# Building Sustainable Business Models for Providing Financial Services to the Poor:

*A study to understand the business case of Cashpor as a Business Correspondent*

October 2013

A Grameen Foundation India Series

# Acknowledgements

This study would not have been possible without the support of the Bill & Melinda Gates Foundation. We would also like to thank Cashpor, ICICI Bank and Eko India for their support to the project and the case study. Lastly, we would like to acknowledge Intellecap as a knowledge partner in the development of this case study.

Grameen Foundation, a global nonprofit organization, helps the world's poorest people – especially women – lift themselves out of poverty by providing appropriate financial services, life-changing information and unique business opportunities. Found in 1997, Grameen Foundation has offices in Washington, D.C.; Seattle, WA; Colombia, Ghana, Hong Kong; Indonesia; Kenya; the Philippines; and Uganda. Microfinance pioneer Dr. Muhammad Yunus, founder of Grameen Bank and winner of the 2006 Nobel Peace Prize, is a founding member of its Board of Directors, and now serves as director emeritus. For more information, please visit grameenfoundation.org.

Grameen Foundation India is a social business and a wholly owned subsidiary of Grameen Foundation that catalyses double bottom line approaches to serving the poor and the poorest. Its mission is to enable the poor, especially the poorest, to move out of poverty by strengthening institutions and businesses that serve them. Grameen Foundation India aims to achieve this by enabling the growth of truly double bottom line entities that use quantitative and verifiable measures of social results and by demonstrating new business models for serving the poorest. It currently focuses on enabling the provision of financial services and information services. You can learn more at http://grameenfoundation.in/.

©2013 Grameen Foundation USA. All rights reserved.

**Except for use in a review, the reproduction or utilization of this work or part of it in any form or by electronics, or other means not known or hereafter invented, including xerography, photocopying, recording, and in any information storage, transmission or retrieval system, including CD ROM, online or via the Internet, is forbidden without the written permission of Grameen Foundation.**

# Contents

## Executive Summary

Access to finance helps poor families build assets, cope with risks and climb out of poverty.[1] Poor households have irregular income flows and need credit services to invest in livelihood generating opportunities, savings to meet planned and unplanned expenditures and insurance for risk management. Hence, it is important that they are able to access a wide range of financial services. Financial inclusion, therefore, has been identified as a priority area by policy makers and donors the world over.

This case study analyzes Cashpor's Business Correspondent (BC) model and describes the infrastructure used to deliver the BC services. It studies the financial viability and strengths of Cashpor's business model and attempts to arrive at some general principles that BCs could adopt in order to attain financial viability.

As part of its Microsavings Initiative[2], Grameen Foundation has been engaged in a three-year project to assist Cashpor in its transformation from a credit-only MFI into a BC. Grameen Foundation was looking for ways to enable savings in a sustainable manner for the poor, and Cashpor wanted to deliver savings to its poor customers. They partnered as they saw potential in the BC model. Since the sustainability of the BC model is a major concern for all stakeholders, Grameen Foundation wanted to understand the viability of leveraging an existing infrastructure to offer BC services and doing so by only incurring marginal costs.

In July 2011, Grameen Foundation worked with Cashpor to create a three-way partnership between Cashpor, ICICI Bank and Eko India Financial Services Private Limited (Eko), the technology provider to offer saving bank accounts to Cashpor's customers. Cashpor utilizes its existing credit infrastructure of branches to offer saving services. It uses mobile based technology and its loan officers double as Customer Service Points (CSPs) providing saving services to credit customers in eight districts in North India.

Since the existing credit infrastructure is used to offer savings services, only marginal costs are accounted for in the savings operation. This approach reflects the way Cashpor currently envisions the financial sustainability of its savings product. Marginal costs comprise staff incentives, automation of the account opening process, staff training and administrative costs. Cashpor earns its revenues from commissions that the bank pays on account opening, transactions and float (for the balance maintained in the accounts). We summarize below some highlights of this business model.

### Costs & Revenues:

**A Majority of the revenues are earned through commissions** from enrolments/account opening and constitute 64% of the total revenue in FY 2012-13. This share in total revenues is projected to decline sharply in the next fiscal year and is linked to the projected drop in expected enrolments as Cashpor saturates its credit customer base in the eight districts where it is currently offering its savings services.

**Income from transactions is projected to increase** from 32% of total revenues in FY 2012-13 to 51% in FY 2014-15. Income from withdrawals account for a mere 3.5% of the total revenues in FY 2012-13, and this trend is expected to continue even in the current year with withdrawals accounting for only 5% of the total income. This is because withdrawals are significantly less frequent than deposits (with around 1 withdrawal for every 9 deposits), although withdrawal amounts are, in general, bigger than deposit amounts.

[1] http://gpfi.org/about-gpfi/about-the-g20/why-financial-inclusion-matters

[2] Grameen Foundation's Microsavings Initiative is a three year project funded by the Bill & Melinda Gates Foundation. It was launched in November 2009 with a goal of reaching 1.45 million new savers in Asia and Africa by the end of 2012.http://www.grameenfoundation.org/microsavings-initiative

**Staff salaries of the account opening department are a significant cost** and account for 41% of the total cost in FY 2012-13. Cashpor immediately saw the benefits of investing in technology to manage the KYC (Know Your Customer) and account opening process. The recurring salary costs of the staff are more than justified as form rejection levels have come down from 29% to less than 1% at the ICICI level, demonstrating the efficient working of the system. Staff incentives paid to CSPs and other field staff are another major cost and accounted for 28% of the total recurring costs in FY 2012-13.

**Considerable expenditure was incurred on staff capacity building,** which constituted one-fourth of the total costs in FY 2012-13. Although training has a cost implication in the initial years of the project, Grameen Foundation-Cashpor views them as a necessary investment that laid the foundation of a successful BC business model. As training costs decrease, the relative weight of expenditure on incentives is projected to increase to around 36% of the total costs in FY 2013-14.

## Financial Viability:

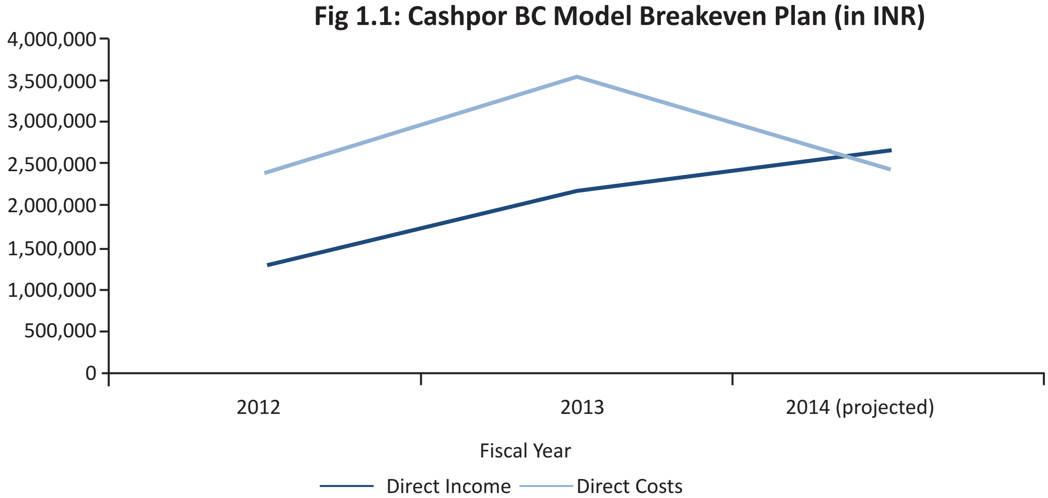
**The project has earned lower revenues** than costs incurred in the initial 20 months. It is projected that in FY 2013-14 (See figure 1.1), the incremental revenues generated will be able to meet incremental costs.

Cashpor's BC operations will then be able to make nominal profits, despite significant reduction of enrolments. This will be achieved through a combination of lower costs and increased revenues from transactions due to scale.

**Total annual marginal costs are expected to fall dramatically** from INR 3.5 million (~US$ 58,866) in FY 2012-13 to INR 2.4 million (~US$ 40,363) in FY 2013-14. This cost reduction is mainly a result of scaling and stabilization of processes such as account opening and training programs.

Insights from the Cashpor project show that leveraging existing infrastructure, rather than creating a parallel BC infrastructure, helps not only to keep the fixed costs low but also proves beneficial in acquiring customers for the savings operation. The BC model is cost intensive at first, requiring initial investments in capacity building, technology, setting up processes and modifying them in tune with the field realities. BCs need to be encouraged to offer an array of financial services, particularly by layering savings services on top of an existing infrastructure such that only marginal costs are incurred. Finally, the BC model is a low return high cost model where scale and efficiency will be critical to achieving profits and making the model sustainable in the coming fiscal years.

**Fig 1.1: Cashpor BC Model Breakeven Plan (in INR)**



# Section I:

## Financial Viability & the Business Correspondent Model

Even after 65 years of Independence, a large proportion of India's population is excluded from the financial mainstream. Financial inclusion, therefore, occupies a preeminent spot in the development agenda of the Government of India. As per a World Bank study, about 65% of adult Indians do not have an account in any formal financial institution; the figure is even more dismal for women, with a mere 26% linked to any formal financial institution. In a one year period (April 2011-March 2012), only 12% of the adult population used a formal account for savings and 8% availed loans from a formal institution.

The technology-driven Business Correspondent (BC) model has emerged as a prime contributor to the government's financial inclusion policy. BCs have set-up financial infrastructure in remote rural areas where none existed and are today the primary channel for No Frill Accounts (NFAs) that banks offer. As of March 2012, a total of 98, 828 Customer Service Points (CSPs) have been set up in villages that do not have banks.

**What is the Business Correspondent model?**

In 2006, the Government of India adopted technology driven Business Correspondent model to promote branchless banking and financial inclusion. The legal relationship between the BC and the bank is that of an Agent and Principal bound by a legally enforceable contract. Initially, only not-for-profit entities were permitted to operate as BCs. Overtime, the list has been expanded to include for-profit companies. BCs provide banking services such as opening bank accounts, accepting deposits and offering withdrawal facilities.

Bcs operate in urban and rural areas where banks do not have their branches. Technology service providers have a critical role to play in this model, as they reduce the cost per transaction and serve as a link between the bank, BC and the customer. BCs either use the Smart Card Based Kiosk model or the Mobile Handset-based model. They work on a commission basis and are paid by the bank.

Demirguc-Kunt, A. & Klapper, L., “Measuring Financial Inclusion: The Global Findex Database” Washington D.C: The World Bank, 2012. Retrieved from http://wwwwds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2012/04/19/000158349_20120419083611/Rendered/PDF/WPS6025.pdf
The financial year in India starts from April
Ibid.
Tyler, E., Ravi, A. et.al. “From Social Banking to Financial Inclusion: Understanding the Potential for Financial Services Innovation in India” Washington D.C: New America Foundation, 2012. Retrieved fromhttp://newamerica.net/publications/policy/from_social_banking_to_financial_inclusion_understanding_the_potential_for_fin_0
Sa-Dhan.“Financial Inclusion: A Study on the Efficacy of Banking Correspondent Model”.India: Sa-dhan and Citi Foundation, 2012. Retrieved from http://www.citigroup.com/citi/microfinance/data/business_cor_study.pdf.
The Customer Service Point (CSP) is typically a recognizable person in the village who are either stationary (typically a shop in the village) or mobile (visiting a series of villages on pre-defined days and offering door-step services), offering account opening, deposits, withdrawals and balance checking on behalf of the BC.

Even though BCs have been entrusted with the task of making financial inclusion a reality, the financial viability of the model has emerged as a concern as various BCs struggle to break even. A *MicroSave* study with leading BCs in the country found that half of them could not cover their costs and the other half had just started earning nominal profits. This high-cost low-margin model with high fixed and recurring costs such as technology, infrastructure, staff salaries and agent commissions. This high cost-low margin model makes financial viability difficult to attain. If the BC model is to be taken up as a business opportunity by intermediaries and banks, then it is imperative that the model be market-led and financially viable.

# Section II:

## Understanding the Business Model

Cashpor was keen to expand its offerings to include savings services to its existing loan customers. In addition to making customers' lives more financially stable, offering savings services made good business sense for Cashpor as it helped ensure customer stickiness or retention – and therefore lower turnover of customers.

MFIs in India, however, are not allowed to directly mobilize deposits. Cashpor and its longtime partner Grameen Foundation, therefore, saw the BC model as a channel to offer saving services to its customers. Grameen Foundation aimed to explore how the BC Model could be developed so that it served the poor in a financially and operationally sustainable manner. Since sustainability of the BC model is a major concern for all stakeholders, Grameen Foundation sought to understand whether leveraging existing infrastructure to offer BC services and incurring only marginal costs could ensure viability. It is important to understand at the outset that Cashpor does not view the sustainability of its BC services purely in terms of its financial viability.

In this context, this case study examines Cashpor's BC model and draws lessons about the financial viability and sustainability of the BC from the experience of Grameen Foundation - Cashpor's experience. Grameen Foundation has been supporting Cashpor, a credit-only MFI, in its transformation into a BC that allows it to offer savings services to its customers and low-income populations in the geographies where it works.

In subsequent sections, we present the current status of Cashpor's BC business and describe the infrastructure used to deliver its services. This case study analyzes the financial model in terms of marginal costs incurred and the revenue earned. It studies the strengths and weaknesses of Cashpor's business model and attempts to arrive at some general principles that BCs need to adopt in order to attain financial viability.

Cashpor Savings Operation Details (as on March 2013)

| | |
|---|---|
| Number of Districts covered | 8 |
| Number of Savings Accounts Opened | 123,426 |
| Cumulative Savings Mobilized | INR 105,637,098 |
| Average Savings per depositor | INR 248 |
| Active Accounts | 102, 217 (83%) |

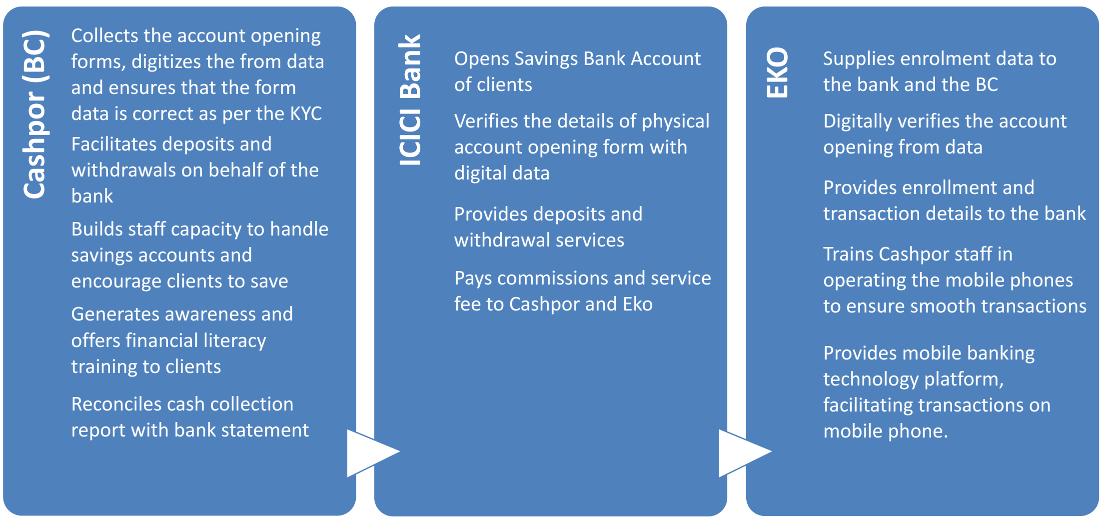
Instead, it primarily takes into account the usefulness of the savings service offered to its customers, who lack any formal saving mechanisms. Cashpor is guided by the 'total customer profitability' concept in offering savings services whereby the total costs of providing a basket of financial services to the customers is covered through total revenue from that customer.

The Grameen Foundation-Cashpor team conducted initial customer-level research, and learned that 20% of Cashpor's customers owned a mobile phone, 60% had access to a mobile phone and 20% did not have access to a phone. Moreover, Cashpor was already using the mobile infrastructure for their credit business. The Grameen Foundation -Cashpor team, therefore, eschewed other technology options such as Point of Sale (POS) handheld devices or those that work with biometric finger print identification. It was clear that the technology used for the BC operations should be mobile-based, as it would be most cost effective and simple to deploy.

Armed with this customer knowledge, Grameen Foundation worked with Cashpor to create a three-way partnership between Cashpor, ICICI Bank and Eko India Financial Services Private Limited (Eko) in July 2011 to provide saving accounts to Cashpor's customers. In this model, Cashpor acts as the BC for ICICI Bank, using its extensive last mile field network to originate and service NFAs. The services are delivered with support from Eko, the technology partner. Eko was chosen as it was found to be the most nimble and responsive mobile-based technology provider. Infact, Eko's responsiveness has been a contributing factor in achieving the present scale. (See figure 2.1 for details on role of each partner)

Grameen Foundation has been directly supporting Cashpor in five key areas of its savings operation - project management, change leadership, market research and product design, information technology and marketing and financial literacy. Cashpor utilizes its existing credit infrastructure of branches to offer saving services. Its center managers double as CSPs.

**Fig 2.1 : Role of Each Partner in the Model**

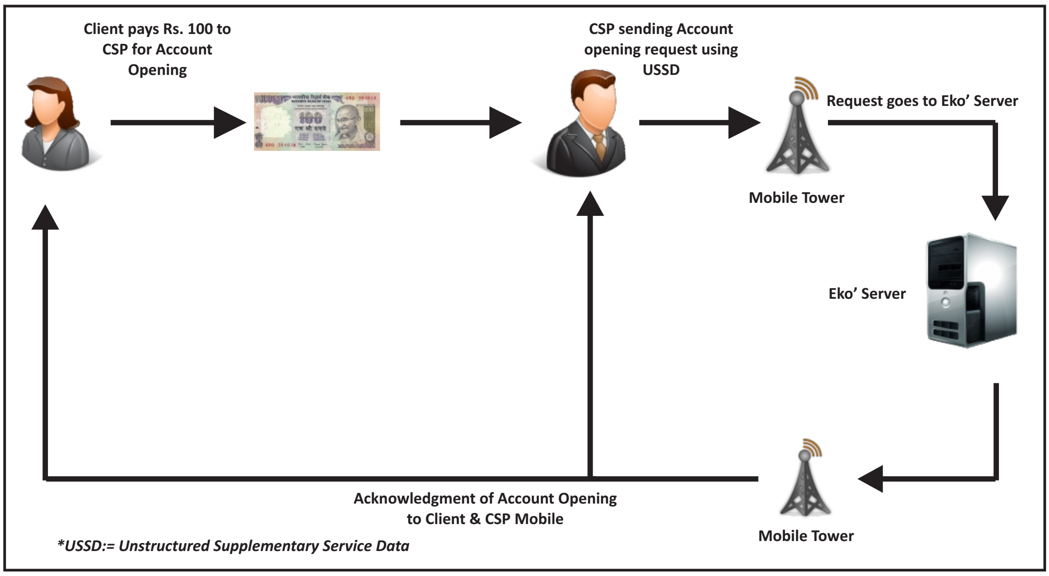


## Account Opening Process and Fees

In its initial phase, Cashpor's CSPs focused on encouraging their customers to open savings accounts. The process for enrolment and subsequent transactions is depicted in Figure 2.2. Customers pay INR 100 (~US$ 1.68) as account opening fees. On receiving the amount, the CSP sends an account opening request which is received by Eko's server. The customer and CSP receive an account opening intimation on their respective mobile phones via an SMS. The account is now ready for use, subject to meeting the KYC norms of the bank.

Customers must also pay transaction charges each time they deposit or withdraw from their savings accounts. For this, they can either pay lump-sum, where an additional INR 50 (~US$ 0.84) is charged per customer per year for conducting unlimited transactions. Alternately, customers can pay each time they transact, and are charged INR 2 (~US$ 0.03) for every transaction. Customers can deposit and withdraw their money either during the weekly center meetings which the loan officers/CSPs conduct, or visit the nearest Cashpor branch.

Fig 2.2: Account Opening/Deposit Transaction Flow Chart




Cashpor earns revenue through commissions paid by ICICI Bank. ICICI Bank pays INR 20 (~US$ 0.33) to Cashpor for every new account and INR 1 ( US$ 0.02) for every transaction undertaken by the customer..

In order to motivate and incentivize its CSPs, Cashpor shares a portion of this income with them – INR 5 (~US$ 0.08) per savings account opening and INR 0.20 per transaction for withdrawal or deposit

# Section III:

## Analyzing the Business Model

This section examines costs that are incurred in running the savings operation as well as the trade-offs and decisions that have significantly impacted costs. It also analyses the sources of revenue and proportion of revenue generated by each source.

### *Revenue*

Cashpor's savings program revenues are commissions that it receives from ICICI Bank, with three drivers: - new accounts, transactions and float (balance maintained in the accounts).

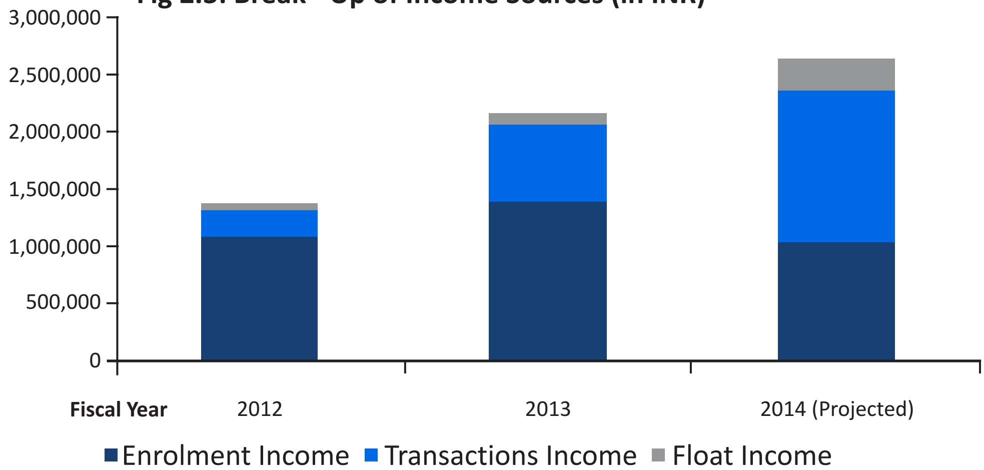
**Commissions from enrolments/account opening** constitute 64% of the total revenue in FY 2012-13 (See figure 2.3). It is, however, expected to drop to 39% in FY 2013-14. This drop in commissions from enrolment is linked to the projected drop in expected enrolments as Cashpor saturates its credit customer base in the 8 districts, where it currently has its savings operation – over 55% of the credit customers in these districts now have savings accounts. New credit customers that Cashpor engages with each year will constitute the potential target market for the savings operations too.

**Income from transactions** is currently the next most significant portion, but is projected to overtake revenue from enrolments in FY 2014-15. It includes commissions paid by the bank for each withdrawal or deposit made by the customer.

In contrast to enrolments, income from transaction is projected to increase from 32% of total revenue in FY 2012-13 to 51% in FY 2014-15. This projected increase can be attributed to the increase in number of customers and therefore a higher number of active account holders. Also, as the market for enrolments saturates, income from transactions will form a higher proportion of revenues.

Interestingly, income from withdrawals account for a mere 3.5% of the total revenues in FY 2012-13, and even in the current fiscal year (2013-14) this trend is expected to continue with withdrawals accounting for only 5% of the total income. This is because transactions for withdrawals are significantly less frequent than deposits. The ratio of withdrawal to deposits per customer per month is 1:9; in other words, the average number of deposits per active customer is 0.77 per month as opposed to 0.10 withdrawals per customer per month. Withdrawals, however, are made for bigger amounts. Despite this, as of March 2013, cumulative withdrawals have been only 53% of the cumulative deposits. Considering that these customers (mostly poor women) struggle to make ends meet, this finding demonstrates that the savings accounts may be providing customers a safe and secure place to save.

Fig 2.3: Break - Up of Income Sources (in INR)



**Income from float**, the final revenue source, comprises the commission that the bank pays Cashpor on the basis of the savings account balances maintained by the customers. The current float rate is 0.5% per annum on a quarterly average basis (QAB). Even though income from float accounts for around 5% of the total revenue, it is important to note that in actual terms the income has more than doubled during FY 2012-13 and this growth trend is expected to continue in FY 2013-14 (See figure 2.4).

### *Costs*

Since Cashpor has leveraged its MFI infrastructure and staff to offer BC services, we consider only variable costs that go into the running of the savings program for the purposes of this analysis. This approach reflects the way Cashpor currently envisions the financial sustainability of its savings product. In this project, variable costs primarily comprise staff incentives, salaries paid to the staff in the account opening department, staff training and administrative costs (see figure 2.4)

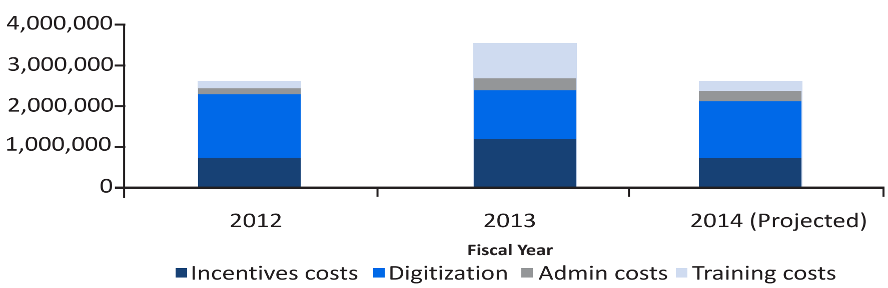
**Staff incentives** comprise commissions paid to the CSPs, their supervisors and the head office staff or the new accounts they open and transactions they facilitate. This ensures that everyone - from CSPs to the staff at the head office - is incentivized and invested in ensuring the success of the savings operation. Overall, incentives accounted for 28% of the total recurring costs in the fiscal year (FY) from April 2012 to March 2013. As training costs decrease, the relative weight of expenditure on incentives is projected to increase and will be around 36% of the total costs in FY 2013-14.

**Salaries to staff engaged in managing the account opening process** form the next significant portion of total costs. Since this staff also works for Cashpor's pension services, only half of their salary costs are booked under the savings project. Despite this, staff costs in the account opening department account for 62% of the total costs in the first year of the project. Although its percentage share in costs dropped to 41% in FY 2012-13, it is still projected to account for around 47% of the total expenditure until 2014.

**Capacity building of staff through training** formed the third significant head of cost, particularly in FY 2012-13, when it accounted for one-fourth of the total costs (see fig 2.4). Cashpor decided to actively invest in training the staff on the nuances of the savings operation, as it was a new concept for them. With the introduction of savings services, center managers needed to build skills on the product as well as in customer engagement.

Training sessions were organized for staff at all levels, and Grameen Foundation partnered with MicroSave, Eko and ICICI Bank to deliver them. Exposure visits were organized for the heads of savings and training as well as branch managers to pilot projects of Eko and ICICI Bank to understand how the model worked in other places. Grameen Foundation conducted change management and leadership training for the senior and middle management at Cashpor. Regular Training of Trainers (ToTs) for Cashpor's training department was organized to guide them on the best ways to deliver the training.

**Fig 2.4: Total Costs Break-up (in INR)**



Training sessions to help the field staff handle problems which they encountered regularly on the field were also organized. There are some interesting insights in the trade-offs that the Grameen Foundation-Cashpor team made with respect to incurring cost. For instance, investing in technology for managing the account opening process was an important decision for the Grameen Foundation-Cashpor team, it was a cost, but the investment paid off in terms of the successful scale up of the project, improving end to end processes, increasing accuracy of account opening form data, overall system efficiency and increasing the number of successfully migrated forms to ICICI Bank. Grameen Foundation's program lead, Santosh Daniel shares how this decision came about: “The project team faced severe early problems in managing the physical forms –forms went missing, there were multiple application forms from the same customer and high rejection of applications at each level. After attempting to bring some method to the chaos using excel work sheets, in February 2012, Grameen Foundation-Cashpor developed the software and automated the tracking of account opening forms to speed up the process and maintain customer interest and motivation in using their accounts. The Account Opening Form (AOF) Tracker tool ensures that every step of the account opening process and every form can be tracked.” Over the last two years, the model shows that the benefits of investing in this technology and the staff that support it far outstrip the recurring salary costs. Form rejection levels have dramatically come down from 29% to less than 1% at ICICI levels, demonstrating the efficient working of the system.

Similarly, the team's focus on capacity building was another trade-off. Although training has a cost implication in the initial years of the project, Grameen Foundation-Cashpor views them as a necessary investment that laid the foundation of a successful BC model. Such concerted capacity building of the staff enabled the saving operations to reach more than 120,000 customers, of which more than 80% are active.

### *Projections for the Year Ahead*

In order to see how the savings program will roll out in the year ahead, the Grameen Foundation-Cashpor team estimated future costs and revenues in FY 2013-14. As the above analysis indicates, the BC model is cost intensive, and requires heavy initial investments in capacity building and technology, as well as to set up processes and modify them in tune with the field realities. In its initial 20 months (July 2011 – March 2013), this project too has delivered lower revenues than costs incurred. As per projections, incremental revenues generated will be able to meet incremental costs in FY 2013-14. Cashpor's BC operations will then be able make nominal profits (See fig 2.5), despite significant reduction of enrolments.

Interestingly, total annual marginal costs are expected to fall from INR 3.5 million (~US$ 58,866) in FY2012-13 to INR 2.4 million (~US$ 40, 363) in FY2013-14. This cost reduction is mainly a result of scaling operations; the number of accounts increase while processes such as automation and mitigation of dormancy are stabilized. This drives an overall increased efficiency of the model. As evident from figure 2.6, the cost of servicing an account is projected to fall from INR 45 (US$ 0.75) in FY 2011-12 to INR 13 (US$ 0.21) in FY 2013-14. This clearly demonstrates that scale and efficiency will be critical to achieving profits and making the model sustainable in the coming fiscal years.

**Fig 2.5: Profit/(Loss)July 2011 - April 2014 (in INR)**

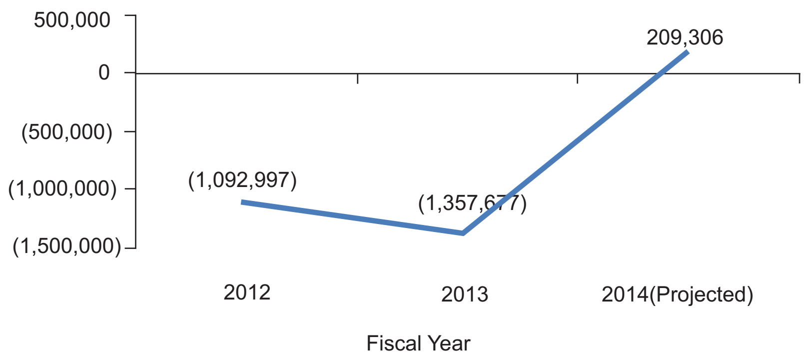
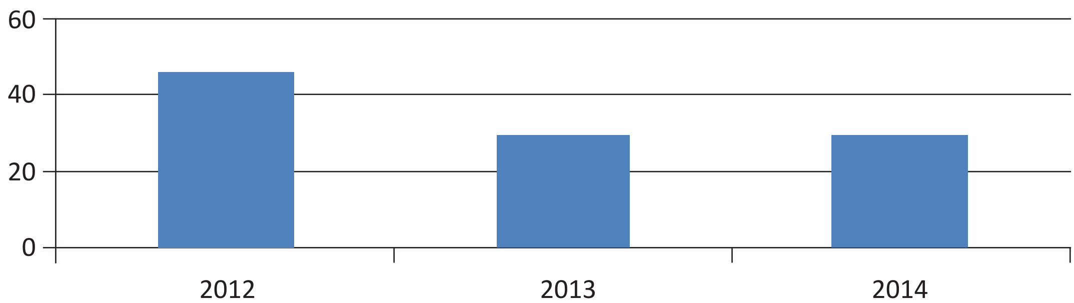



**Fig 2.6: Average Cost of Servicing an Account (in INR)**



# Section IV:

## Strengths and Weaknesses of the Model

In order to develop a comprehensive understanding of the model and determine its financial viability, it is important to take stock of the strengths that would help it become sustainable and weaknesses that need to be improved upon.

**Customer centricity and human touch** have always been the driving concern of the Grameen Foundation-Cashpor project. Cashpor believes that customers are the single most important stakeholder in the BC model and understanding customers' pain points and addressing them will ensure the success of the project.

The investment in technology to manage the account opening forms not only streamlines processes for the BC but also ensures quicker account opening for the customers. Financial literacy efforts not only serve to aid CSPs in engaging with customers but also help customers in making informed decisions about their choice of saving services. Customer centricity in decisions when perceived and experienced by customers helps long term success and sustainability of the BC model.

**Established reputation and high business interest in the operation area** is a key strength of the model. Customers generally mistrust new savings schemes or products and are not keen to deposit their savings even after they open the bank accounts. Cashpor's existing relationship helped in customer enrolments and relationship management as it has been active on its credit front in the operation area for almost a decade. Building customer confidence and trust is an ongoing and continuous process, and over the years customer trust has been won through positive experiences with Cashpor.

**Use of existing MFI infrastructure** helps in keeping costs down and increasing outreach. BC is a low-returnsmodel dependent on only commissions paid by the banks for its revenues. Therefore, in order to ensure financial viability of the model, it is imperative to keep the fixed and the operating costs low.
Cashpor's usage of the existing MFI infrastructure ensures that only marginal costs are incurred for BC services. It has leveraged existing staff from other operations for the savings program, with the exception of the staff in the Account Opening department. The center managers double as CSPs, and their MFI experience in handling cash helps in facilitating saving transactions.

**Streamlined back-end and front-end technologies and sound risk management systems** facilitate an efficient BC model. Cashpor effectively leveraged technology to automate processes. Its BC model uses mobile technology, which does not require large investments at the customer or Cashpor's end. Most customers already own or have access to mobile phones.

**Trust & Customer Service – Keys to a Successful BC Model**

For the past 8 years, Noorjahan and her group of 24 friends have been part of the Cashpor's BX Dhamariya Center. They meet every week to repay the loans that they have taken from Cashpor for income generating activities ranging from saree weaving, tailoring to running a small shop. All 25 women in the group have opened savings bank accounts, and save regularly.

The members recall that they readily opened the savings bank account as they had trust in Cashpor due to their longstanding relationship with members had a bank account. We thought that bank accounts were meant only for the rich." She further elaborates, "As there are no restrictions on the amount of deposit, we generally deposit any money leftover after we pay the loan installment (for example, if they have to repay INR 470 as installment, the members generally get a INR 500 rupee note, and save INR 30 each time they repay the installment)."

Even in the back-end, automating highly error prone excel based manual processes to track the forms has helped in significantly reducing the time taken to open accounts. Cashpor also adhered to processes that effectively managed risk. The center managers are empanelled as CSPs after a thorough due diligence by the bank. Cashpor has strong accounting procedures to control fraud and manage other risks, and this has helped their BC operations.

**As with every business model, there are certain weaknesses that impede enrolments and transactions**. Cashpor has identified these bottlenecks and is working with its partner organizations (Grameen Foundation, ICICI Bank and Eko) to resolve them. Improvement in the design of the savings product is one such area. The account opening charge of INR 100 and the cost of transaction act as a big deterrents for customers to frequently use their account. Customers have the option of either paying INR 50 (~US$ 0.9) per year for unlimited transactions or INR 2 (~US$ 0.03) per transaction.

Since most customers are poor women, who would like to save small amounts frequently, the transaction cost is a concern. Cashpor has been in talks with ICICI Bank to reduce these costs to the end users. The model also needs to explore greater integration with core banking and widening the products on offer to provide better services to customers. Cashpor is also in talks with other banks to explore better alternative products for the customers.

**Marginal costs exceed income even when superimposed on an existing infrastructure, for the first couple of years.** This is a critical weakness of Cashpor's BC model. Funding this revenue gap is an imperative to make this model a success. Cashpor was able to cross subsidize its savings operation through its credit operations as it is guided by the 'total customer profitability' concept in offering savings services, where they want that the total costs of providing a basket of financial services to customers should be covered through the total revenue from that customer. Support and grant funding from Grameen Foundation also played a significant role in covering start-up costs such as capacity building of staff, automation of the account opening process and salaries of the project management staff.

# Section V:

## Conclusion

Financial viability is a major concern for BCs as its facilitation requires a long gestation period. Insights from the Cashpor project show that leveraging existing infrastructure, rather than creating a parallel BC infrastructure helps not only in keeping the fixed costs low but also proves beneficial in acquiring customers for the savings operation. Moreover, MFIs like Cashpor who have an understanding of the financial inclusion space, a ready customer base and robust risk management systems have the necessary prerequisites to run a successful BC.

The Grameen Foundation-Cashpor project team took targeted measures such as financial literacy campaigns, automation of account opening forms, and capacity building of staff to reduce dormancy. Once Cashpor saturates its market of credit customers, transactions become the main source of income. Therefore, it is crucial to improve the customer experience, as customers will only avail of the services that add value and are useful to them. Creating customer confidence and trust in the BC is essential in addition to continuous product innovation. In addition to customer centricity, capacity-building of BC staff is of equal importance. As shown in the section on costs, staff capacity building was the largest cost component. Cashpor believed that investing in staff training was imperative for the success of the BC project as their credit-focused staff had limited knowledge of how to offer saving services.

Selection of appropriate partners also played a crucial role in the smooth running of the BC operations at Cashpor. Venturing into nascent territory as they were, establishing a market for savings products in low-income communities meant that they needed partners with a similar alignment of interests. Cashpor's partnerships with Grameen Foundation, Eko and ICICI have been built on just such shared goals to reach more unbanked people and guide them into the mainstream through innovative channel approaches.

This business model has emerged as a win- win for ICICI Bank, Eko and Cashpor. For Eko, it is the largest deployment of its technology outside Eko's own BC projects, and therefore, has helped it achieve scale. ICICI Bank has been able to test a non-subsidized branchless banking model and has been able to successfully reach out to more than 100,000 customers in rural areas. Through this project Cashpor has not only been able to provide saving services to more than half of its customers in eight districts, but also gather valuable insights in the process of implementing this project that could aid scale up of the program to other areas and customer groups.

Bcs are part of an ecosystem and their financial viability is also dependent on other stakeholders such as banks and policy makers. Given that the BC model is cost intensive and delivers low returns in the initial years, support from these stakeholders is critical for the BCs to meet their costs and become sustainable. BCs need to be encouraged to offer an array of financial services, particularly by layering BCs on top of an existing infrastructure such that only marginal costs are incurred. Insights from the experience of BC models such as Cashpor need to be incorporated in the wider discourse on financial inclusion in general, and BCs in particular to achieve the desired financial inclusion goals.

# Annexure I:

## About the Project

An estimated 145 million people in India are unbanked. Only 55% of Indians have a deposit account in a bank and a mere 9% have credit accounts. Less than 20% of individuals own any kind of life insurance and less than 9% own any other type of insurance. Last mile reach and appropriate products are major challenges in financial inclusion, and the RBI is trying to correct this through various policy measures such as promotion of No Frill Accounts (NFAs) in 2005 and the technology driven Business Correspondent (BC) Model in 2006.

As part of this initiative, Grameen Foundation has been engaged in a three-year project to assist Cashpor in its transformation from a credit-only MFI into a BC. Grameen Foundation India launched a three-way partnership with Cashpor, ICICI Bank and Eko Technologies to provide saving bank accounts to Cashpor's customers. In this model, Cashpor acts as the business correspondent for ICICI Bank, using its extensive field network to originate and service the NFAs.

Small savings solutions have a big impact on the underserved. Goddi lives in Dewhai, a small village 75 km from Varanasi. She is 30 years old and is married and has four children. She and her husband own six buffaloes, and earn an income by selling milk. Goddi first heard about Cashpor from her fellow villagers. She needed money to invest in the farm and to buy animals, so gaining access to credit from Cashpor was a good fit. A few months ago, a Cashpor field officer told her about its savings account and how it could help her to save in order to provide security for her family.

Goddi didn't think twice about it – she opened an account immediately and began depositing her savings there. She puts money in her savings account every week, even if she only has 10 rupees ($0.20) to deposit. This is her first savings account at a bank; before this, she used to hide money in rice bags, and rats would occasionally get into the bags and eat her money. With h er savings account at Cashpor, Goddi can be assured that she is saving money in a safe place and can access it if she chooses to grow her business or needs to pay for an emergency expense.

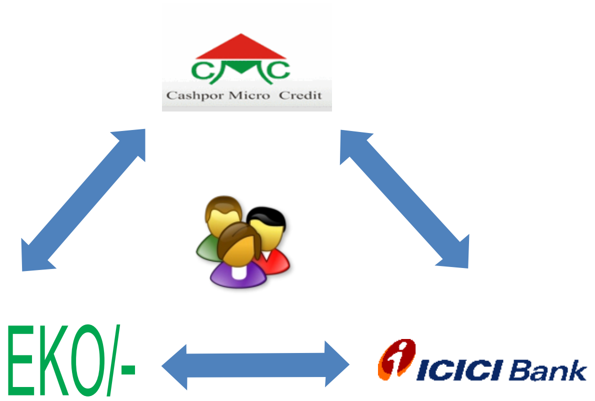
The BC model has, since then, become an important component of the financial infrastructure in rural India, and has become the primary channel through which NFAs are offered. As of March 2012, a total of 96, 828 customer service points (CSPs) have been set up in villages that have no banks. We, at Grameen Foundation, saw an opportunity to provide savings services to the poor leveraging the business correspondent approach and mobile savings solutions.

Grameen Foundation's Microsavings Initiative, a three-year project funded by the Bill & Melinda Gates Foundation, is working to enhance access to safe, flexible and convenient deposit accounts for poor households by building poverty-focused savings programs at microfinance institutions.

The services are delivered using the technology partner, EkoIndia Financial Services Private Limited (Eko)'s mobile-enabled system in coordination with Cashpor and ICICI's back-office.

Cashpor has used its existing branches and infrastructure to deliver saving services. Its center managers also act as CSPs. These CSPs need to undergo a verification process and be empaneled by the bank. Cashpor customers can open their NFA and make deposits and withdrawals during weekly center meetings, which are facilitated by the center managers (empanelled CSPs) using the mobile phone. They can also check their balance at any time via the phone. Customers can also withdraw and deposit money at Cashpor branches.

Grameen Foundation has conceptualized and initiated this project to facilitate saving services to the poor in India, who have limited avenues to save. It is managing the project at the BC level, and supporting Cashpor to transition from an MFI providing credit only to an organization that is offering a range of financial services to the poor, including savings, in a sustainable manner. Below are some of the areas where Grameen Foundation is directly supporting Cashpor. Grameen Foundation's aim is to explore how the BC Model can be developed so that it is able to serve the poor in a financially and operationally sustainable manner.

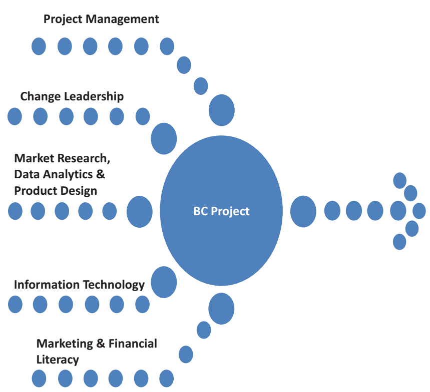



**Grameen Foundation's Role in the Project**

According to a Sadhan study on the efficacy of the BC model, Cashpor is one of the successful models the study encountered. The study highlights captive customers, low cost technology and usage of existing Cashpor infrastructure to provide BC services as some of the reasons for this success.

## Impact

The enrollment numbers in the project demonstrate that the initiative has helped meet the demand for a reliable and safe place for Cashpor customers to keep their money. The savings service is offered at 131 branches in eight out of 20 districts that Cashpor operates. As of March 2013, more than 120,000 customers have opened accounts with an average of with an average savings balance per member of INR 248 (~4.16)




**Project Management:** Ensures that all aspects of our work are integrated as we facilitate the entire process required for credit-only organizations to offer savings products.

**Change Leadership:** Facilitate changes required to transforms Cashpor from a credit-only institution to one that incorporates savings through appropriate interventions such as capacity building of staff.

**Market Research & Product Development:** Focuses on qualitative and quantitative market research, which is critical to designing the right product to meet the needs of poor clients

**Data Analytics:** Helps Cashpor better understand their client base through usage of tools such as the progress out of Poverty Index (PPI).

**Information Technology:** Focuses on the front- and back-end technology changes required to successfully offer a mobile-based product.

**Marketing and Financial Education:** Involves designing and helping Cashpor implement effective financial literacy tools which increase participation in the savings project.