ADDRESSING DORMANCY IN SAVINGS ACCOUNTS:

INSIGHTS FROM THE CASHPOR BC PROJECT

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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.

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EXECUTIVE SUMMARY

India is home to the world's largest unbanked population.[1] Over the last decade, the Government of India has taken various policy measures to promote financial inclusion, including the introduction of the business correspondent (BC) model. These policy measures, however, have fallen short of achieving the desired levels of inclusion as banks, which are the most important stakeholder in the inclusion drive, are yet to see this as a business opportunity. The focus, therefore, has been primarily on providing access and not on usage of accounts by the poor.[2] Low or no usage of accounts – known as dormancy – has emerged as a major barrier to mainstreaming the unbanked into the formal banking system.

This case study focuses on Grameen Foundation's experiences in handling the issue of dormancy[3] in the BC model. 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. As part of this initiative, Grameen Foundation has engaged in a three-year project to assist Cashpor in its transformation from a credit-only microfinance institution (MFI) into a MFI-BC institution. This case study highlights specific measures taken by Grameen Foundation's team in countering dormancy at Cashpor and draws lessons from the same for other BC projects.

The BC model has contributed significantly to establishing financial infrastructure in underserved areas and has become the primary channel through which No Frills Accounts[4] (NFAs) are offered.[5] Evaluation of their progress, however, suggests that a significant number of new customers acquired by BCs become dormant. While there is no single definition of dormancy, it is estimated that at a country level, a mere 20% or less of the 100 million NFAs opened so far are active. Dormancy is a concern as it indicates that the newly banked are not using their accounts and therefore are not effectively leveraging opportunities to climb out of poverty. The most common issues cited for dormancy in NFAs serviced by BCs include lack of financial literacy and customer education; the cost of opening an account and account transactions; long processing time in opening new accounts; and lack of a suitable product.[6]

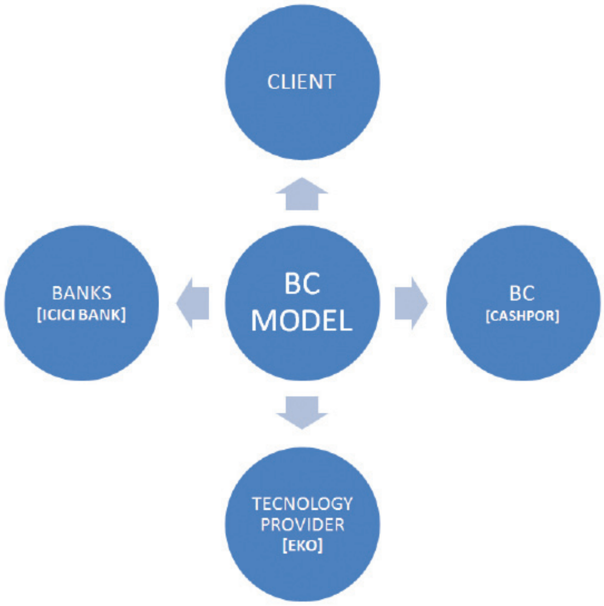


Fig 1.1: Cashpor's Business Correspondent Model

In June 2011, Grameen Foundation launched a partnership with Cashpor, ICICI Bank, and Eko Technologies to provide savings accounts to Cashpor's clients through the BC model. Although Cashpor's dormancy rate is very low compared to industry standards (approximately 20% at Cashpor compared to an industry average of 80%[7]), it is still a concern for the project as it dilutes the impact of providing saving services to the unbanked.

Grameen Foundation's efforts to reduce dormancy are a work in progress, and this case study presents some early insights from the project. In order to measure dormancy, the Grameen Foundation team categorized and analyzed accounts that were dormant. It then initiated specific measures to mitigate dormancy. Over all, these early efforts appear effective, as accounts dormant for 180 days or more reduced from 34% in September 2012 to 18% in February 2013. We have identified the key lessons from this project thus far:

Client experience is paramount: Clients are the single most important stakeholder in the BC model. The Grameen Foundation-Cashpor project team[8] found that identifying and addressing clients' pain points with their accounts helped mitigate dormancy. For instance, the time taken to open accounts is directly linked to clients' interest in actively using the accounts. To ensure that the time taken to open accounts does not inhibit clients' subsequent use of their accounts, ICICI now permits clients to make transactions as soon as accounts are opened, without waiting for documentation to be completed and approved. Clients only need to ensure that the required documents (Know Your Customer (KYC) and application forms) are registered with the bank within 90 days.

Targeted and specific financial literacy efforts: Knowledge of the savings product enhances client experience. While clients understood some parts of savings accounts, financial literacy training also helped clients to better use their savings accounts, particularly for first-time account holders. Additionally, special marketing programs for dormant account holders helped them understand the benefits of the product and encouraged them to transact.

Ease of access: Building client confidence and trust is an ongoing process, and trust can only be built through positive experiences. Encouraging clients to withdraw frequently and test the system helped them realize that their money was safe and accessible anytime. Access to deposits during emergencies, such as a health crisis in the family, also had a significant effect on building client confidence and trust.

Process innovation and technology adoption make the BC nimble: As customers and markets evolve, so should the BC model. Cashpor's flexibility and willingness to embrace technology[9] for simple operational processes helped modify its processes to address factors that cause dormancy. For example, Cashpor categorized dormant savings accounts under different buckets based on the period of inactivity, and then analyzed the data to design customized interventions that mitigated dormancy and also monitored progress. Cashpor also launched another successful initiative, the digital Account Opening Form (AOF) tracker, which helped streamline the account opening process. In addition to process innovations, the BC model's effectiveness and successful service

The Business Correspondent Model

In 2006, the Government of India adopted the technology-driven business correspondent (BC) 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 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, the 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.

delivery largely depend on the technology behind it. Apart from directly addressing technology-related reasons for dormancy, the project team also engaged with the technology provider, Eko, to train and help Cashpor staff understand how the technology and mobile devices work.

Banks can proactively mitigate dormancy:

In addition to the business correspondent's interventions (in this case, that of Cashpor), banks also have a role to play in reducing dormancy, particularly as it relates to appropriate product development, reduction in the cost of opening an account, and charge per transaction. Grameen Foundation and Cashpor continue to work with ICICI Bank to explore ways to modify product features that adversely affect account uptake and activity, while ensuring that it does not impact sustainability of the model.

Finally, in addition to the efforts by individual BCs and banks, policy level interventions such as the routing of government payments (in this case, the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) payments and social security pensions) through bank accounts may go a long way to addressing dormancy. Accounts which have been used to transfer benefits have seen more activity as compared to accounts opened only for savings. [10]

Although the purpose of the BC model goes beyond simply providing government-to-person (G2P) services, benefit-linked accounts encourage clients to use other BC services, in turn ensuring greater mainstreaming and financial inclusion of the poor.

SECTION – I

DORMANCY AND THE BUSINESS CORRESPONDENT MODEL

The business correspondent (BC) model has contributed significantly to establishing financial inclusion in underserved areas and has become the primary channel through which No Frills Accounts (NFAs) are offered.[11] Evaluation of their progress, however, suggests that a significant number of new BC customer accounts become dormant. While there is no single definition of dormancy, different banks have set their own criteria. For instance: ICICI Bank, classifies an account as inactive if there is no customer-initiated transaction for 24 months.[12] By contrast, the State Bank of India considers an account dormant when there has been no transaction for three years.

It is estimated that a mere 20% of the 100 million NFAs opened in India are currently active.[13] Dormancy is a concern because the financial inclusion goals established by the Government of India – and articulated by the Reserve Bank of India (RBI) through various policy measures such as BCs – cannot be achieved if saving accounts designed for the unbanked remain dormant.

Most NFAs are used to access payments from government-to-person (G2P) schemes such as the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA).[14] G2P recipients are more likely to become active users of their NFA with adequate financial literacy training. However, a very small percentage of account holders actually use their NFAs for small savings, which is the original purpose of these accounts.[15]

The most common issues cited for dormancy in NFAs serviced by BCs include low levels of financial literacy and education; long processing time of three to four months to open new accounts; the cost of opening an account; and the charges per transaction. For the last three years, Grameen Foundation has supported Cashpor in its transformation from a credit-only MFI to a business correspondent that offers saving services to its low-income clients. In July 2011, Grameen Foundation officially launched the partnership with Cashpor, ICICI Bank, and Eko India Financial Services Private Limited (Eko) to provide saving bank accounts to Cashpor's clients. In this model, Cashpor acts as the business correspondent for ICICI Bank, using its extensive field network to originate and service NFAs. The services are delivered with support from Eko, the technology provider.

TRACKING DORMANCY

In order to devise solutions to tackle dormancy, the project team categorized dormancy into different buckets, based on the number of days an account has not been active.

From February 2012 – August 2012, dormancy was tracked under five different buckets: 31-60 days, 61-90 days, 91-120 days, 121-150 days and >150 days. Accounts which were dormant for <90 days (first two categories) were classified as "soft buckets." Accounts which were dormant for > 120 days fell into the "hard bucket" category. The project team customized solutions to reactivate accounts in each category given the diverse reasons for dormancy.

The project team felt that lack of awareness and motivation negatively impacted transaction levels, so they organized targeted marketing campaigns for clients in the "soft bucket" category to make them aware of the benefits of saving and encourage them to make transactions. The marketing campaign included organizing special information stands in villages and towns, home visits, and discussions during center meetings on the benefits of using savings accounts. The team called on clients with accounts that were dormant for more than 180 days (the "hard bucket" category) to check if their mobile phones were still functional and whether they had any issues related to their SIM card.

This case study focuses on Grameen Foundation and Cashpor's experiences in handling the issue of dormancy. Like other BC projects providing savings accounts, dormant accounts are an impediment to the greater financial inclusion of the poor, as the unbanked are not using the saving services specifically designed for them.

SECTION – II

REASONS FOR DORMANCY AND MEASURES TAKEN TO ADDRESS THE MODEL

The project team started tracking dormancy seven months into the project, in February 2012. The team used a more stringent definition of dormancy than that used by the banks (see box for details) and classified accounts into "soft buckets" and "hard buckets" depending on the period of dormancy. By this definition, only 26% of the 46,241 savings account holders were in the soft bucket category and 15% were in the hard bucket category. These dormancy rates were much lower than the industry average of 80%.

While efforts to reduce dormancy remain a work in progress, the project team's early efforts, detailed below, appear to have been effective at increasing the number of active accounts and reducing dormant accounts (those inactive for 180 days or more) from 34% in September 2012 to 18% in February 2013. These dormancy figures (see figure 2.1) continue to be much lower than the industry average of 80%.[16]

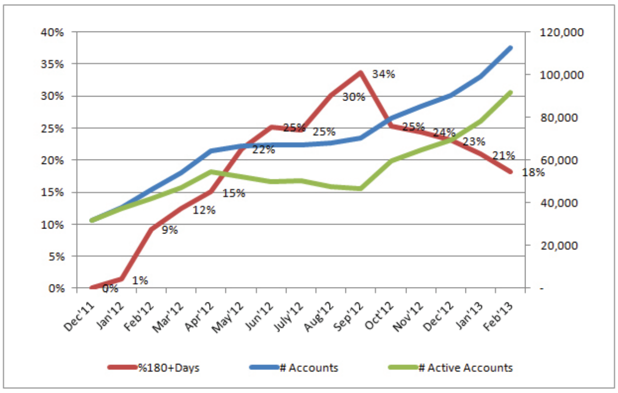


Fig 2.1: Total Accounts, Active Accounts and % of Dormant Accounts

Grameen Foundation and Cashpor's experience with the BC model shows that there is no single cause of dormancy; rather, dormancy results from a combination of issues related to account products, clients, and system processes. Similarly, the interventions that the project team undertook to address specific issues of dormancy have been able to positively impact other areas of the project as well. The measures used to reduce dormancy have been classified into supply- and demand-side interventions in this case study for the purposes of facilitating discussion on a complex and multi-layered issue. Most of the factors highlighted below are in line with the findings of studies[17] that analyzed dormancy in NFAs offered by BCs.

Demand-Side Factors

The project team identified a number of demand-side issues that exacerbated dormancy, including client-level issues such as the socio-economic conditions of clients, the need for a suitable product, and knowledge about the services and products offered. Grameen Foundation and Cashpor addressed these issues by designing interventions that focused on the confidence and capacity building of clients.

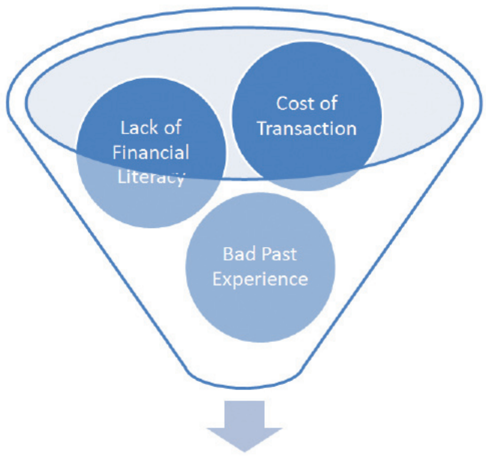


Fig 2.2: Demand Side Issues

Developing a customized financial literacy program: Cashpor's clients are all poor women. A majority of clients have never held a bank account and possess little knowledge of the benefits of saving in banks. This lack of financial literacy and inadequate knowledge of available services discouraged clients from depositing their savings into an account. After considerable market research, the project team developed a customized financial literacy toolkit that informs clients about the benefits of savings and provides them with information about the account options available, such as fixed deposits and recurring deposits.

Investing in continuous confidence building measures: Chit fund[18] frauds and fly-by-night operators are common in the small towns and villages of Uttar Pradesh and Bihar where Cashpor operates. Clients understandably mistrust new savings schemes or products and are hesitant to deposit their savings even after opening bank accounts. Building client confidence and trust is therefore an ongoing process that must be built through positive experiences.

Center managers took an interesting approach in gaining clients' trust by encouraging them to withdraw from their accounts frequently. This way, clients could test the system and experience firsthand that their money was safe and accessible. Access to deposits during emergencies, such as a health crisis in the family, also greatly helped in building the confidence and trust of account holders. Clients who heard of others accessing their deposits during a family emergency encouraged them to save as well.

Engaging in regular awareness building on technology: A client's savings account is linked to their mobile phone number, and clients' frequent changes of their mobile phone numbers further adds to the problem of dormancy. To address this issue, center managers began to regularly repeat the importance of retaining the same mobile number even if a client changed telecom service providers.

Finally, the cost of transactions deterred clients from frequently using their account. Clients have had the option of either paying INR 50 (approximately US$0.9) per year for unlimited transactions or INR 2 (approximately US$0.03) per transaction. Since most clients are poor women who would like to save small amounts frequently, the transaction costs continue to serve as an impediment to depositing savings often. Cashpor has been in talks with ICICI Bank to reduce these transaction costs for clients.

A Savings Account to the Rescue

Rajkumari Buddhu lives in Kaurouta, a village in Uttar Pradesh, in northern India. She shares a small mud-thatched hut with her husband, four children, two daughters-in-law and grandchildren. The family's livelihood comes from weaving clothes and selling them at the local market. When Cashpor introduced a savings program in her area, Rajkumari quickly enrolled so that she could save the small amount of money left after meeting household expenses.

On three separate occasions, the savings account has come to her rescue. One such occasion was when Rajkumari became sick with severe pneumonia and had to be hospitalized. After the first few days of treatment, paid for by her husband and sons, the hospital insisted on an additional INR 4,000 (US$75). By then, Rajkumari's family's resources were depleted, but she realized that she had some money left in her Cashpor savings account. With the IV still attached to her wrist, she traveled on her son's bicycle to the nearest Cashpor branch. It was almost 6 p.m., but to her great relief, she saw the Center Manager's motorcycle still parked outside. She immediately went over to him and withdrew her entire savings – INR 3,200 – from her account. She managed to borrow the remaining balance from her neighbor and finally paid the hospital to continue her treatment.

Supply-Side Factors

The supply-side factors affecting dormancy include issues related to the operations, processes, technology, and products that impact the delivery of services to poor clients. Some of these factors, such as the products being offered to clients, may be beyond the control of a BC but should still be highlighted.

Grameen Foundation and Cashpor took the following measures to address supply-side factors leading to dormancy:

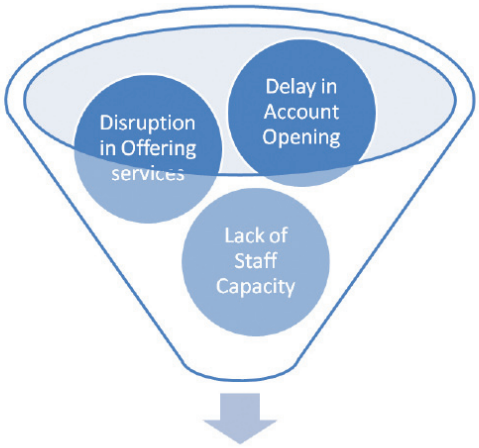


Fig 2.3: Supply Side Issues

Leveraging technology to significantly reduce the time needed to open accounts:

Through digitization of the account opening form, Cashpor was able to significantly reduce the time taken to open savings accounts. Initially, processing savings account applications took anywhere from 60 to 120 days, since the account opening forms first had to be transferred from remote villages in Uttar Pradesh and Bihar to the Cashpor branch office to be checked for accuracy, and then to Cashpor headquarters in Varanasi where they were aggregated before being sent to the ICICI Bank headquarters in Hyderabad. ICICI Bank would then conduct their own checks. In addition, Eko had quality checks as well. Incomplete or inaccurate application forms were sent back to clients.

The long interval between applying for an account and being able to make a transaction understandably had a negative impact on the successful uptake and use of accounts, as it let the momentum of a marketing drive slip away and did not create a good first impression for the clients. The project team also faced problems with multiple application forms from the same client and a high rejection of applications at the various offices. In response to these issues, Grameen Foundation and Cashpor started digitizing the account opening forms to expedite the process and maintain client interest and motivation in using accounts. An Account Opening Form (AOF) tracker tool was developed, which helped track movement of forms and eliminated duplication, thereby reducing the time taken to open accounts from a few months to 20 days.

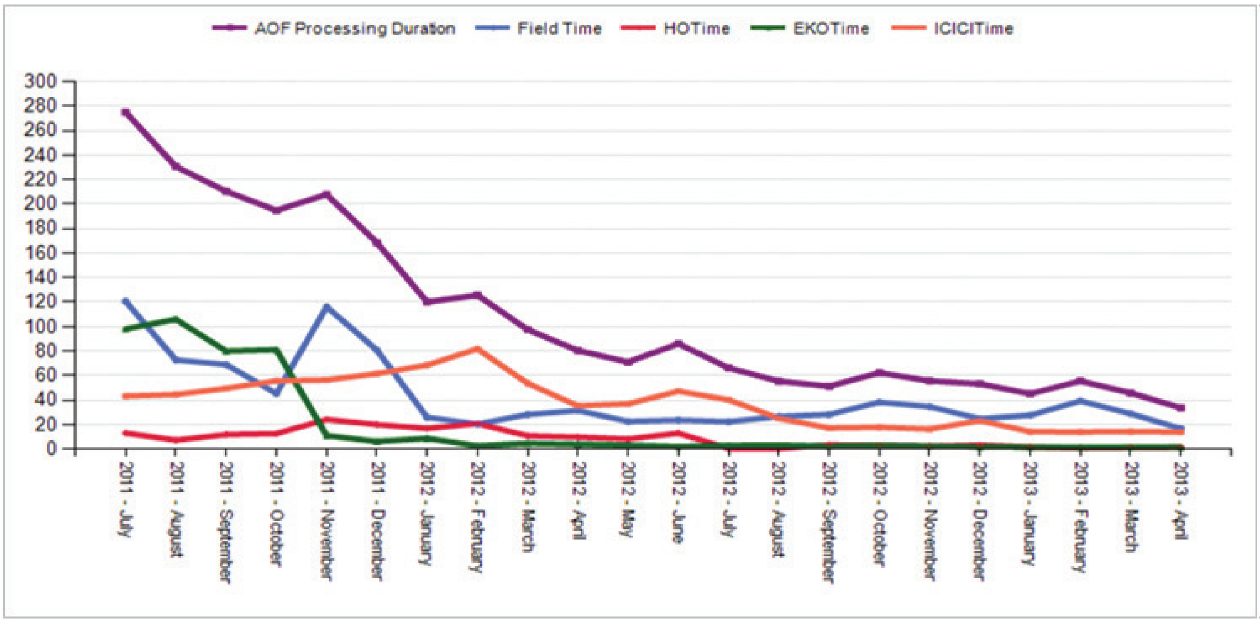


Fig 2.4: AOF Processing Duration

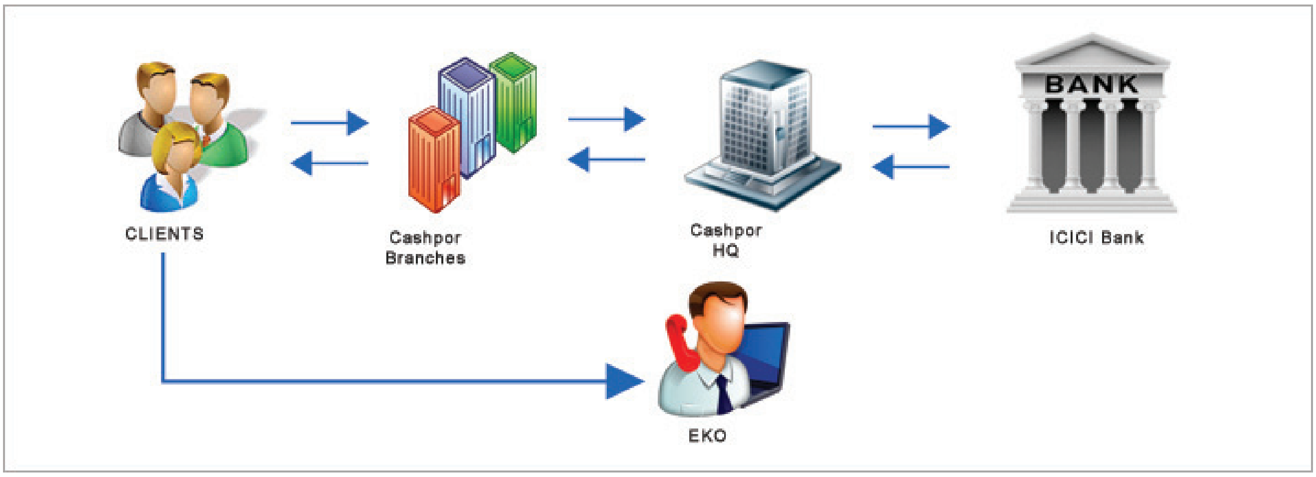


Fig 2.5: Account Opening Process

The figure above shows the journey of the account opening form before an NFA is opened. The form first travels from clients in the remote villages of Uttar Pradesh and Bihar to Cashpor branches, where they are aggregated and sent to Cashpor headquarters in Varanasi. The team working with the AOF software is located in Varanasi, where they feed the details of each form in the AOF, generate an Excel sheet which contains all available details of the applicant, and then share it with Eko, the technology partner. Eko electronically logs in the client data the day a clients completes an account opening form.
Eko verifies that the information is correct and then sends the Excel sheet back to Cashpor with its feedback. Cashpor passes on the completed forms to ICICI Bank headquarters in Hyderabad so that the account can then be opened. At each stage, the forms are verified and incomplete forms are sent back to the client for completion.

As Figure 2.5 demonstrates, the process of opening an account is complex. The AOF tracker tool ensures that every step of the account opening process and every form can be tracked. Figure 2.6, generated from the AOF tracker tool, provides a cumulative summary of the account opening process in the project, illustrating the total number of clients enrolled in April 2013 and the percentage of forms that have been filtered at each level. The fact that form rejection levels are very low at Eko (less than 1%) and ICICI (4.2%) also demonstrates that strong quality checks have been established at Cashpor. With enhanced technology and processes in place, 79 percent of all clients enrolled in our microsavings initiative have now opened accounts.

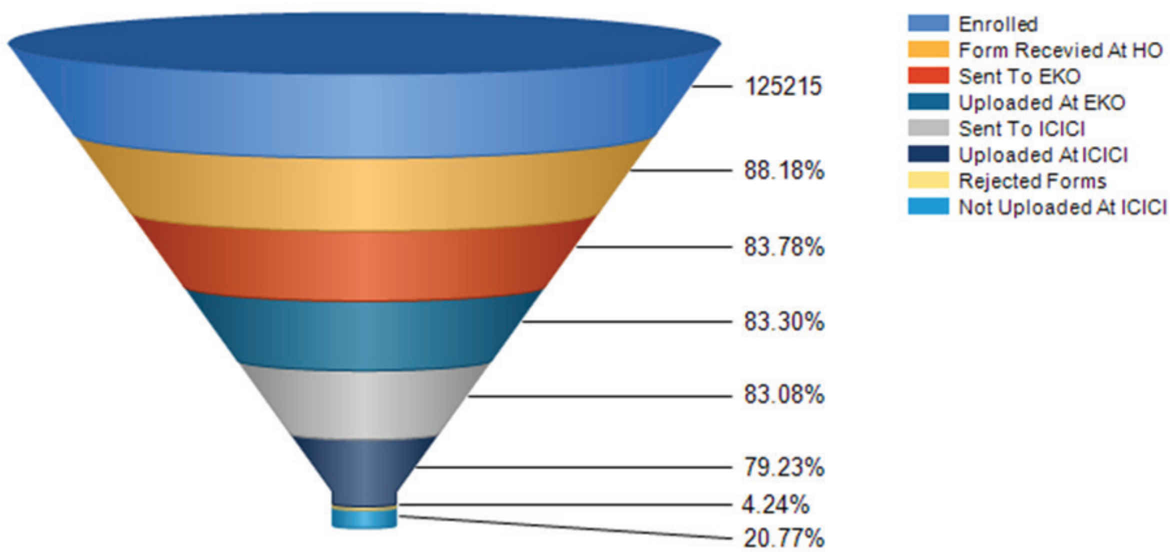


Fig 2.6: AOF Comulative Summary

Managing agent networks to ensure continuous and timely withdrawals and deposits: Early on in the project, withdrawal and deposit services were delayed due to the time taken to conduct the empanelment of the Customer Service Point (CSP) center managers. Cashpor's arrangement with ICICI Bank required that CSPs be registered with the bank. Since not all Cashpor branches offered savings products, and Cashpor routinely transfers center managers to different branches, not all center managers were empanelled. Initially, when a center manager moved from a branch not offering savings to one that did, the empanelment process[19] started only after the transfer. This led to a delay in services to clients, as non-empanelled CSPs were not allowed to offer saving services.

In order to reduce delays and interruptions in services, Cashpor began empanelling center managers with ICICI Bank in advance by assigning a dedicated Cashpor resource for CSP empanelment. This person is responsible for coordinating with the human resources department and ensuring that center managers are empanelled before they are transferred to branches offering savings. Cashpor is now empanelling staff in non-savings districts as well.

Building staff capacity to offer saving services: Prior to the microsavings initiative, Cashpor was a credit-only MFI, so its staff did not have the skill set or training necessary to offer savings services. With the start of the microsavings project, center managers now had to actively recruit clients for savings, rather than having clients come to them for loans. These new responsibilities required training to help center managers adjust to their new role and help motivate clients to save. This capacity building helped to increase the initial slow uptake in accounts and transactions in the first months of the project.

Grameen Foundation has also designed a comprehensive capacity building program that helps staff develop the skills required to understand the BC model, the savings product and the technology behind it, and enhanced sales and customer service techniques. Grameen Foundation partnered with MicroSave, Eko, and ICICI Bank to deliver these training sessions. Grameen Foundation also organized exposure visits for senior savings, training, and branch managers to Eko and ICICI pilot projects to better understand how the BC model works in other places. In addition,Grameen Foundation conducted regular Training of Trainers (ToTs) sessions at Cashpor to guide staff on the best ways to deliver training to field staff, as well as change management and leadership training for Cashpor senior and middle management.

Savings Ka Sultan

One of the primary objectives of the "Sultan of Savings" incentive scheme was to reward staff who demonstrated the ability to balance enrollment and transactions within their aggregate pool of customers. These parameters ensured a balanced growth, as staff had to focus not only on new enrollments, but also ensure that accounts were frequently used for withdrawals and savings.

The scheme was designed for staff to find it easy to understand and calculate their respective incentive score. In this way, each staff member, regardless of seniority, could plan and work toward their individual goal.

Incentive schemes to boost transactions: Since the field staff already had prior responsibilities and targets for credit services, Grameen Foundation needed to provide an incentive to now provide savings services as well. Grameen Foundation and Cashpor launched an incentive scheme called 'Savings Ka Sultan' (Sultan of Savings) in February 2012 that ran for three months.

The incentive scheme highlighted the need to emphasize deposits and transactions for clients, rather than simply focusing on account enrollments. As shown in Figure 2.7, there were very high rates of enrollments

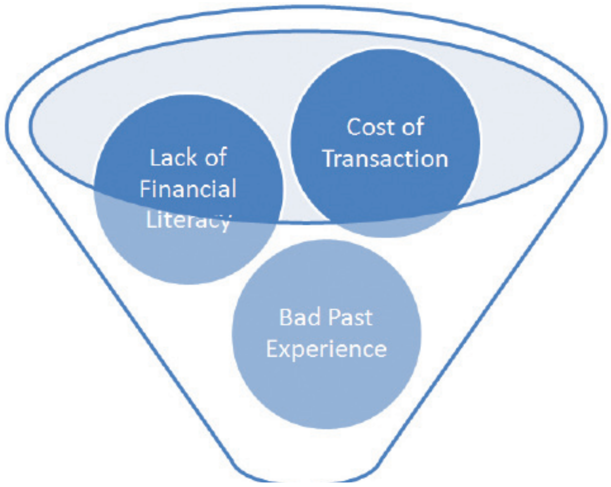


Fig 2.7: Monthly #Enrollments, Deposits and Withdrawals

enrollments and deposits during the period of February – April 2012. Savings account enrollments increased by 55% from January to February 2012, with the greatest numbers occurring in April (the last month of the savings incentive scheme). Within these three months, deposits increased by 40% from INR 3.97 million (~US$ 73,227) in January 2012 to INR 9.84 million (~US$ 181,501) in April 2012.

The performance of branch, area, divisional, and zonal managers was directly dependent on the performance of the staff reporting to them, ensuring that the entire system was part of the incentive scheme. Gold coins were awarded to the best performers. Overall, the "Sultan of Savings" scheme was a great success and received a tremendous response from Cashpor staff.

SECTION – III

CONCLUSION

Grameen Foundation's analysis of the demand- and supply-side factors clearly demonstrate that reducing dormancy requires building client confidence and trust, educating clients through targeted financial literacy initiatives, and adopting process innovations to meet evolving field realities.

Despite the advantages of the business correspondent model in reaching the unbanked, the model is not without constraints. For example, if clients need to withdraw savings on short notice, they must do so at the branch office, which may not be open if the center manager is out of the office conducting weekly center meetings. The way operations are structured in a microfinance institution places some limitations on flexibility required for a demand saving product.

There are many stakeholders in an effective business correspondent model, resulting in many issues that the business correspondent cannot address on its own. The BC, for example, does not have control over the amount the bank partner charges per transaction, nor can it adequately control the irregular cash flows and low saving capacity of clients. Clients' past experiences with fraudulent financial services providers also affect their willingness to participate in a new savings initiative. Given these constraints, the microsavings project team realized that in addition to sustained efforts by the BC, the team also needed to proactively partner with the bank partner to further mitigate dormancy.

Since the BC model is relatively new in the banking industry, additional research is also needed to better understand the demand-side factors leading to dormancy: What do clients really want? Why are they not using the services they are being offered? In particular, studies should focus on product suitability for dormant account holders and non-starters. The interaction between clients and CSPs needs to be studied as well, since the CSPs deal directly with clients.

Grameen Foundation and Cashpor are working actively through a variety of channels to mitigate dormancy and encourage transactions. While efforts to mitigate dormancy are still in progress, the project team has developed systems that can be replicated by other BCs. One such system is the AOF tracker, which, with customization, can be adopted by BCs across the country. Similarly, MFIs-BCs can incorporate the financial literacy approach developed in this project. BCs can also replicate one-time or periodic staff incentive packages to boost enrollments and transactions. Lessons from this project can also be applied to other financial inclusion programs run by banks or other institutions. Insights at the client level, for instance, illustrate the importance of awareness generation and marketing campaigns.

Small savings solutions create big impact for 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.

Serving the unbanked and encouraging them to save for a better future has been both humbling and insightful. As Grameen Foundation enters the final year of this microsavings initiative, it has a better understanding and appreciation of the various factors leading to dormancy. Grameen Foundation hopes to build a road map for other MFIs in adopting the BC model and reducing dormancy so that greater financial inclusion can become a reality.

ANNEXURE – I

ABOUT THE PROJECT

An estimated 700 - 800 million people in India are unbanked. Only 55% of Indians have a deposit account in a bank and a mere 9% have credit accounts.[20] Less than 20% of individuals own any kind of life insurance and less than 9% own any other type of insurance.[21] 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.

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.[22] As of March 2012, a total of 96, 82823 customer service points (CSPs) have been set up in villages that have no banks. We, at the 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. 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 clients. In this model, Cashpor acts as the business correspondent for ICICI Bank, using its extensive field network to originate and service the NFAs. 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 accounts 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's Role in the Project

Grameen Foundation 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. Fig A.2(Next page) shows 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.

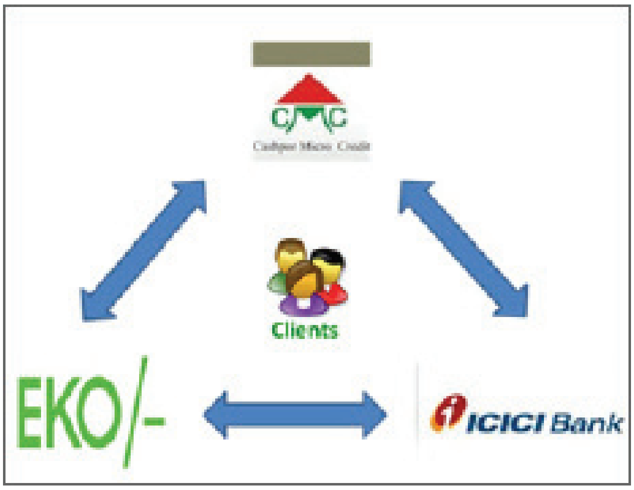


Fig A.1: Relationship between various entities

Impact: The enrollment numbers in the project demonstrate that the initiative has helped meet the demand for a reliable and safe place for Cashpor clients to keep their money. The savings service is offered at 131 branches in eight out of 20 districts that Cashpor operates. In less than 15 months, more than 90,000 clients have opened accounts with an average of 250 people opening a savings account each day. The average savings balance per member is INR 348 (US$7.50), and this average balance has been increasing at a rate of 15% per month. According to a Sadhan study [23] on the efficacy of the BC model, Cashpor is one of the successful models the study encountered. The study highlights captive clientele, low cost technology and usage of existing Cashpor infrastructure to provide BC services as some of the reasons for this success.

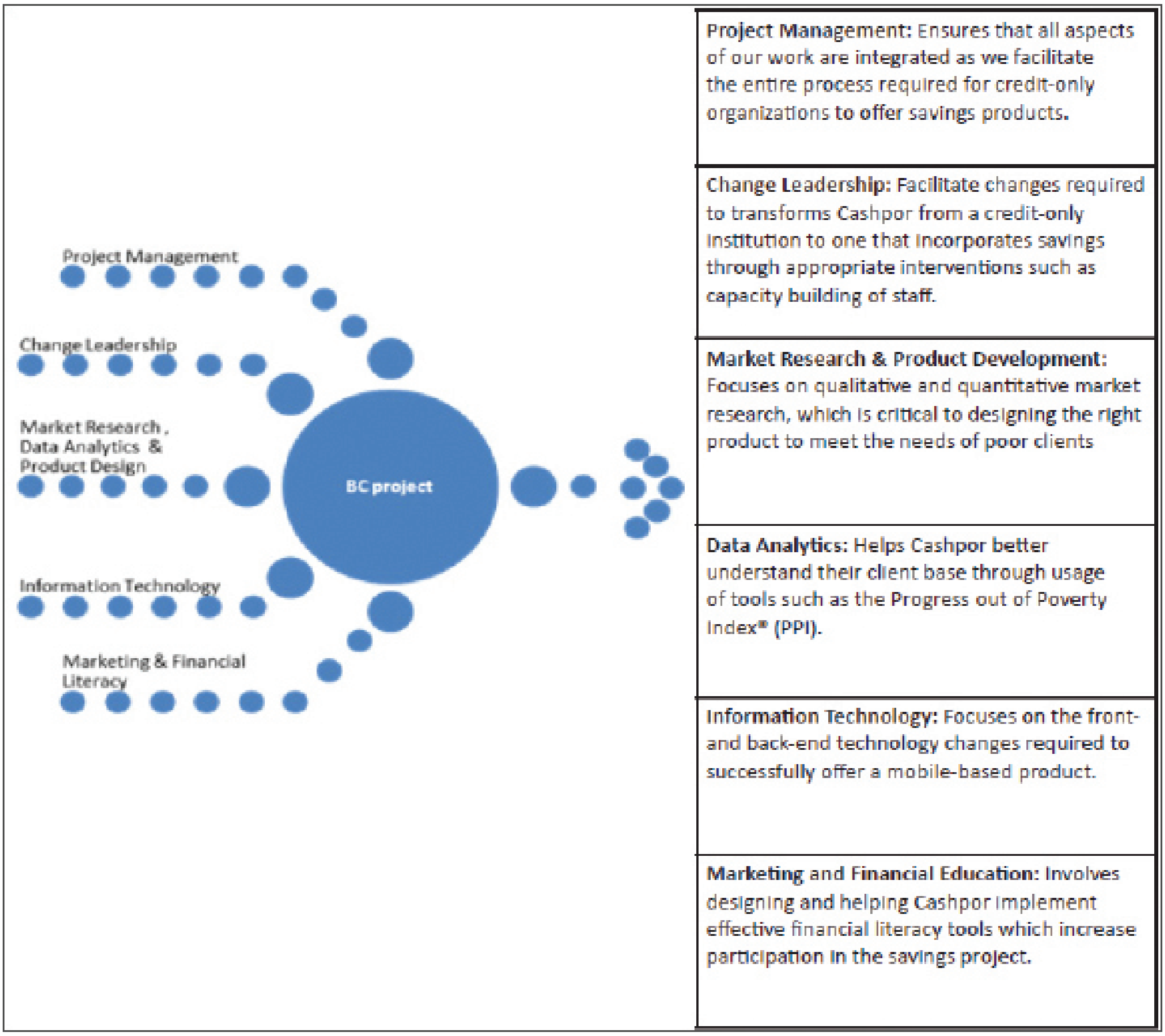


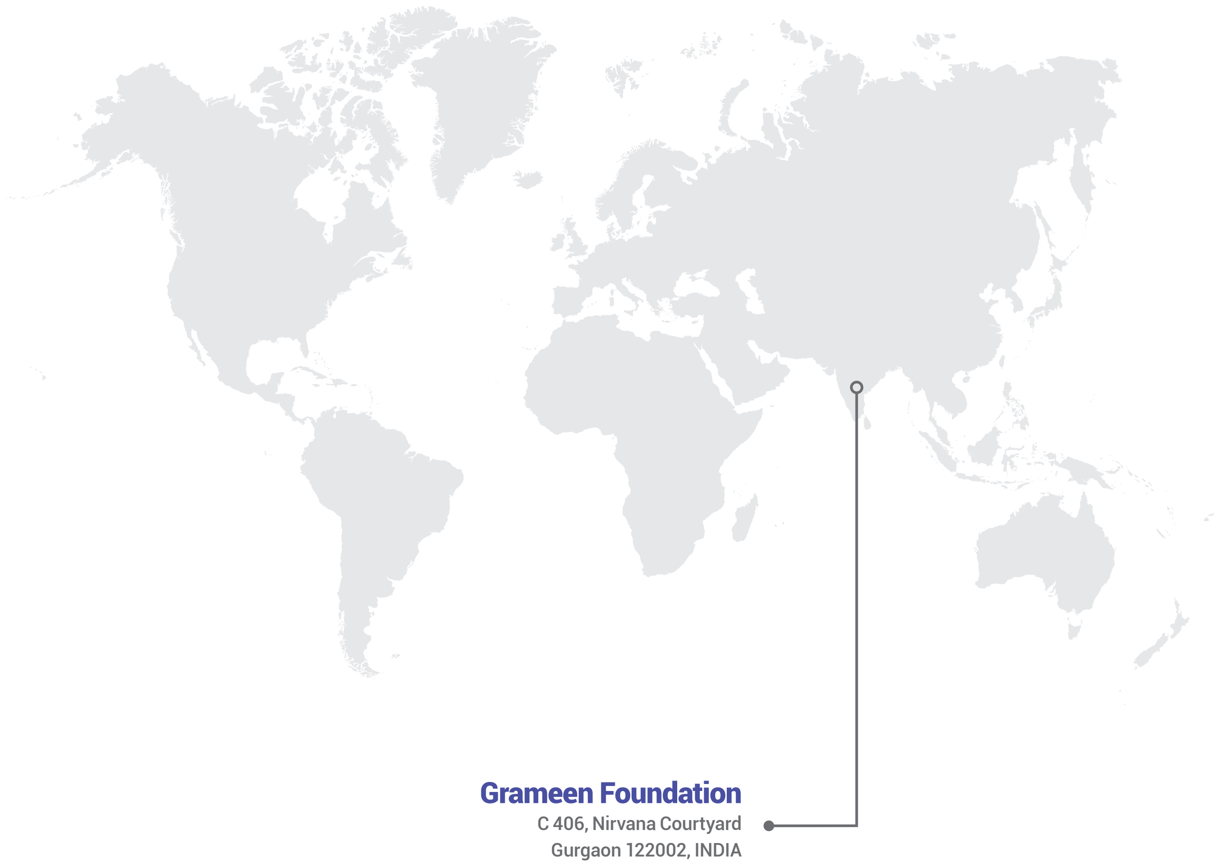
Fig A.2 Grameen Foundation's Role in the Project

END NOTES

1. Speech of Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India on 'Financial Inclusion' at St. Xaviers College, Mumbai, India, September,2011.Retrieved from http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/FIC060911DG.pdf
2. Prakash Bakshi, P."Financial Inclusion - BC / BF Model - What's new?" from the Journal of Indian Institute of Banking and Finance, Volume:83, April-June 2012. Retrieved from http://www.iibf.org.in/documents/IIB-Bank-Quest-april-june-12.pdf
3. A dormant account is a saving account where there is no financial activity for a long period of time. Per RBI circular no.RBI/2009-10/202 DBOD. Leg. No.BC. 55 /09.07.005 /2009-1016, savings accounts should be considered dormant if there is no activity for 12 months. This time period varies from one bank to another, however, with no single definition of dormancy.
4. A 'No-frills' Account is a basic bank account with either with 'nil' or very low minimum balances requirements but with limited services offering- Nature and number of free transactions allowed, no- cheque book facility etc
5. Eric Tyler and Others, "From Social Banking to Financial Inclusion: Understanding the Potential for Financial Services Innovation in India" New America Foundation (2012). http://newamerica.net/publications/policy/from_social_banking_to_financial_inclusion_understanding_the_potential_for_fin_0
6. Ibid
7. This is despite the fact that dormancy at Cashpor is measured at 180 days inactivity in the account while banks have a much longer time frame before they consider an account dormant.
8. The "project team" refers to the Grameen Foundation and Cashpor team involved in the microsavings project.
9. Technology in the BC space has two meanings: 1) the technology provided by the technology service provider which helps banks connect with the customer and the agent; and 2) the use of technology exclusively to refine and simplify its internal operations and gain efficiencies.
10. Anjaneyulu Ballem and Sachin Bansal, "Revival: Responding to High Dormancy Levels in No Frills Accounts" MicroSave. http://www.microsave.net/files/pdf/IFN_62_Responding_to_High_Dormancy_Levels_in_No_Frills_Accounts.pdf
11. Eric Tyler and Others, "From Social Banking to Financial Inclusion: Understanding the Potential for Financial Services Innovation in India" New America Foundation. http://newamerica.net/publications/policy/from_social_banking_to_financial_inclusion_understanding_the_potential_for_fin_0
12. "Savings Account – Terms & Conditions" ICICI Bank. http://www.icicibank.com/Personal-Banking/account-deposit/savings-account/terms-conditions.html#tc8
13. http://india.microsave.org/sites/default/files/research_papers/NFA_Overview.pdf
14. MNREGA aims at enhancing the livelihood security of people in rural areas by guaranteeing one hundred days of wages in a year to a rural household whose adult members volunteer to do unskilled manual work.
15. http://india.microsave.org/sites/default/files/research_papers/NFA_Overview.pdf
16. Per the dormancy definition used by banks.
17. Ibid, Page 3
18. A chit fund is a type of savings scheme in India.
19. To know more about the empanelment process, please read Appendix 1.
20. Speech of Dr K.C. Chakrabarty, Deputy Governor, Reserve Bank of India on 'Financial Inclusion' at St. Xaviers College, Mumbai, India September,2011.Retrieved from http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/FIC060911DG.pdf
21. Ibid
22. 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 from http://newamerica.net/publications/policy/from_social_banking_to_financial_inclusion_understanding_the_potential_for_fin_0
23. 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.

ADDRESSING DORMANCY IN SAVINGS ACCOUNTS:

INSIGHTS FROM THE CASHPOR BC PROJECT



GRAMEEN FOUNDATION

1101 15th St. NW, 3rd Floor
Washington, DC 20005
202-628-3560

www.grameenfoundation.org

GRAMEEN FOUNDATION INDIA

C 406, Nirvana Country
Sector - 50, Gurgaon
122002, INDIA
+91 124 4100703
www.grameenfoundation.in