable to service their clients because of insufficient balance; because they didn’t get replenished by the BC on time; or simply because they did not have the cash to facilitate withdrawals.

Some agents complained of not receiving cash on time, causing a lot of inconvenience for the clients and posing a big reputational risk for the CSP as well as the bank. Further, another section of agents said that they often take money from their own pockets when they do not have enough cash in their accounts. For this reason, if agents expect more withdrawals, they do not deposit the cash in the branch but retain it themselves.

Facilitating withdrawals also becomes an issue if the volumes of withdrawals are relatively higher, such as in the case of MNREGA, Social Security Payments or at remittance heavy areas like Darbhanga-where Samvriddhi operates. In such cases, maintaining adequate liquidity to facilitate payments can be tricky, especially when few banks or BCs are willing to share the risks. In some cases, employees of BCs often carry lakhs of rupees on their motor bikes during
MNREGA payment periods. However, BCs expect their agents to use their own cash to make withdrawals if they do not get sufficient cash through deposits. Balances are settled later by replenishing the required amount in their account. However, not many agents have spare cash amounting to a few lakh and thus face a lot of trouble and reputational risk due to liquidity issues. Going to a bank branch and depositing money in the BC’s account to get balance also involves a direct opportunity cost for agents. On the other hand, if the cash collection facility is provided by the BC, it adds to the cost of operations for the BC. Risk is in both the cases. FINO bears this cost for its agents and has employed staff to undertake cash collection (Cash management executives-CMEs in case of urban centres and block coordinators in rural centres); Eko asks its super CSPs to manage collection of cash and manage it for the CSPs coming under them; Drishtee and Samvriddhi do not have employees to assist agents in managing cash but ask agents to do it themselves.

4. Risk factor and its mitigation
Though none of the agents surveyed reported any incident of theft or robbery, almost 85% of the agents felt that handling cash poses a risk to them. Only 15% said that they either have cash-in-transit or cash-in-safe insurance, and felt that they do not face any risks in handling cash. The agents of a particular BC reported that even though they were initially assured of being provided insurance, the BC did not do so due to the high costs involved.

Discussions with BC field staff revealed that in some cases, the cash handled by the staff is covered but not the cash handled by the agent. This is surprising, considering that the maximum cash handled in a day by the agents can range from Rs.2000 in rural areas to Rs.6 lakhs at urban centres with an average of around Rs. 50,000.

5. Technological issues
Almost all agents said that the technological platform they were using was user friendly and they did not encounter any difficulty in operating it. However, around 72% of the agents faced problems because of technological glitches, following which, they could not work for one or
more days resulting in a loss of business. These technical glitches ranged from non-availability of network to improper functioning of the bank server, to other software glitches. Link failures because of network problems were common in rural areas and many instances of server problems for both Drishte and Samvriddhi were reported.

6. Competition

Around half of the agents surveyed said that they did not face any competition. One-third of the agents said that banks were their main competitors and that people would open accounts in banks if not with them. Only 11% of the agents interviewed reported that they faced competition from CSPs or agents of other BCs. Other competitors reported were MFIs, insurance agencies and other financial institutions. This evidence suggests that even agents themselves feel that the BC model has a lot of potential given little competition and very few players targeting an untapped market.
Chapter 3  CLIENTS

This chapter aims to understand the perspectives of clients in the BC model - their usage of various services, satisfaction levels and expectations from the products and services offered through the BC channel. A total of 179 clients were surveyed for our study. The following methodology was adopted: In the urban districts, clients coming to the agents’ location for transaction purposes were randomly approached, and in rural districts, clients in the agents’ vicinity were identified with the help of the CSP and then a fraction of these clients were randomly surveyed.

In the client survey, we attempt to understand the profile of the client segment using ‘no-frills’ accounts, NFA activity and usability, reasons for poor transactions, use of regular saving bank accounts compared to the NFAs, use of NFAs for remittances, clients’ literacy level, and their perspective in terms of their satisfaction, experience and expectations, etc.

Client profile

There were 134 males and 45 females in the sample with the median age of respondents being 35 years of age. Out of 179 clients surveyed, 150 belonged to rural areas and 29 to urban areas. The average number of members in each household was 5 and the monthly income of households surveyed was Rs. 6,000 (median monthly income). The sample represents a fair amount of the population from various occupations, as can be seen from the client profile figure.

Figure 12: Client Profile
Source: CMF Survey, 2012
Account Activity and Usability

To understand the usability and activity of accounts opened through CSP channels, clients were questioned about the details of accounts they maintained with their CSP as well as details of their spouse’s account. Clients were also questioned about other savings accounts that they maintained through non-CSP channels.

A. Usage

The number of transactions carried out by clients in the last three months was taken as a measure of the usage of accounts served by the CSPs. Though we acknowledge that three months is a small window to judge the dormancy or activity of a bank account, it was selected as an indicator in order to facilitate respondents’ recall of account usage. Further, we asked about balances held in the account at the time of survey to understand balances maintained by ‘no frills’ account clients.

![Account Activity according to client profile](image)

**Figure 13: Account activity according to client profile**
*Source: CMF Survey of CSP Clients, 2012*

Clients engaged in agriculture and allied activities and in the service sector maintained the highest balance of Rs. 1600 and Rs. 1500 respectively, whereas there is uniformity in number of transactions (median) carried out in past three months by various client segments except the
labour segment. Labourers, on the other hand, maintained the smallest balance and carried out the least number of transactions.

When we look into the balances held with the CSP by client income class, our survey data shows that the balance maintained in CSP accounts increases with the household income of clients.

![Average CSP Balance vs Monthly Income of Household](figure14.png)

**Figure 14: Average CSP Balance with household income**

*Source: CMF Survey*

### B. Activity in No-Frills Account vs. Regular Savings Account

Dormancy of No-Frills Accounts is a major problem with the BC model. To explore the extent of the problem, we present the data on account usage in the table below.

**Table 9: Activity in NFAs vs. Regular Savings accounts**

<table>
<thead>
<tr>
<th>Indicators for Account Activity</th>
<th>No-Frills Account</th>
<th>Regular Savings Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average no. of transactions (quarterly)</td>
<td>5.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Avg. Balance(INR)</td>
<td>1922</td>
<td>5289</td>
</tr>
<tr>
<td>% of accounts with zero transactions (in last 3 months)</td>
<td>36%</td>
<td>40%</td>
</tr>
</tbody>
</table>

*Source: CMF Survey, 2012*

---

14 Average CSP balance was calculated based on the savings balance at the time of survey.
Our client survey data indicates that around 36% of the sample of No-Frills Account holders did no transactions in accounts maintained with the CSP in the 3 months prior to the conduct of our survey. This inactivity was slightly higher in regular savings accounts, with 40% of these accounts having had no transactions in the past 3 months. In addition, the average number of transactions per quarter in NFAs is 5.3 as compared to 3.2 in regular savings accounts. Lastly, the average balance maintained in CSP accounts is Rs 1,922 – much lower than the average balance of Rs 5,289 maintained in accounts opened through regular channels.

C. Account Utility

The BC model is seen as the vehicle for financial inclusion of the lower income households who are otherwise excluded from formal financial institutions. Thus, it is important to see what type of clients are being targeted through this model. From our client survey, we found that around 61% (little less than two-third) of the sample clients surveyed already had a regular savings account in their or their spouse’s name, casting doubt on the need for clients to open NFAs through CSPs and the usability of NFAs themselves.  

Thus, to ascertain the usability of NFAs, we compare the activity of NFAs and regular savings accounts for clients holding only CSP accounts with clients having accounts opened through both CSP and non-CSP channels.

Table 10: Account Activity

<table>
<thead>
<tr>
<th>Indicators for Account Activity</th>
<th>Clients with only NFA (38% of Sample)</th>
<th>Clients with both NFA &amp; Regular Savings a/c (61% of Sample)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NFA</td>
<td>Regular savings a/c</td>
</tr>
<tr>
<td>Average balance (INR)</td>
<td>1860</td>
<td>1960</td>
</tr>
<tr>
<td>Avg. Transactions (quarterly)</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Clients with zero transactions (in last 3 months)</td>
<td>41%</td>
<td>34%</td>
</tr>
<tr>
<td>Clients reporting an increase in savings because of access to CSP a/c</td>
<td>63%</td>
<td>67%</td>
</tr>
</tbody>
</table>

Source: CMF Survey

15 Our sample is NOT a purely random sample, and the results could be biased due to the sample characteristics.
With reference to Table 10, we observe that activity in NFAs is higher for clients with both NFAs and regular savings accounts than for clients with only NFAs. Also, the data shows that a significant fraction of the clients believe that access to a CSP account had helped them to increase savings, and in particular, 67% of clients with both an NFA and regular savings account said that their savings increased exclusively because of participation/access to NFA.

D. Use of 'No Frills' Account for Money transfer

Money transfer is a popular service for the BC channel. In our client survey, we wanted to understand more about this from the demand side.

Most clients reported that they prefer CSPs as a medium for money transfer because it takes less time (around 20 minutes including travel time) to make a transfer. Other reasons cited for preferring CSPs were the proximity of CSPs to their house/workplace and the resulting convenience of transacting through these CSPs.

In addition, some clients preferred CSPs because of the relatively high charges for money transfer at the post office.  

The average value of a one-time transaction was found to be Rs 3,000. In both Delhi and Mumbai, most respondents made transfers to UP and Bihar to family members for supporting their household expenditures.

Additionally, it was found that many of these clients used NFAs solely for remittances and were not aware that they could save using these very same accounts.

Though the BC channel seems to be preferred over other institutions for money transfers, the fees charged by various banks for money transfers are heterogenous, as shown in the following table.

---

16 At post offices, 5% of the amount to be remitted is charged for regular money orders and the remittance process requires the filling up of separate forms for every 5,000 rupees remitted.
Charges for Money Transfer (Banks)

Table 11: Charges for money transfer

<table>
<thead>
<tr>
<th>Bank-BC</th>
<th>Money Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>UBI : FINO Urban</td>
<td></td>
</tr>
<tr>
<td>UBI-UBI a/c for Rs. 1-10,000</td>
<td>25</td>
</tr>
<tr>
<td>UBI-other bank a/c for Rs. 1-10,000</td>
<td>40</td>
</tr>
<tr>
<td>SBI- Eko Urban</td>
<td></td>
</tr>
<tr>
<td>1-1249</td>
<td>25</td>
</tr>
<tr>
<td>1250-4999</td>
<td>2%</td>
</tr>
<tr>
<td>5000-10000</td>
<td>100</td>
</tr>
</tbody>
</table>

1. FINO clients: maximum Rs. 25,000 can be remitted per day and max Rs. 10,000 at a time.
2. Eko clients: maximum Rs.10,000 can be remitted per day.

Source: CMF Survey, 2012

To gain a better understanding of the charges clients face, we consider a hypothetical example: Assume a worker from Delhi/Mumbai wishes to send Rs. 10,000 as a remittance to his family in Bihar. For this same transaction, an Eko client would have to pay a Rs 100 charge, this is twice the amount that a FINO client would have to pay (Rs 40), even if he were to transfer this money to a non-UBI account.

Clients' Perceptions about Account Inactivity

To further understand the reasons behind NFA inactivity, we asked clients why they don’t use their no-frills accounts to identify the hurdles they face with respect to their account usage.

The data indicates that the absence of agents and a lack of knowledge about the product and channel are the major drivers of the inactivity of clients.
1. **Agent inaction** – Around 25% of clients surveyed said that they do not use the channel because either their agent is inactive or they do not trust their agents. For instance, one-fourth of the clients of a particular BC said that the agent in charge of collecting their deposits never visited them. In other areas, accounts were opened but no agents were appointed for the clients or there was no mechanism to connect the accounts with the link branch. There were also cases where, after operating for a few months, the agents dropped out due to low motivation or other reasons and new agents were not appointed to replace them.

2. **Low Savings/Insufficient Income** – 25% of dormant account holders cited low income and negligible savings as reasons for not using their accounts. This underscores the importance of inculcating financial literacy in clients in order to help them better understand the benefits of maintaining a savings account.

3. **Lack of Information and Poor Service** – 24% of the clients surveyed cited poor service or lack of information about the account and its features as the reason for account inactivity.

4. **Government transfer or future benefits** – The remainder of the clients surveyed (24%) had opened the NFA only for specific purposes such as to get agriculture loans credited to their account or because they had expected future benefits.

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**Box 7: Client Case – Agent Inaction**

More often than not, agent inaction is a primary reason for clients’ loss of motivation for using BC services.

Shanti, a housewife from a village in North India, opened her NFA in September 2010. Lacking formal avenues to save her meagre collections, Shanti was very enthusiastic about finally being able to save in a bank account. However, till date, no agent has been appointed in her village and she does not know what to do with the card provided to her. Like Shanti, almost every other adult in the village was given a card but are equally clueless as to what they can do with it.

Ashok, a businessman, no longer trusts the CSPs to deposit his money. Initially, Ashok had opened a NFA with the local BC in order to save time. However, a few months after he opened his account, his agent stopped working and refused to help Ashok deposit his money. As a result, Ashok reverted to saving in his other account and now feels that it is not safe to save money in an NFA as BCs do not provide reliable services.

*Source: CMF Survey, 2012*
The data also indicates that the transaction charge associated with a BC accounts is not an important factor as only a very small minority of clients (2%) cited charges associated with transactions as a reason for account inactivity. This can, however, probably be attributed to the fact that the survey consisted mostly of rural clients who face poor access to alternative formal institutions.

![Reasons for No-Frills Account Inactivity](chart)

**Figure 15: Reasons for No-Frills Account Inactivity**  
*Source: CMF Survey*

### Financial Literacy of Client

To ascertain whether the clients have the information and knowledge that are useful for availing formal financial services, clients were asked questions about the BC and the bank that they were associated with. Particularly, they were asked about current interest rates, and the purpose and the usage of their CSP accounts. From the responses, a need for financial literacy was clearly identified but both BCs and agents face difficulties in offering it to clients due to the heavy costs involved.

### Knowledge about the Organization

When questioned about where their money was being saved, some clients could name the BC; some would name the bank and yet some others would name both the bank and the BC. This
demonstrates that clients are more or less aware about the organizations that the BC model is associated with. This awareness is especially salient in the case of Kiosks where clients are able to clearly see the logo of the bank at the Kiosk. However, there are cases of agents who lack any form of identification to associate themselves with the banks or BC.

**Knowledge about Interest Rate**

Almost none of the sampled clients were aware of the interest rates that they were earning on their savings account, which indicates a significant lack of financial literacy. In many instances, clients had not earned any interest on their savings. As a result, they did not have chance to learn about it as well. This further discouraged them from using the accounts for savings purposes. Thus, the lack of financial literacy could become a significant barrier to the BC model based financial inclusion drives.

**Box 8: Client Case 2 – Financial illiteracy of clients**

The financial illiteracy of clients often creates situations whereby clients have accounts but are unaware of the facilities they can avail through it.

1. Mahesh opened his NFA in January 2011 and only uses the account to withdraw his NREGA payments. Till date, he is unaware that the account can also be used for saving purposes.

2. GoI provides cash assistance to all pregnant women under Indira Gandhi Matritva Sahyog Yojna and to avail it, the women need to have a bank account. To this end, the women are usually asked by the Asha workers in their village to open the accounts through their CSPs. In one village, however, an agent told the researchers that most women want to withdraw the entire quantum in one go as they believe that the account is temporary and will close once they withdraw their cash.

*Source: CMF Survey*

**Product knowledge**

Our survey data indicates that there is a lack of knowledge among the clients about the features of the NFAs. We found that many clients are unaware of the limitations of NFAs and are only aware of the general purposes for which savings accounts can be used. As a result, some clients give their NFA account number for high value credits like insurance claims and subsequently run into problems when the money could not be credited to their account.
Major Problems faced by the Clients

1. **The remittance of clients’ money using agents’ personal/family members’ accounts**: It was observed that some agents would use their personal or family members’ accounts to remit money for clients who did not have an account. For example, clients at an urban centre who did not have NFAs would remit money through one of the multiple accounts held by their agent at a merchant point. However, clients’ remittances are placed at severe risk if and when the transfer is declined due to technical reasons as, under such circumstances, the remittance is reverted to the account holder and not the client who actually paid the cash.

2. **Overcharging by Agents**: It was observed that overcharging by agents is rampant, with many CSPs at urban centres readily admitting to charging a “service fee”, i.e. collecting extra money from clients for transactions to cover costs. In some areas, agents charged as much as 100% extra. Nonetheless, some clients said they did not mind the additional charges as long as the money is remitted easily and on time. In addition, agents were seen to be encouraging only certain products and facilities at some places. For instance, it was very common for agents to give priority to Tatkal customers as opposed to NFA customers since Tatkal services give them more commission.

Client Perspective

A. **Client Satisfaction**:
Close to 85% of the clients surveyed reported being satisfied with the services and behaviour of their agents and BCs. On top of that, 90% of clients said that they find it easier to do transactions with agents as compared to banks. Lastly, most clients felt that it is safe to do transactions with agents and no clients ever reported of being cheated or of having false transactions carried out through their account.
Further, in comparison to agents, technological problems do not seem to be as important an issue for clients. Only around one-third of active clients surveyed ever faced technological glitches that prevented them from carrying out their transactions.

B. Client Experience:
There were however, cases of agents misrepresenting the services offered in a no-frills account. At one place, for example, clients reported being told that their village is getting a bank for which the “card” will be required. Others were informed that all government payments would be made available through this account but, even after a long wait, no payments were made to these accounts. Thus, an important takeaway is that people lose the motivation to use these services when the time lag between the launch of a facility and availability of said service is too long.

In other cases, not all facilities are made available through the account. For instance, in some areas, the BC had a mandate to disburse NREGA so it was not providing savings facilities though the same account or vice versa.

C. Client Expectations:
Clients expect more products to be attached to their CSP accounts, such as government payments, loans, RDs, FDs etc. They also expect more facilities like cheque books, pass books and debit cards to be made available. In addition, they also desire greater flexibility with regards to the present limits of a daily transaction value less than Rs 10,000 per day, a balance limit of Rs. 50,000 per year and Rs. 1 lakh transaction limit per year.

![Client Expectations from the CSP account](image)

**Figure 16: Client Expectations from CSP Account**
*Source: CMF Survey, 2012*
Evidently, the premise that clients desire an account with limited usability looks flimsy. On the contrary, it is quite evident that most clients desire a universally usable bank account with multiple features and facilities and that people in general value the liberty of being able to choose the services they want to avail.

**Box 9: Client Case 3 – Client Expectations**

There is a widespread desire amongst clients for more products and facilities to be attached to their CSP accounts.

Parvati, 60 years of age, opened an account through an account opening camp in her village. She feels it would be very helpful for her to receive her old age pension through this account.

Rupa, a 35 year old laborer from UP, presently receives her NREGA wages from the regional Grameen bank. Everytime she has to collect her payment, she has to walk 5 km to the bank and wait in line for hours. Incidentally, Rupa also has a NFA in UBI through her local BC and feels that it would be so much more convenient for her if her NREGA wages also came in through this account.

Ramesh supports his family of eight through agriculture and labor and earns around Rs 5000 in a month. Currently, he uses his NFA to receive the money that his brother and son, working in Delhi and Haryana respectively, send to him. He is willing to save in this NFA but would also like to receive a cattle loan facility through this account.

*Source: CMF Survey, 2012*

**Issues of Consistency in Use and Prerequisite of Technology**

The lack of technology often hinders the BC model from providing clients with certain facilities or services. For instance, in Darjeeling, Samvriddhi has not been able to provide MNREGA payments through its agent network because of a lack of biometric authentication enabled point of transaction devices by Axis Bank. In addition, even though Samvriddhi is a BC for the Central Bank of India in Darjeeling, NFAs have not been linked to the core banking system. This greatly restricts the usage of these accounts.
In summary, given that the BC channel has the potential to efficiently facilitate banking services as well as government payments, special attention should be paid to implementing and maintaining the required infrastructure and technology in order to accommodate all required authentications.

**Extended services for clients- Loans from the BC**

The feedback received from the agent and client survey indicate that adding more services through the BC model is one important strategy that would help increase transactions through the agents.

It is not uncommon for Micro Finance Institutions to provide BC services to its clients as an extended service. FINO has an MFI arm called Aadhar and Janalakshmi Social Services is the BC company of Janalakshmi Financial Services (an MFI). CASHPOR (an MFI) partners with ICICI bank to provide regular savings accounts to its clients, and Drishtee’s agents facilitate loans for their clients by linking them to their base branch.

It makes commercial sense for these organizations to partner with banks or provide BC services as an extended service as these activities allow for economies of scope by allowing the sharing of resources. For example, in the case of CASHPOR, the same staff handles both activities. And, even though Janalakshmi and FINO have separate entities for their BC activities, they share common resources like office space to reduce costs. Clients also benefit from these arrangements through access to a wider variety of financial services.
Chapter 4  Major Challenges and Operational Issues

The chapter summarises the views of the five participatory Business Correspondents and the research team’s observations on various fronts.

Challenges in the Business Correspondent Model as faced by Business Correspondents

<table>
<thead>
<tr>
<th>Challenges in dealing with the principal bank</th>
<th>Challenges in dealing with agents</th>
<th>Challenges in dealing with clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Focus on BC model entirely target driven - compromising clients' requirements/usability</td>
<td>• Motivating /retaining the agents</td>
<td>• Building awareness and motivating clients to participate</td>
</tr>
<tr>
<td>• Low level of acceptance among bankers at the base branch level</td>
<td>• Commission related issues</td>
<td>• Educating clients on usability of no-frills accounts</td>
</tr>
<tr>
<td>• Reluctance in sharing the liquidity risk</td>
<td>• Cash Management</td>
<td>• Fraud at client level-fake documents</td>
</tr>
<tr>
<td>• Entire cash management left to BC</td>
<td>• Network management and agent training</td>
<td>• Client selection at the enrolment stage</td>
</tr>
</tbody>
</table>

Figure 17: Challenges faced by BCs
Source: CMF Survey and researchers’ observations

Challenges in dealing with the principal bank

• There is a general consensus amongst the five Business Correspondents that principal banks do not view the BC model with high regard and are often uncooperative at the BC/agent level.

• The principal bank often views the BC business purely as a means of complying with RBI guidelines and unless the model is viewed from a business perspective instead, sustainability and scaling up is bound to be a difficult task.

• Principal banks are mostly target driven and often overlooked the needs of the clients and usability of the product.
• There is a low acceptance of the BC channel at the bank branch level and bank branch staffs lack sensitivity, understanding and underestimate the priority of the whole BC model. To counter this, BC’s senior management actively engages with regional and local offices of the bank, which costs them time and money and thus causes further service delays.

• Further, banks are reluctant to share the liquidity risk and leave the entire cash management to the BC. So presently, any cash or liquidity risk is entirely borne by the BC.

• Non-timely payment of commission is another major issue expressed by most of the BCs.

**Challenges in dealing with agents**

• The key challenges in dealing with agents are keeping agents motivated (in relation to an adequate commission structure), maintaining agent satisfaction with the BC model and monitoring agents for fraud.

• One major challenge in dealing with agents is presenting the model to them from the perspective of business viability. The primary reason for this is that once the client enrolment phase is over, the sustainability of the BC model depends almost entirely on the transaction volume, for which commissions paid out are low. This is compounded by the difficulty of sustaining a high volume of transactions, especially in rural areas.

• Issues of cash management- agents entirely shoulder the responsibility, which is a big demotivating factor for them.

• Managing and in particular monitoring an agent network is the most challenging aspect of its operations.

**Challenges in dealing with clients**

The challenges related to the clients are more diverse and complex. The most crucial aspect of dealing with clients is motivating them to open an account. BCs believe that NFAs are a demand driven product because an individual does not open an account unless they have a specific need for it like deposits, loans, pensions or wages. However, banks insist on making account opening a supply driven exercise. BCs also find it difficult to satisfy their clients’ high expectations for a diverse set of products and services. It difficult for BCs to make clients understand the
restrictions / limitations of an NFA as clients demand more services through it. Fulfilling the demand for multiple products and services is challenging. On the other hand, dealing with client fraud (by submitting fake documents) is another crucial challenge to deal with.

The other Key challenges in the BC model

Broadly, there are three key challenges facing the BC model. The first pertains to sustaining the financial viability of the business at the level of each stakeholder – the bank, the BC, the agents and the clients. The second deals with promotion and marketing of the BC model. Currently, neither the Government nor the RBI invests adequate time or money in generating awareness about the BC model. The Government, the principal banks and the BCs have to proactively promote the BC model in order to reach the masses. The third challenge the model is facing is to cater a diverse set of services and products to meet the client’s demands.

Risks in the Business Correspondent Model

Operational and Liquidity Risk
- Cash Management
- Field staff fraud and staff turnover/attrition
- Dormant accounts, low transactions and low balance
- Technology- Low connectivity in rural areas

Regulatory Risk
- Lack of clear guidelines-scope for banks to make their own interpretations
- Lack of standard models

Reputational Risk
- Poor services to clients
- Staff frauds

Figure 18: Risks in BC Model
Source: CMF Survey and researchers’ observations

Operational and Liquidity risks
BCs are of the view that cash management is a major risk and it is not compensated adequately by the bank. Also, there are a lot of issues related to the viability of the BC model as it is solely a
single product business. Further, agents sometime retain cash if they anticipate future withdrawal transactions. This makes it difficult for the BC to transfer the balance to other agents and creates a shortage of cash in the settlement account of the BC. In the absence of bank overdraft facilities, agents and the BCs do not have enough cash to facilitate withdrawals and settle the amount with the principal bank at the same time.

BCs that have an employee based model are facing the issues of field staff fraud and they have to setup a daily reconciliation mechanism to reduce any chances of cash loss, which is a huge cost to them.

Technological problems, owing to poor connectivity and services, are also common in rural areas. There have been cases where clients have been wrongly credited in their accounts due to technical faults.

**Regulatory risks**

BCs don’t see any pre-existing regulatory risks in the BC model of banking but they observed that banks are restricting BCs’ business by unilaterally interpreting RBI guidelines as per their convenience. Further, not all banks are clear about their roles and it would be good for RBI to issue clearer guidelines.

For instance, recent policy developments about banks’ engagement in Government payments and BC operations have not translated properly to the grass root and base branch level. This has created regulatory ambiguity.

With regards to government payments, the policies of the central and the state governments are rarely aligned. This creates problems for the BCs engaged in these operations. For instance, Samvriddhi has not been able to facilitate its government payment operations in Orissa but, nonetheless, has had to expend money to its staff for the same purpose.
**Reputational risks**

Many of the BCs hold the view that costs and risks involved in cash management are entirely and unfairly borne by the BC or its agents with little or no contributions from the bank. For instance, agents or BCs often face liquidity constraints. These impediments result in poor services offered to clients and create huge reputational risks for the principal bank and the BC model as a whole. Thus, BCs feel that the principal bank should more adequately share the responsibilities and risks faced by BCs.

Apart from staff fraud, employee based BCs also observed that there are often delays from banks themselves in settling transactions. This puts the BC in a tight spot when clients demand explanations and further tars the reputation of the BC when the BC is unable to provide a satisfactory explanation.

**Steps needed to popularize the Business Correspondent channel in India**

We strongly believe that the BC model has the potential to fulfill financial inclusion targets for a large majority of the low income population if few major issues can be addressed, as mentioned below:

1. **Promote the BC model**

   Neither the central bank nor the Government has invested the required amount of time or money in promoting the BC model amongst potential clientele, leaving the onus to do so entirely on the BCs and banks themselves. BCs are of the view that RBI should be actively promoting the model in all urban and rural areas. The message about RBI’s acknowledgement for the BC model needs to be highly publicised by targeting rural and urban poor households, which will assist in achieving its financial inclusion objectives.

2. **Financial Literacy and Basic Awareness among Clientele**

   BCs emphasised the need for financial literacy on banking services and its use among clientele and stated that the institutions playing the role of principal bank should have a marketing
strategy in place. BCs should have a strategy to generate awareness among their clientele and the most effective mean could be spreading the message through word-of-mouth to attract more clients to open accounts through this channel.

3. **Ensure profitability**

Most of the BCs are of the view that the model can only become sustainable and fulfil it’s objectives if it generates the required profits at each level. Each BC has different ideas of how profits can be generated, but a broader framework needs to be in place to guide the BC operation.

BCs also believe that the commission structure from the principal bank to BC to CSP should be more efficient. Banks should pass on more commission that could facilitate better finances at the CSP level. In addition, BCs suggested that banks should be provided with a 3-5 year business plan to follow with their respective BCs. They should have a business perspective from principal bank to CSP to make this model more efficient and effective. The principal banks should shoulder the responsibility and wholeheartedly, embrace the BC as its own extended channel and not merely as an entity with compliance objectives. Further, the principal bank should take more responsibility in sharing various cash and liquidity risks with the BC.

4. **Meet Clients’ requirements**

There is a suggestion that KYC norms should be further relaxed and that more lucrative facilities and services for clients should be introduced. Emphasis should be given on establishing clients, as many clients do not see any value in holding only “a single account with limited scope of services.” As the study revealed that clients expect more products and services, primarily being a loan to link with their NFA, the BC channel should cater a wider set of products and services. Further, BCs strongly urge the government to channelize all Government payments and schemes strictly through the BC channel.
Expectations of the BCs

- The BC channel should allow CSPs to tap high net worth individuals along with their existing clientele.
- The scope of products offered through the channel needs to be expanded – multiple products of savings (such as fixed deposit, recurring deposit), credit/loan, and other facilities like debit card, cheque book etc. should be offered through the CSP channel.
- Scope of government payments through NFAs should be broadened to allow high value transfers like Indira Aawas Yojana payments.
- There should be greater flexibility in the no-frills accounts limits (Rs. 50,000 balance and Rs. 1 lakh transaction value).
- Banks should provide overdrafts or liquidity facilities to BCs or agents.
- The RBI should provide clearer guidelines and encourage banks to take the BC model forward with a business perspective.
- Financial incentives should be instituted to improve BC performance.
- The process and documentation of KYC should be further simplified – many of the BC executives expressed that the relaxed KYC norms as prescribed by RBI and Department of Financial Services, MoF, GoI under the financial inclusion drive should be implemented / adopted uniformly by all the local bank branches.
- Banks’ account opening document processing time should be minimized.

Summary Note- Bank’s perspective

The researchers interviewed the branch managers of Union Bank of India, Central Bank and Axis Bank. Some of the key observations and suggestions given by these base branch managers are as follows:

Client enrolment

- Some of the local bank managers acknowledged that BCs should actively engage the local banks to build rapport with clients. To engage the clients at the primary stage in new
operation areas, help from the village Pradhan or community leader should also be sought – albeit cautiously in order to avoid any negative influence or impact brought about by the community leader.

**Product Diversification**

- The BC channel should offer multiple, diverse products to cater to clients’ needs and make the BC model more attractive.
- The BC should be more proactive in liaising with district administration in order to increase the number of government payments facilitated with their accounts.
- Axis Bank offers clients products such as SIP (systematic investment plan), RD facility, loan processing and general insurance. It is a good example that could be emulated by other banks.

**Marketing**

- Similar to the BCs’ view, some branch managers strongly believe that banks should play a more proactive role in generating awareness among the clientele about BCs and new products and services offered. At the same time, the base branch can engage in facilitating awareness camps at various BC operation villages with the expenditure for these branch-level promotional activities borne by both the BC and the bank. One example of this is when the Central Bank funds the initial marketing/awareness generation meetings when a new BC starts its operations. Another is that of Axis Bank, where the base branch engages in marketing campaigns and shares the expenses with the BC.

**Dedicated teams for BC business**

- Some branch managers identified the need for a dedicated team to facilitate the BC business and expand the bank’s business in the priority sector. Bankers should also be trained in areas related to the BC business.
Liquidity and cash management risks

• To reduce liquidity risk, Axis bank is planning to share the responsibility of cash management with the BC by providing cash-in-transit insurance as well as its own vehicle to ferry cash to CSP points. In this way, the demand and need for cash at operation points can be properly shared, provided a proper information system is put in place.

• Branch managers agreed that cash should be insured but point out that there are limitations to providing adequate cash-in-safe insurance due to lack of infrastructure at CSP points.

Reputational Risks

• In one district, it was reported that a BC had opened a number of NFAs at the beginning of its operations. However, because of the non-profitability of the business, the BC left abruptly and created a large reputational risk for the parent bank that was trying to establish its base in the area. As a result, the bank had to appoint a new BC immediately.

Client Services

• Axis bank is introducing a biometric authentication system to ensure better clients service – especially for the illiterate clientele.

• UBI has set a good example by working closely with the local field staff of FINO to identify credit clients and undertake loans assessments and verifications in their scheme of operations.

Summary Discussion

Just like any other business with multiple stakeholders, there are many challenges and issues with the current BC model – especially because it is a new model in its nascent stage. Thus, there are many areas which require greater clarity and regulation.

One of the major challenges that we have identified is the lack of standardization in BC projects. It is unclear if banks have comprehensive guidelines on what they should expect from BCs and
what both BCs’ and banks’ roles and responsibilities should be in the case of certain events. For instance, what happens to clients when an agent linked to their branch is dropped and what are BCs’/banks’ strategies to maintain links with these clients? In addition, what should be BCs’/banks’ strategy to ensure regular business to agents who wish to function as an extended facility of the linked branch?

Of course, it would be wrong to say that banks are not taking any steps to solve problems associated with the BC model. In many cases, banks do in fact support the CSP/agent by creating awareness through launch meetings and displaying agents’ contacts and the services that they provide in bank branches. However in many other cases, banks have little empathy or inclination towards the operations of the agent.

Furthermore, we believe that it would be a good business proposition for banks to explicitly channel BCs to business areas that deal with priority sector requirements or areas that deal with a large section of the population. However, in doing so, banks need to ensure that the platform for facilitating the business uses simple technology and is easy to operate. We believe that such measures will help banks to considerably reduce their operational costs, while at the same time ensuring regular business for BCs and CSPs.
Chapter 5  Policy Recommendations

Product diversity
Our data shows that clients demand a wider set of products and services, specifically more savings options (8%), loan/credit (74%), Govt. Payments (12%), other value added products (benefit – 22%) such as insurance and the ability to use NFAs to avail railway tickets, than what is currently available through the Business Correspondent (BC) channel. In addition, about 31% of agents surveyed also believe that a set of diversified products and services is instrumental in fulfilling the financial needs of clients and enhancing the sustainability of the BC channel. The RBI should proactively provide a well defined direction with regards to catering a diverse set of services and products through BC channel.

Furthermore, researchers observed discrepancies between the facilities and scope of “No-Frills Accounts (NFAs)” across banks. Facilities such as issuing a debit card, passbook and cheque book to clients along with an NFA varies across banks. In addition, the scope of NFAs is too narrow, with a cap on maximum balance, limited numbers of transactions (deposit) in a month, which does not fulfil the diverse needs of clients e.g. An NFA is not able to facilitate money transfers under specific government schemes such as Indira-awash (payment of a larger amount).

Therefore, we believe that in order to make the channel sustainable, the scope of NFAs should be expanded to improve their usability and efficiency. In doing so, the BC channel can be made more sustainable and profitable, while fulfilling the core objectives of NFAs. In addition, banks should allow clients to access more services such as recurring deposit, fixed deposit, and loan/credit facilities through NFAs. If possible, utility bill payment facilities and other value added linkages should also be introduced along with the NFAs.

The Government has a big role to play with regards to product diversity as well. We believe that the Government can and should allow Government transfers, subsidies and other Government
payments to be linked to NFAs. This will greatly increase the usability of these accounts whilst meeting client requirements. With regards to existing linkages, the present focus on MNREGA payments and social security payments in a few states is commendable but insufficient and should be extended, as far as possible, to other states. Other government schemes like Indira Aawas Yojna etc should also be channelized through BCs.

**Expand the scope of the Customer Service Providers (CSPs):**

It was observed that one of the participatory BCs started off as a promoting organization for Business Facilitators (BFs). This organization was transformed into a BC only when the agents/CSPs had developed a strong know-how of the banking process through their engagement as facilitators.

In view of this, we believe that there is sufficient scope for CSPs to assume dual roles as CSPs for both a BC and a BF of the same principal bank. This arrangement will grant customers access to multiple banking services at a single service point and contribute to the greater business viability of the CSP.

In the same turn, banks and BCs should adopt common practices to encourage their agents to assume these dual roles. Furthermore, the RBI should allow CSPs to work as agents for multiple BCs and banks in accordance to their respective capabilities. This will further enhance the financial viability of agents and bolster the existing variety of client services.

**Cash Management:**

It has been widely observed that stakeholders in the BC model, especially at the CSP and/or BC level, are extensively involved in cash management. This situation arises due to a variety of circumstances.

Firstly, issues of cash deficit or excess are experienced in locations that witness significantly more deposits over withdrawals or vice versa. This problem is compounded by a mandatory
limit imposed on cash balances at the CSP (balance/transaction limits in a day). As a result, in high deposit areas, CSPs have to transfer or deposit the money at the base branch and/or a higher level of the BC channel in order to maintain their balance limits. Conversely, in high withdrawal areas, CSPs have to maintain enough balances to meet the withdrawal demands of clients.

Secondly, in the case of government payments, CSPs have to meet very high deposit and withdrawal demand during the peak government payment times. This chronic mismatch of cash availability and demand for withdrawals and money transfers often results in a few days delay. Furthermore, the resultant heavy and excessive demand for cash management and availability at the CSP level results in a huge cost to the CSP and BCs.

In view of these difficulties, we believe that an ideal solution would be to allow selected CSPs to access overdraft facilities at minimal cost for a shorter time period. This would go some way towards helping CSPs resolve the aforementioned cash management issues.

At the same time, although we recognise that cash management is a core function at the CSP or BC level, this function involves a huge cost which we believe can and should be equally borne by banks. To this end, there should be greater clarity with regards to the cost sharing for cash management and associated risks. In particular, banks should share the cost of cash management with the BC and/or provide better compensation for the BC/agent in question. It would also be advisable for the BC and principal bank to work out specific solutions to address these cash management issues before they come to the fore.

In addition, poor practices for managing cash handling risks were also observed. These poor practices stem from the lack of insurance packages or risk mitigation instruments at the CSP level to cover liquidity risks. This is compounded by the fact that, many-a-times in the cases of NREGA payments, CSPs (in rural areas) have to travel with cash to fulfil their business commitments. It was observed that CSPs are visiting a central point (pre-fixed by BC staff) to
collect the NREGA money to make the payment to their client beneficiaries and then travel to their operation villages to make the payments.

Thus, while banks are very concerned about risks to their reputation, neither banks nor BCs offer any insurance coverage to CSPs for cash handling risks. The authors believe that better insurance arrangements to mitigate these risks should be instituted at the CSP level.

**Standardization and documentation**

The working process of BCs should be standardized. To begin with, there should be a systematic documentation of processes that all agents should follow, irrespective of the BC and/or principal bank that they operate with. This uniformity will build a better understanding of roles and responsibilities amongst agents. It will also assist agents in understanding the rules and expectations of local base branch bankers.

**Promotion and marketing:**

While the BC channel is considered to be a promising model for promoting financial inclusion, surprisingly little effort has been put forward to promote the model and its benefits among prospective clientele. Neither banks, BCs nor CSPs are willing to invest in promoting the model, its products and services. For instance there have only been a few recorded cases of banks and BCs organizing marketing campaigns and, even then, only doing so at the launch of the facility. Thereafter, there was essentially no engagement by either the banks nor the BCs in building awareness amongst the clientele.

The RBI and principal banks should engage and invest time and effort in promoting the BC model and its benefits. The RBI should also place greater effort and emphasis on building acceptance of the BC model amongst prospective stakeholders, including clients.
Financial literacy of clients

There is a dearth of financial literacy amongst clients regarding the usability of NFAs opened through the BC channel. One of the strong observations we have from our survey is that NFA holders have a stereotype (narrow/limited) understanding about the uses of their NFAs e.g. people availing NFA accounts under ‘government payment projects’ don’t know they can use the same account for the savings purposes or to access credit or other payments like an insurance reimbursement. There have even been cases where, due to lack of awareness about the account and its usability, clients are unable to provide account details to access their insurance reimbursement. At the same time, clients are also largely unaware of transaction limitations placed on NFAs that disallow them from accepting such large deposits.

Therefore, a certain level of financial literacy education amongst clients is essential for the success of the BC model. To this end, the Government, RBI and principal banks can spearhead this movement through the planning and implementation of dedicated campaigns. At the same time, acknowledging that such efforts will incur large monetary costs, the RBI should come out with clear guidelines for the implementation of these efforts and should consider creating a dedicated fund for funding these campaigns.

Training of CSPs

It was observed that BCs offer well designed training programmes to CSPs and almost all CSPs are satisfied with the input they receive from training, as it provides much required information on the institution (BC) and the technology, along with product details without any training fees. However, we noted that there is a marked deficiency in the current set of training models that are offered by BCs. These training programmes do not cover basic banking functioning. This is especially surprising, considering that knowledge of basic bank functioning is essential for CSPs to run their business efficiently.
Along with the current content offered by BCs, training should be expanded to cover topics on basic banking functioning, communication, interpersonal relations and conflict resolutions in order to encourage efficiency and effectiveness.

**Efficiency in client selection**

Our survey revealed that large sections (61%) of BC clientele are, at the same time, ‘regular savings-bank account” holders. This suggests that the current efforts of the BC model of banking (which only offers No-Frills Accounts to mostly the unbanked) are not being targeted at the right clientele. And, as a result, we are far from reaching the original BC model intention of extending banking facilities to the financially excluded. This could be due to the lack of assessment criteria for client selection and if there is an existing criteria, this criteria is clearly not being followed.

The RBI and banks should take this concern seriously and consider providing better guidelines to improve the efficacy and efficiency of the client selection process in order to expand outreach to the financially excluded section of the population.
Annexure-I: Regulatory history and framework of BC business in India

In 2005, to widen the financial services provided by the RBI, particularly in rural areas, the Khan Committee report recommended the establishment of linkages between banks and external entities under two broad models: the Business Facilitator (BF) Model and the Business Correspondent (BC) Model. Under these models, banks can provide non-financial and financial services respectively, by leveraging MFIs/NGOs, CSOs and other external entities as ‘pass through’ agents.

In January 2006, based on the recommendations of the said report, the RBI permitted banks to use the services of NGOs/MFIs set under Societies/Tryst Acts, Societies registered under Mutually Aided Cooperative Societies or the Cooperatives Society’s Acts of States, Section 25 companies and Registered NBFCs not accepting public deposits and post offices, as BCs to provide financial and banking services. In addition, to mitigate reputation risk, banks were instructed by RBI to engage intermediaries who were well established, reputable and had the confidence of the local people. To further remove any ambiguity about the type of NBFCs eligible to function as BCs, the RBI in a separate notification in March 2006 asked the banks to abstain from appointing any NBFCs other than those licensed under Section 25 of the 1956 Companies Act.

However, the RBI has widened the list of eligible individuals and entities that can be engaged as BCs from time to time.

In January 2008, the Rangarajan Committee’s report on financial inclusion recommended that individuals may be permitted to act as business correspondents to help facilitate greater acceptance of BC models. It also encouraged the adoption of appropriate technology to expand outreach efforts through the BC model. Ultimately, banks should endeavour to have a BC touch point in each of the 6,00,000 villages in the country.

Thus, in April 2008, the RBI permitted banks to appoint ex-servicemen, retired bank employees and retired government employees as BCs, but with due diligence. A maximum bank criterion was also introduced to further strengthen banks’ supervisory measures. According to this
criterion, every BC was to be attached to a specific bank branch, termed the base branch, with some restrictions on the maximum distance allowed between the base branch and the BC’s area of operation.

In August 2008, the RBI permitted the appointment of individuals as sub agents of agents provided the earlier guidelines issued by RBI were followed. In April 2009, the maximum distance criterion was slightly relaxed. In November 2009, the following entities were permitted to become BCs of banks: Individual kirana/medical/fair price shop owners; Individual Public Call Office (PCO) operators; agents of small savings schemes of Government of India/Insurance Companies; individuals who own petrol pumps; retired teachers; and authorized functionaries of well-run Self-Help Groups (SHG) linked to banks.

Another major decision taken was to allow banks to charge a reasonable fee to clients for the delivery of banking services through the BC channel. Banks were also advised to place greater focus on the due diligence of their appointed BCs. The use of ICT solutions was encouraged to mitigate various risks during the scale up of the BC model.

In April 2010, any individual, including those operating Common Service Centres (CSCs) were permitted to become BCs. Finally, the latest expansion of the scope of the BC model has been the RBI’s permission for companies registered under the Companies Act of 1956 to become BCs. NBFCs, however, still remain out of the ambit of the BC model.