

# Discussion Papers On India's Business Correspondent Model

And the Operational challenges faced by BCs in the field



2013



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## Preface

In India, a large segment of the society, particularly low-income people, have very little access to formal financial services. The Indian government and the Reserve Bank of India (RBI) have been very proactive in promoting 'Financial Inclusion' and among various initiatives, the 'Business Correspondent Model'<sup>1</sup> is being seen as a new and innovative way to serve the unbanked, by allowing banks to reach the underserved through external agents.

The BC Model, as it is popularly known, has shown a lot of potential so far but faces some serious challenges that need to be addressed in order for it to reaching a fraction of its potential. Though the BC model was introduced in the year 2006, and has since seen the interest of myriad entities including Telecom Companies, Corporates, and Technology firms as well as grassroot organizations working with the poor such as NGOs and MFIs, it is far from attaining business viability or sustainability. Policies and regulations, lack of sufficient margins, varied motivations of the banks are some of the reasons cited for the lag in the development of a sustainable BC model. In spite of numerous examples of sincere efforts by the BC companies, banks and other stakeholders to come up with solutions, there are no significant success stories to emulate. In fact, there is even a dearth of case studies that bring forth the experiences and learnings of entities operating in the BC space. As a result, the narratives in the BC space have been confined to very general discussions around regulatory issues and financial viability of the model.

While Grameen Foundation and Enclude (formerly ShoreBank International and Triodos Facet) recognize that regulatory and financial viability issues are paramount, we feel that there are many other challenges for BCs, especially at the field level, that need to be highlighted and discussed. It is with this aim to share and document the experiences of BC practitioners working in the field that Grameen Foundation and Enclude conceived the idea of bringing together all the stake holders involved in the BC model value chain and encouraging them to share their experiences, brainstorm solutions that are within the purview of the existing regulatory norms and also highlight the macro issues that require policy amendments from the regulators and banks.

This compendium of papers is a culmination of the activities Grameen Foundation and Enclude carried out in this direction over the last few months. To begin with, we undertook field visits to two very different but unique BC companies (Sub-K and Cashpor). This was followed by a BC round table in May 2013 that deliberated on the operational challenges common to BCs. The field visits and the roundtable discussion brought forward many insights and opportunities. To share these learnings and insights, explore the opportunities of cross learning and to discuss challenges that were external to the BC companies, a BC Forum was organized in August 2013. The BC Forum saw participation from donors, major banks, BC companies, TSPs and financial services companies. To facilitate broader learning, the discussions from the BC Forum as well as the round table have been compiled as discussion papers and included in this compendium.

Grameen Foundation and Enclude believe that this first step in their attempt to forge a sustainable BC model will further the thinking of all the stakeholders involved and eventually result in the ultimate goal of financial inclusion being achieved.

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<sup>1</sup> See Annexure 1 for a detailed note on the Business Correspondent Model

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## **Executive Summary of Discussion Paper I**

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### **Identifying Common Operational Challenges facing BCs in the field- And how the BCs are dealing with these challenges**

This discussion paper focuses on operational challenges and potential solutions for the business correspondent (BC) business model in India, with an emphasis on what banks, BCs, and technology service providers (TSPs) can act on within the existing regulations to make significant improvements to the model. We intend to address the key challenges of operational efficiency, sustainability, and client usage of services. An initiative of Grameen Foundation and Enclude (formerly Shore Bank International and Triodos Facet), the discussion paper is meant to catalyze further thinking and action to propel the BC industry forward, despite a number of challenges that face the market. The discussion paper is also a reflection of focused time spent together by Grameen Foundation, Enclude, and three organizations in the BC industry – Cashpor, Sub-K, and Eko –which culminated in a BC Forum on May 6, 2013. See Annexure 2 and annexure 3 for more details on Cashpor and Sub-K’s work as Business Correspondents.

The main challenges identified by participants include lack of appropriate products, a need to focus on customer awareness, streamlining back office operations, defining ownership, and building a business case. In turn, the participants brainstormed solutions and tried to focus on those that are within their control. The paper discusses potential solutions for each of the challenges.

This information was used as a foundation for the second India BC Forum that was held in Mumbai in August 2013.

## Executive Summary of Discussion Paper II-

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### **Potential Solutions to Challenges involving other Stakeholders- (Banks, Tech Providers etc)**

The Business Correspondent (BC) model has the potential to effectively serve unbanked and underserved populations. Tasked with the difficult goal of spearheading financial inclusion in India, the BC model faces considerable challenges. As the model involves different groups of stakeholders in service development and delivery, these challenges can best be tackled if solutions emerge from collective thought.

This discussion paper is based on the BC Forum co-organized by Grameen Foundation and Enclude held in Mumbai on August 7, 2013. The Forum brought together representatives from different stakeholder groups comprising BCs, donors, banks and technology providers. Guided by the objective of making the BC model effective, this multi-stakeholder group sought to discuss important challenges they face and develop early thoughts on potential solutions within the existing regulatory framework. This discussion paper aims to promote cross learning and initiate a wider discussion on some of the pressing problems of BCs.

The Forum was the second part of the two-part BC Forum. The first Forum was organized on May 6, 2013 in New Delhi, and set the tone with a smaller group of BC practitioners such as Cashpor, Sub –K, Enclude, Grameen Foundation and Eko. Participants identified key challenges faced by BCs. These included lack of appropriate products, a need to focus on customer awareness, streamlining back office operations, defining ownership, and building a business case.

Potential solutions to these challenges were discussed in the second BC Forum held at Mumbai. Participants at this Forum focused on solutions that banks, technology providers and BCs could build together to address challenges that were within their purview<sup>2</sup>. The Forum facilitated sharing of field-based experiences and discussion to encourage participants to suggest solutions to the challenges. The dual objective of customer centricity and building a business case formed the underlying theme for all suggested solutions.

In his key note address, Matthew Titus, Executive Director, Sa-Dhan, highlighted the fear of reputational risks and frauds that hold banks back from engaging intensively with the BCs. He also discussed the need for resources to support BCs (such as viability gap funding), and therefore, the necessity to engage with the Government of India and the regulatory agencies under it.

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<sup>2</sup> These challenges largely related to the BC model and its operations. Challenges that are related to the regulatory space were not included in this discussion, as it was outside the existing framework for BCs.

Discussion Paper I-

# Identifying Common Operational Challenges facing BCs in the field

And how the BCs are dealing  
with these challenges

May 6, 2013

New Delhi

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## Executive Summary

This discussion paper focuses on operational challenges and potential solutions for the business correspondent (BC) business model in India, with an emphasis on what banks, BCs, and technology service providers (TSPs) can act on within the existing regulations to make significant improvements to the model. We intend to address the key challenges of operational efficiency, sustainability, and client usage of services. An initiative of Grameen Foundation and Enclude (formerly ShoreBank International and Triodos Facet), the discussion paper is meant to catalyze further thinking and action to propel the BC industry forward, despite a number of challenges that face the market. The discussion paper is also a reflection of focused time spent together by Grameen Foundation, Enclude, and three organizations in the BC industry – Cashpor, Sub-K, and Eko –which culminated in a BC Forum on May 6, 2013. See Annexure 2 and annexure 3 for more details on Cashpor and Sub-K’s work as Business Correspondents.

The main challenges identified by participants include lack of appropriate products, a need to focus on customer awareness, streamlining back office operations, defining ownership, and building a business case. In turn, the participants brainstormed solutions and tried to focus on those that are within their control. The paper discusses potential solutions for each of the challenges.

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## Introduction

The issue of financial inclusion of the poor and the evolution of digital payment platforms in India is at a critical juncture. BC companies and networks have emerged over the last decade as the key players in the mobile financial services (MFS)/branchless banking sector with an aim to provide financial services to the unbanked. Reserve Bank of India (RBI) has specifically created regulations around the BC model with an objective to ensuring greater financial inclusion and increasing the outreach of banking services.<sup>3</sup> However, the market is still highly fragmented and a viable business model offering a full suite of financial services across the country has not developed, indicating a challenging evolution. Despite evolving regulations and BCs' internal challenges in implementing the mandates, the BC aggregator model still has the potential for success. The BC solution can provide economies of scale and the opportunity to deliver a range of different valuable services – the “financial services shopping basket” – to a largely underserved population in a cost-effective manner.

In the context of the current BC scenario, it is safe to say that considerable opportunities still exist in this market, informed by the following key elements:

1. **Massive unserved/underserved market remains:** Only 35% of the adult population, or 300 million of the potential 858 million individuals in India, have so far been mainstreamed into the financial ecosystem, which means the massive market need and potential remains a key driver.<sup>4</sup>
2. **Uptake and usage of transaction platforms have not reached optimal levels:** As of March 2012, 96,828 agents were set up by various BC companies. However, transaction volumes across the board remain lower than international counterparts. A 2012 CGAP study revealed that average transactions per day for customer service points (CSPs) – another name for agents – were 25 per day.<sup>5</sup> Brazil showed 157 transactions per day, and Kenya showed 87 transactions per day in 2010. This indicates that while BCSAs are becoming increasingly common, there are still gaps in uptake and usage of transaction platforms.
3. **Many BC companies have approached the business with a short term financial goal, based on unrealistic return expectations built on the current regulatory push:** Based on experience elsewhere, the real opportunity will be for the BC company which is nimble and aggressive, but takes a long view in terms of building on steady performance. This is especially relevant for a fragmented market such as India – achieving numbers in a country with a vast population does not necessarily denote success. Real success will come when the poor clients see value in the banks products and the BC's service which drives instantaneous account activation, higher transaction volumes, and active account usage.

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<sup>3</sup> RBI circular, DBOD.No.BL.BC. 58/22.01.001/2005-2006.

[http://www.rbi.org.in/Scripts/BS\\_CircularIndexDisplay.aspx?Id=2718](http://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=2718)

<sup>4</sup> World Bank Financial Inclusion data, 2011. Adult population is 15+  
<http://datatopics.worldbank.org/financialinclusion/country/india>

<sup>5</sup> Gregory Chen and Aimthy Thoumong. “National Survey of Branchless Banking Agents in India: Towards high quality BC customer service points.” CGAP. June 2012.

Keeping the context and opportunities in mind, during the week of May 6, 2013, Grameen Foundation and Enclude co-organized a BC practitioners' forum. The forum is a platform for BC practitioners to come together to identify and discuss common challenges, share experiences, explore opportunities for cross learnings, and attempt to influence other stakeholders in order to make the model sustainable and viable so that the goal of financial inclusion can be achieved.

For the first forum, BC practitioners got together for a day long brainstorming session to frankly and openly discuss the most important operational challenges before them that inhibit business sustainability, along with how they are trying to overcome them.

As a result, there are a number of practical learnings that will benefit anyone working in this space, and maybe even possibly open areas of cross collaboration. However, while focusing on the operational challenges facing the BC practitioners, the participants did not want to lose sight of the role of the other stakeholders in the system, such as banks, regulator, government, and others. Therefore, the practitioners' forum also discussed challenges beyond their control, but within the practical reach of these other stakeholders.

#### **Challenge: Pricing**

*Getting the pricing right so that it is affordable for customers, attractive enough to match with their value perception, and structured so that transaction volumes increase rapidly.*

The Forum took place on May 10, following a week-long series of field visits to Cashpor and Sub-K agents. The participants included Grameen Foundation, Enclude, Sub-K (BASIX), Cashpor, Eko, and the Bill & Melinda Gates Foundation as a special participant.

## **Challenges Facing BC Practitioners**

While a number of challenges were identified and discussed during field visits, the participants narrowed the focus to five persistent and unresolved challenges. They include appropriate products, customer awareness, back office, ownership, and building a business case.

### **Products**

Building the branchless banking “rails”– the infrastructure and network by which to provide a channel and extend reach to the last mile – is a difficult, time and investment heavy endeavor. At the same time, without the appropriate products and services to offer through this channel, customers are unlikely to ride on the rails as frequently as they otherwise would. The value proposition of branchless banking has to do with convenience, security, accessibility, and – not to be overlooked – relevance.

### **Pricing**

Pricing strategies influence customer behavior. If a relevant service costs less or nothing, the barrier is lowered so that low-income customers are more likely to frequently use that particular service. If a service has a fee associated with it, then customers will engage with it only if they clearly understand the value add of the service. Cashpor discovered that the account opening fee of Rs 100 was a barrier and feels that many more clients can be brought into the fold if the fee is reduced or removed. Banks

see the need for financial sustainability so they want to keep the fee. However, the level of poverty faced by many customers continued to create a barrier to opening accounts.

Another example of product pricing influencing customer behavior negatively is an experience Cashpor had in Uttar Pradesh. There, it was established that there was a huge need for savings. However, the savings product at hand was demotivating to customers: when depositing Rs 20 into their account, only Rs 18 would be credited since Rs 2 (10% of the total deposit amount) would be charged as a transaction cost. For small savers, the savings value proposition alone is a difficult sell.

Developing the right pricing strategy not only determines the level of customer uptake, but also how customers use financial services – which types of services, and how often – and ultimately, determines whether a business model will work or not.

## Portfolio

Given the drive for financial inclusion and the mandate by RBI for banks to move into rural areas, one would expect to see rapid increases in the number of bank accounts and level of activity. However, customers are not taking up the service with the expected speed. A closer look at the portfolio of products – including the variety and type of product – may provide indication of why this is a problem. Several BC companies and banks began to approach the market through a savings lens, which was the case for Sub-K. Both Cashpor and Sub-K found that focusing on a single product (whether it be savings or credit) does not always meet the needs of the customers. Cashpor currently works with existing microcredit customers and is finding their existing clients are interested in having a savings account, but building the savings business with new customers is low. Sub-K is moving toward offering savings and credit, whether alone or linked. As a transaction platform, Sub-K is interested in moving beyond banking services and integrating any transaction that a customer may conduct onto the platform.

Underlying all of this is the opportunity to create a demand-driven approach to product innovation. This means understanding the various markets which branchless banking is able to reach, determining the patterns of money use, and needs for transaction services. This information and analysis could be funneled back into developing a product which would be attractive for the customer and profitable for the BC and bank. In the end, the products may look very different from conventional banking products, but will serve the purpose of increasing the number of accounts and transaction activity.

There is recognition that products are not client-centric enough, but there are a number of issues that underlie this challenge, including:

- A question about who should invest in product enhancement, which brings in the larger question of how to manage partnerships (discussed further below)
  - The need to improve understanding within branch level managers to ensure timely services to customers
  - A continued focus on how the client accesses the product
  - Understanding when a network is ready to introduce products – from the bank to the BC company to the agent

### **Challenge: Portfolio of Products**

- *Who should invest in product investment?*
- *How to show the value of and incorporate an innovative, demand-driven product development process?*
- *How do you prepare your network to push the right products?*

Lastly, some of the banks do not keep the BC customers on their core banking systems and have created separate systems where these accounts are hosted. Even though this may be for certain technical or practical reasons, this severely limits the ability of the poor customers to send and receive money from other banks accounts, not only from/to other banks, but within the same bank as well. In addition to limiting transactions, this policy also makes the poor feel like they are not being treated at par with others.

## Customer Awareness

### **Challenge: Back Office**

*With unique back office processes for every bank and an onerous account opening process, providing timely, efficient service on the front-end is difficult.*

Since branchless banking is a service that is not only new in its use of technology and structure, but also that it offers financial services for the first time to previously unbanked customers, customer awareness is required to educate and inform.

Customer awareness and education can occur in several ways – above the line (ATL) mass marketing, below the line (BTL) targeted marketing, and through interaction with agents. Currently, BC companies focuses on pushing all three methods. Communication that relays information about products, the legitimacy of the channel, and how the process works is completed through both ATL and BTL marketing. BC companies will also train agents and field staff on products and roles so that they in turn can directly interact with customers and provide accurate guidance.

At the same time, a real challenge is tackling both the financial cost of awareness and education through marketing. Another challenge is to communicate a baseline message even while different BCs offer different service levels to customers at different locations.

### **Back Office**

Setting up the agent network as the customer-facing service for branchless banking is an enormous effort; ensuring that the back-end works just as well is an equal task.

As a first step to gaining traction on a payment platform, customer acquisition is both a front-end and back-end challenge. Know Your Customer (KYC) processes are not fool-proof. In Cashpor’s opinion, a large proportion of KYC is erroneous due to name mismatch, typing errors, address details etc. The current process requires the customer, with the help of an agent, if necessary, to fill out a form and provide supplementary documents. Cashpor bears the cost of running through the process again, if necessary, to fix any human errors on the forms. The most common are names and ages that do not match customers’ voter ID cards. Electronic KYC (e-KYC) and digitization of the account opening form would help immensely, but is still under development in the industry.

### **Challenge: Customer Awareness**

- *Whose responsibility is customer awareness?*
- *What is the basic, shared messaging around branchless banking if every bank has a different approach and service level?*

Even if the KYC forms are filled out correctly, however, the forms get passed on to the bank for approval and can take up to 1.5-2 months. In the case of Cashpor, which uses Eko technology, clients can transact

as soon as they fill out their form and their account is open on the ICICI Bank server so there is no time lag between enrolling and using an account. However, the client may lose faith in the system if they are told after a month of using the account that the bank has not approved their form due to some KYC issue or some mistake in their form. Besides, clients do not get any interest in the interim period and so this could also become an issue once clients start comparing products offered through BCs and other banking channels.

As intermediaries, BC companies face the reality of working with a variety of banks, each of which has its own set of processes. Without a standardized approach, achieving operational efficiencies becomes difficult, as is ensuring a consistent level of customer service.

## Ownership & Responsibilities

The BC business model is fraught with complications because of its dependency on partnerships. At the same time, the joining of hands across different industries – financial, telecom, and payment services – allows for disruptive approaches to emerge. Striking the right balance between partners continues to be an ongoing challenge, as does determining the dominion and responsibilities of each organization.

BC companies are essentially an intermediary, and their success is dependent on the level of interest, involvement, and buy-in from their bank partners. There are several different ways that BC models interact with banks – for example, Cashpor is business driven and will set up agent outlets only where they have established existing client base; Sub-K is mandate driven and will implement an agent network in geographic areas where bank partners may be mandated to operate.

As with any partnership, establishing clarity of roles and responsibilities is important. Are end users clients of banks, or are they the business of the BC? The answer is both, but it also creates a challenge in understanding where to draw the lines and how to hold one another accountable. Branchless banking partnerships need to exist on multiple levels: technology integration, data capture, marketing, back office operational functions, pricing, and product development. The number of intersections suggests a large undertaking – one that smaller MFIs or BC companies may not be well positioned to manage – and also suggests complicated negotiations between financial institutions and BCs.

Since both the BC and the bank touch the customer, the question of data is another sticking point. Client data is owned by the bank, yet the BC company has to drive the branchless business forward. As a result, there is a need to figure out how to share data, even at a minimum level, so that the overall business model can work better.

Marketing costs for any industry are high. In Sub-K's case, marketing costs are entirely borne by them. The other factor that increases marketing costs is the distributed geography of agents, due to the mandate-driven approach to expanding the network. In this regard, banks do not see BC companies as partners and do not employ a shared approach to marketing messages and expenses.

### **Challenge: Ownership**

*Data, roles, and division of costs are all part of partnership costs. Where does one draw the lines, and what is the best partnership structure to ensure ownership on all sides?*

The challenge of building and evolving a business model that speaks well to the various layers involved in branchless banking lies at the crux of the bank-BC partnership.

## Building a Business Case

The elusive “sustainable business model” which has been the focus of so many conversations, analysis, and efforts in the branchless banking sector in India and globally, continues to remain unresolved. The visits at Cashpor and Sub-K, along with the BC Forum discussions, highlighted several ongoing challenges to building a business case.

- Urban vs rural – while urban areas may be more profitable and have strong infrastructure from which to build a network, rural areas have a greater need for financial services. The overall cash flows in the rural economy might not be enough to sustain a channel for financial services. In this context, how does the bank and BC serve rural, low-income people profitably? At the same time, matching the ease of building an urban network
- Savings vs credit vs remittances – as seen by the various models, Cashpor focus on credit & savings, Sub-K focus on savings as the key product, while Eko focuses on remittances. Which product is better for building the business case? How does one move from single to multiple products to improve revenue streams?
- Value of BCs by bank branches – branch managers tend to take over business opportunities brought by the BCs that prove to be potential for good earnings to do direct service, which leads them to work against the very objective of collaboration. In turn, this results in further difficulty for building the business case of BCs. Sub-K has seen examples of branch managers encouraging big farmers and persons with frequent transactions to do banking at the branch though a BC point is available in the specific village.
- Building a business case for all parties (banks, BC, subagent, technology service provider) – from the point of view of each player, it is critical to understand the key areas of the business model, how targets are linked, and the structure and arrangement of providing commission payments. The other issue is how to ensure enough revenue be generated in this channel for sharing between all the partners, given that low income clientele are the target market.

Each of these highlighted challenges – products, client awareness, back office, ownership, and building a business case – are major hurdles to the branchless banking industry. These five challenges have been the focus of many years of effort, investment, and experimentation. Going forward, as the industry continues to develop, potential solutions will need to surface and all parties will want to think about how to implement. The next section focuses on these solutions as a basis for discussion.

### **Challenge: Building a Business Case**

*A business correspondent business model does not succeed from one angle. It is the epitome of a partnership model, requiring diversity of stakeholders, geographic areas, and products.*



## Potential Solutions

This section is intended to set in motion a discussion toward offering concrete, tangible and do-able solutions within the current regulatory framework. Our intent is to help move beyond the current challenges in the BC industry. Participants focused particularly on solutions which they could tackle internally, and marking which solutions are dependent on external players.

### Products

The main challenges around products could start being addressed by gaining more information about the market and thinking more broadly about transactions. The BC Forum participants are brainstorming various options:

- Looking at flow of money in a particular village and suggesting the development of products based on how and for what purpose money flows
- Understanding client behavior in a more nuanced way to ensure the products being developed match their needs.
- Mapping merchant opportunities
  - Merchant solutions to use BC as the center of cash flows for clients, i.e. transactions for milk payments in a cluster of villages can occur at a specific BC
- Form a dedicated outlet to be the point of transactions (not just an agent in a shop)
- Identify the types of jobs in particular villages and create a product to match it, e.g., for labor wage payments like paddy harvests in Chhattisgarh and tea garden daily wages
- BCs can focus on a bottom up approach – build up enough business to attract bank’s interest

The participants in the Forum also recognized that solutions will include aspects that are within their control, and other aspects which are external. There are several options within the BC’s control:

- Mapping – breaking down client segment further based on daily cash flow needs
- Packaging of product – marketing spin to the same product
- Trade association to support all BCs or some type of forum to support the collective group
- Move beyond financial services to other transactions – this has already started with ticketing and payments; continue to explore transactions such as water, solar, health, ed, etc.
- Village level analysis of BC profitability
- Gain critical mass quickly to keep bank at the table and as a serious player
- More products to ensure commensurate income or ability of BC to wait till such incomes are realized but commit to pay to the person involved irrespective of the income earned

Other solutions are more in the hands of external parties:

- Bank’s product should be designed with the poor customer in mind
- Incentivize balances in accounts and proactively target dormancy
- Alternatives for changing cost to BC
  - Add credit products to reduce cost of savings products and diversify range
  - Bank absorbs costs by promoting marketing campaigns
  - Segment clients and pricing, i.e. refund fee of clients maintaining a minimum balance

- Funders can develop case studies on comprehensive product suite approach and create awareness among bankers
- BC customers should be a part of the bank's CBS so they are not isolated and are able to transact with the wider banking system

## Customer Awareness

The BC Forum participants recognized several potential solutions for the customer awareness challenge. Besides appropriate partnerships, there was a discussion on sharpening messaging and being able to sell and educate at the field level.

- Use financial literacy training institutes – these institutions are already set up to handle relevant training, so the BC industry can also leverage their experience and design
- Selling value to the customer (marketing) – understanding the value of branchless banking services is not an obvious one for the customer. BC companies, along with other stakeholders, can focus on selling the value around a branchless banking service, rather than outright selling the account or product.
- Know the product first, then sell – a continued emphasis on training so that agents and field staff understanding the full suite of products, and can independently explain to others, will allow for better use of sales to the customer. Focus on training field staff on awareness creation and marketing of the value of the channel, apart from specific products
- Clarity with banks on what they see as their role – this will come in the form of service level agreements or an MOU which outlines roles and responsibilities, which can be improved or negotiated from existing documents, to ensure banks and BC companies are both aware of which party is focused on what when it comes to customer awareness.
- Analysis of how much money is spent on customer awareness as part of total cost – tracking expenses related to customer awareness will help provide indication of how much investment is actually necessary and how much of an impact cost investment has in achieving results.

## Back Office

There is an opportunity to leverage technology to ease back office error and improve efficiencies. Participants see three areas of potential solutions:

- Track account applications by capturing their movement by using software, such as a tracker tool. This will ensure that fewer applications fall through cracks in the process, and will also allow for greater accountability.
- To address manual errors, identify them, record their occurrence, and put processes or instructions in place to prevent them from occurring again.
- Move to eKYC to allow for a quicker, efficient process by which to open accounts and link customers from the agent to the bank.
- SLAs that require the banks to ensure accounts are opened within a short time frame to ensure customers can transact soon after opening an account.

Back office solutions will require careful cooperation between BC companies and banks to work together and identify technology options to improve processes and the business.



## Ownership

The crux of the ownership challenge, as discussed by BC Forum participants, is that the financial inclusion business is not part of a bank branch business. Key performance indicators (KPIs), day to day processes, and perceptions from bank branch staff is not geared toward incorporating branchless banking or financial inclusion activities.

In order to overcome this challenge, participants discussed the need to incorporate financial inclusion into the bank branch's KPIs. Financial inclusion accounts should also show up on the bank's core banking system dashboard so that managers can track the movement and growth of these accounts in a similar way to how other accounts are monitored.

The second challenge is sharing client data. This can be overcome by masking the identity of the customer and sharing the transaction data activity, so that BC companies can better understand the business and make appropriate investments and adjustments to drive future growth. For any of these potential solutions, participants agreed that banks will need to be the primary driver of this change.

## Building a Business Case

There is no silver bullet for building a business case, but there could be several activities to help gain clarity in what potential solutions may look like. They include:

- Further segmentation of unbanked to understand different needs – this entails more and varied market research. Some market research may take the form of quantitative surveys, but others should be based on focus groups, qualitative approaches (such as financial diaries), and designed with a human-centered approach by which to glean useful insights about customer behavior. This activity can be undertaken by either BCs or banks – at first, BCs may need to drive the market research effort.
- Develop different business plans for urban BCs and rural BCs – since both have a slightly different purpose and value proposition, developing a business case for each would help clarify how to grow the business. Ultimately, both are linked, but may require segmented focus to build the case.
- Identify other sources of revenue – financial services are simply one type of transaction that can occur at BC outlets. While access to finance is clearly a major driver, it could be strategic to bring in other types of payments and transaction activity into agent outlets. Examples of milk payments, solar payments, or water payments are ones worth exploring further. Market research will also help to determine the universe of transactions that an average customer may undergo on any given day. This could help boost transaction volume and make the BC channel a more attractive platform for customers.
- Ensure fees or commissions that banks provide BCs are in line with operational costs – in order to strike the right model for the business, BCs and banks alike should prepare a financial model that illustrates that the fees or commissions BCs get from banks will allow the company to recoup operational costs. Without this scenario, neither stakeholder will be able to create a sustainable approach.

As initial steps toward gaining a stronger command over the nuances of what it may take to make the branchless banking business work, these potential solutions are meant to provide a basis for discussion. They are solutions that BC companies can focus working on now, and that all stakeholders should be aware of to consider how to work together in a more mutually beneficial way.

## Next Steps

The week of field visits to Cashpor and Sub-K agents, culminated by a day of BC Forum brainstorming and discussions, was meant to be the start of a larger discussion. The group intends to organize a second BC Forum, with more stakeholders represented in the room, to discuss such common challenges that are within the reach of stakeholders, and could have a huge impact on the functioning, efficiency, viability, and therefore, the long term sustainability of branchless banking. This meeting will focus on tangible outcomes that can be practically achieved by stakeholders.

Ultimately, the efforts of the field visits, the BC Forums, and this discussion paper is towards catalyzing change so that the stakeholders that are serving the un(der)banked can move towards greater sustainability and stronger outcomes for everyone involved.

## Discussion Paper II-

# Potential solutions to challenges that involve other stakeholders

(RBI, Banks, Tech Providers and others)

August 7, 2013  
Mumbai

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## Executive Summary

The Business Correspondent (BC) model has the potential to effectively serve unbanked and underserved populations. Tasked with the difficult goal of spearheading financial inclusion in India, the BC model faces considerable challenges. As the model involves different groups of stakeholders in service development and delivery, these challenges can best be tackled if solutions emerge from collective thought.

This discussion paper is based on the BC Forum co-organized by Grameen Foundation and Enclude (formerly ShoreBank International and Triodos Facet), held in Mumbai on August 7, 2013. The Forum brought together representatives from different stakeholder groups comprising BCs, donors, banks and technology providers. Guided by the objective of making the BC model effective, this multi-stakeholder group sought to discuss important challenges they face and develop early thoughts on potential solutions within the existing regulatory framework. This discussion paper aims to promote cross learning and initiate a wider discussion on some of the pressing problems of BCs.

The Forum was the second part of the two-part BC Forum. The first Forum was organized on May 6, 2013 in New Delhi, and set the tone with a smaller group of BC practitioners such as Cashpor, Sub –K, Enclude, Grameen Foundation and Eko. Participants identified key challenges faced by BCs. These include pricing, product design, customer awareness, partnerships, and sustainability of the model.

Potential solutions to these challenges were discussed in the second BC Forum held at Mumbai. Participants at this Forum focused on solutions that banks, technology providers and BCs could build together to address challenges that were within their purview<sup>6</sup>. The Forum facilitated sharing of field-based experiences and discussion to encourage participants to suggest solutions to the challenges. The dual objective of customer centricity and building a business case formed the underlying theme for all suggested solutions.

In his key note address, Matthew Titus, Executive Director, Sa-Dhan, highlighted the fear of reputational risks and frauds that hold banks back from engaging intensively with the BCs. He also discussed the need for resources to support BCs (such as viability gap funding), and therefore, the necessity to engage with the Government of India and the regulatory agencies under it.

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<sup>6</sup> These challenges largely related to the BC model and its operations. Challenges that are related to the regulatory space were not included in this discussion, as it was outside the existing framework of the BCs.

## Section I: Introduction

The BC model is a bank-led agency model to promote financial inclusion. Although it shows great promise and potential, there are very few success stories that can be emulated due to the numerous challenges it faces. The BC model is based on collaboration between various partners – the banks, the BCs, the technology providers and the agents/CSPs<sup>7</sup>. Tasked with a difficult goal of financial inclusion, BCs face challenges on both the supply and the demand side.



As per [a survey](#) done among eleven leading BCs in the country, the three supply side factors that inhibit the growth of BCs are the high cost-low profitability model, lack of financing for working capital and lack of support from banks. Some additional supply side factors that constrain growth are high number of dormant accounts, lack of appropriate products and banks' fear of reputational risks and frauds. On the demand side, lack of financial literacy among clients, high cost of transaction and poor awareness about BC products and lack of mobile literacy are limiting factors.

These supply and demand side challenges are further exacerbated by lack of policy on uniform commissions across all banks to BCs, limited funding for financial literacy and marketing campaigns and lack of support to BCs in the start-up phase.

<sup>7</sup> The Customer Service Point (CSP) is typically someone from within the community or village who can offer financial services on behalf of the BC through either stationary means (typically a shop in the village) or mobile (by visiting a series of villages on pre-defined days and offering door-step services).

As the BC model hinges on partnerships for its success, there is a need for active participation and collaboration from all stakeholders. The BC Forums were organized to facilitate collective thought on key challenges and potential solutions to address those that were within the purview of BCs, banks, donors and technology providers.

The first BC Forum convened on May 6, 2013 in New Delhi, and set the tone with a smaller group of BC stakeholders such as Cashpor, Sub –K, Enclude, Grameen Foundation and Eko. In the first Forum, participants discussed the challenges faced by BCs and focused on solutions which banks, technology providers and BCs could together adopt to mitigate some of them. Five key challenges were identified during the first BC Forum - pricing, product design, customer awareness, partnerships, and sustainability of the model.

The second BC Forum was organized with the aim to facilitate discussion amongst the various stakeholders and develop some early thoughts around potential solutions to challenges within the existing regulatory framework. In addition to BCs, the second Forum was attended by prominent private sector banks, multilateral and bilateral donors, private foundations, technology providers, investment companies and ecosystem builders such as Sa-Dhan. The participants got together for a day-long deliberation and shared their experiences and approaches in addressing challenges. Although not part of the discussions through the day, participants noted that it was critical to be cognizant of the ecosystem in which BCs operate, and therefore, engage with the Government of India (GoI) and the Reserve Bank of India (RBI), which govern financial inclusion policies in India.

## Section II: Challenges & Potential Solutions

This section draws from discussions and thoughts that emerged in the second BC Forum as participants discussed the five key demand and supply side challenges: effective pricing, appropriate products, customer awareness, effective partnerships and sustainable business models, and their potential solutions.

Participants were divided into five smaller sub-groups to discuss each challenge and present their thoughts to the larger group. Ensuing discussion was made robust by strong moderation and facilitation by Grameen Foundation and Enclude team members.



We present below a brief summary of the challenge, the potential solutions and recommendations that emerged from the group discussions and the pros and cons that were highlighted when the larger group was involved.

## Effective Pricing of Financial Services

**Challenge:** *The target market is very price sensitive as BCs largely target low-income customers with irregular cash flows. However, the pricing varies from one bank to another, so some banks charge an account opening fees for Basic Savings Bank Deposit Accounts<sup>8</sup> (Basic Savings Accounts) while others do not. As a result, in a given village, a BC from one bank may charge an Basic Savings Bank Deposit Accounts opening fee and another bank's BC may not. Similarly, the fee per transaction (withdrawal or deposit), differs between banks. Cashpor, which acts as BC for multiple banks believes that accounts with no account opening charges will demonstrate higher usage and less dormancy as compared to accounts with charges. Hence, this lack of a uniform pricing strategy among banks adversely impacts uptake and contributes to dormant accounts.*

**Potential Recommendations by sub-group:** The group acknowledged that any discussion on pricing must take into cognizance the ability of the customers to pay, investment in the relationship with the client over the long term and across services, and the need for transparency in sharing pricing information. Participants synthesized their discussion and presented the following four approaches to pricing products offered by BCs:

- **Life Cycle Approach:** Since customers are unaware about the product and its benefits, prices should be kept low at the time of introduction. As the uptake of the product increases and it is accepted by the customers, prices can be increased to sustainable levels.
- **Ecosystem Approach:** This entails factoring in the costs of all stakeholders to arrive at a product price, since the success of the BC model depends on its viability for all involved parties. Banks should determine the price of a product based on the costs incurred by each stakeholder – the bank, BC, technology provider and the Customer Service Points (CSPs).
- **Need Based Approach:** Product pricing should be based on needs assessment of the customers. Customer demand and the perceived value of a product are the two guiding forces behind the need based approach. For example, using this approach, a savings product should be charged a lower price than a credit product, and if necessary, the cost of the savings product can be cross-subsidized by higher income from sale of the credit product. Hence, banks and BCs may have to cross subsidize savings products to meet the customers' perceived price point and sustainability requirements.
- **Templated Approach:** There is a need for transparency in sharing costs between the BCs and the banks. In order to do this, BCs can share information on costs across regions and stakeholders, and collectively create a cost template. The idea is to stabilize prices and bring about some uniformity so as to reduce confusion for the customer in the long run. BCs must together highlight specific cost categories so that it is easier for other stakeholders, particularly the banks, to understand the nature of these costs, and therefore, appropriately price the products.

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<sup>8</sup> Basic Savings Bank Deposit Accounts were formerly known as No Frills Accounts (NFAs)



**Discussion Summary:** The larger group acknowledged the benefits of the above approaches, but also shared some challenges around adopting them. In the case of life cycle approach, some participants felt that banks and BCs might find it difficult to follow this approach because customers may not be comfortable with or accept subsequent price hikes. They explained that the market is fairly inelastic until banking becomes a habit for this customer base. Customers may also switch over to products offered by other financial institutions for better prices or convenience. The ecosystem approach where banks determine the prices after calculating the costs incurred by all stakeholders, may lead to very high prices, which in turn may serve as a deterrent to product uptake. In the case of template approach, the participants felt that it might difficult to standardize costs as BCs follow different models and incur different types of costs. Overall, the participants felt that the right pricing of products is crucial for the success of BCs as it impacts uptake of services and frequency of transactions.

## Designing Appropriate Products

**Challenge:** *Lack of appropriate products (financial and non-financial) adversely impacts the success of BC model. Most BCs offer only single products, and do not take the cash flows of their customers into consideration. Customers want products that are safe, secure and can ensure them liquidity. The unique selling proposition of branchless banking is convenience and accessibility, and these should be kept in mind while designing all products.*

**Potential Recommendations by sub-group:** Participants highlighted the need for a deeper understanding of customers' needs, even as they agreed that all BC customers should be able to access standard services. It also felt that the goal of financial inclusion would be better met by offering other services to customers with basic accounts. This will also enable banks to better engage with their customers. The sub-group presented the following perspectives on product design to the larger group:

*When the BC model was initiated, it was assumed that it would be profitable. However, they incurred huge losses in rural areas. Lack of appropriate products is a big challenge.*  
Santhosh Kumar  
Thiruthimana, Resident Adviser, Enclude (formerly ShoreBank International and Triodos Facet)

- **Market Mapping and Understanding Demand:** BCs are recognizing the importance of customer segmentation, and the need to understand their cash flows in order to design appropriate products, particularly in the case of remittances and recurring deposit products. For instance, Eko mapped the remittance market in urban areas and designed their remittance product accordingly. Similarly, Sub-K is mapping market opportunities and talking to solar and water companies to market their products along with financial services.
- **Offering standard services to all Basic Savings Account holders:** The same set of services should be offered to all Basic Savings Account holders, whether accounts are opened directly at the bank or at the BC. At present some banks offer debit/ATM card facilities to Basic Savings Account holders that directly opened accounts whereas account holders through the BCs do not get them.
- **Bundled products help the bank and BC to ensure satisfied customers:** By offering an array of financial and non-financial services through BCs, banks and BC companies can ensure that they meet all financial/ transaction needs of their customers at one location. This helps in customer retention and also achieving profitability through cross-selling.

- Customer ownership by banks: Banks could engage more deeply with BC customers and thus take a greater ownership. Currently, the onus of servicing the Basic Savings Account customer rests solely with the BCs. They also lack a proper grievance redressal mechanism to address BC customer complaints. Participants felt that the banks' lukewarm attitude towards BC customers is symptomatic of the larger problem i.e. banks do not view the BC model as a viable business opportunity; instead they look at it as a mandatory financial inclusion activity. This prevents banks from investing in product design with customer demand in mind.

**Discussion Summary:** The larger group felt that the present supply driven product designing is one of the main roadblocks to the success of the BC model. However, product design is the domain of the banks. The group also felt that banks would take a keen interest in designing appropriate financial products if the ownership issues were resolved. BCs, for their part, must try and offer a mix of financial and non-financial products through additional partnerships for customer retention and profitability.

## Increasing Customer Awareness

**Challenge:** Most BC customers have never held a formal bank account, and lack financial literacy. Building customer awareness about the benefits of formal financial services needs to be an integral part of BC operations. Currently, banks do not budget for creating customer awareness. Any investment in financial literacy programs is borne by the BCs.

**Potential Recommendations by sub-group:** The group underscored the importance of financial literacy and investment in awareness building. Recognizing that BCs alone would be unable to make a deep difference in customer awareness, the group recommended that banks work together with BCs to mitigate this challenge. Some of the thrust areas and solutions suggested are:

- Joint investment in marketing and financial literacy programs: Customer awareness building is an expensive proposition and the costs need to be shared between the government, banks and the BCs. Currently, the costs are being solely borne by the BCs. It is also important to recognize that BC customers are also the customers of the bank. One of the suggestions on cost sharing was that above-the-line marketing costs such as investment in mass media campaigns should be borne by the Government. Below-the-line marketing costs which are incurred for customized marketing efforts should be shared by banks and BCs. Additionally, it was suggested that since developing financial literacy material is an expensive proposition, BCs should not reinvent the wheel and instead leverage the existing financial literacy materials made available by RBI or other institutions to educate their customers.
- Communicate product benefits to customers: Participants highlighted the importance of marketing efforts to communicate the benefits of formal financial products over informal sources of finance. These efforts should emanate from the bank, and BCs could follow through with reinforcing the messages. Since BCs (through their CSPs) interact frequently with

*Lack of customer awareness is one of the key operational challenges faced by BCs. Banks, BCs and other stakeholders will have to work together to increase customer awareness and promote financial literacy.*  
Abhishek Choudhary, GTZ

customers, they should also educate the customers about their rights and the procedures for customer protection such as grievance redressal.

- Invest in trust and confidence building among customers: This solution emerged in response to the concern participants had about strongly linking BCs to the banks in customers' minds in order to build trust and credibility. The group felt that banks could contribute by prominently displaying the names of their BCs at all local branches. This would help customers associate the BCs as a service provider of the bank. Other ways to deepen engagement with customers as well as to demonstrate a link with the BCs were also discussed. One suggestion was that banks could issue welcome letters to customers on account opening. The group also suggested that endorsement by other important stakeholders in the community such as the Panchayat (village council or governing body) office would go a long way in building trust.
- Accessing financial support from the proposed Financial Inclusion Fund: In order to fund marketing and financial literacy efforts, the groups discussed the possibility of tapping into the Financial Inclusion Fund which the government of India is planning to set up with a budget of INR 5 billion (~US\$ 81 million). Participants suggested planning advocacy activities to convince the government on the need to spend some part of the fund on financial literacy and creating customer awareness.

**Discussion Summary:** The larger group felt that the success of these marketing efforts would require joint effort from banks, BCs, policy-makers and other stakeholders. However, as raised in the section on appropriate product design, participants felt that this too would need the banks to develop a greater sense of ownership of the BC customers.

## Developing a Sustainable Business Model

**Challenge:** *Sustainability has been highlighted as the most important challenge for the BC model. BC is a cost and people intensive model with high fixed and recurring costs such as CSP commissions, staff salaries and investment in technology. Most BCs are not able to meet their costs and are often losing money especially in the initial years due to the current compensation structure and single product offering. This high cost-low margin model makes financial viability difficult to attain. Sustainability of the model also depends on banks and other stakeholders earning profit from BC operations. It is only then that it will be viewed as a business opportunity by banks.*

**Potential Recommendations by sub-group:** The discussion focused on how the sustainability of the BC model has to be understood from the wider perspective of the banks, BCs and the other stakeholders involved. The group presented the following recommendations for arriving at a sustainable model:

- Scale as the primary solution for sustainability: In order to achieve sustainability, BCs need to optimize existing infrastructure by increasing their outreach and also at the same time deepening their services through offering an array of products. Increase in the number of clients would bring in additional revenues as commissions, reduce costs and also provide a customer base for

*Revenue from non-financial services should be around 30%. Majority should come from banking services. BCs should aim to meet their costs from core banking services in the short and long term.*

*Mukul Jaiswal, Managing Director, Cashpor*

sale of non-financial product. The group also felt that it would be difficult to achieve financial viability if BCs depend only on financial services. BCs, as the distributors, need to do a lot more aggregation of services and deliver financial and non-financial services to achieve sustainability.

- Identify an anchor product: The groups felt that BCs would benefit if they identified an anchor product, which had the highest uptake and brought in a large portion of the revenue for the BCs. The anchor product would be determined on the basis of need assessment and customer demand. For example, for some BCs, it is their service for G2P payments, for some others, it is the Basic Savings Accounts, while still others earn a majority of their revenues from their credit product.
- Supplement income of CSPs: The agent or CSP is seen as a critical link in last mile delivery of BC products. The CSPs' main source of income is the commission that they earn from the BC for account opening and transactions. In the initial years, low account uptake and low number of transactions results in low compensation for the CSPs. [Studies](#) have found that the morale of the CSPs across BCs was low due to poor compensation. CSP drop out due to low income is a cause of concern for most BCs. Participants recommended that CSPs could supplement their income by offering non-financial products such as mobile top-ups and information to farmers on weather or wholesale market prices. In order to increase CSP earnings and retain them, it was proposed that a hybrid model could be followed for incentives where a fixed token amount is given in the initial period along with incentives based on performance. The BCs should expect the variable component of the CSP incentive to increase with time and let go of the CSPs whose performance based incentives remains low.
- Need for viability gap funding: The lack of viability gap funding, particularly in the initial years, hampers BC operations and adversely affects outreach and quality service delivery. This in turn impacts any relationship or trust building with the customers. Participants discussed the need for gestation and viability gap funding as the cost of running a BC in the initial years is higher than the income the operations generate. Participants expressed the need for advocacy by industry bodies such as Sa-Dhan to access such viability funding for running BC operations in the gestation period.

*There is a need to bring internal stakeholders on a common platform and promote cross-learning as the sector is grappling with the problem of reinventing the wheel.*

*Srinivas Bonam, Head –  
Inclusive Banking Group,  
IndusInd Bank*

**Discussion Summary:** The larger group agreed that reaching scale and offering an array of financial and non financial products would help the BCs achieve sustainability. Participants however, also cautioned against loading BCs with non-financial products as it may result in CSPs favoring and concentrating on sale of profitable, non financial products and adversely impact the sale of financial products.

## Building Effective Partnerships

**Challenge:** Banks and BCs are the most important stakeholders in the BC model. Lack of effective partnership, communication and trust between them often adversely impacts the performance of the BC and the quality of service delivery. In addition to the bank-BC relationship, lack of coordination with other stakeholders such as the technology providers also has an impact on service delivery.

**Potential Recommendations by sub-group:** Communication, trust, delivery of quality services and customer centricity were identified as the cornerstones for developing an effective partnership between banks and their BCs. The group presented the following recommendations:

- **Communication and Trust:** Regular communication between BCs and banks and early discussions to clearly lay out the roles of each partner are key to the success of the partnership. Role clarification with regard to customer ownership and grievance redressal is particularly important. Participants pointed out several instances where this critical need crops up – for instance, when help desk numbers given for registering complaints are non-functional or when transactions fail to take place for a few days. Under such circumstances, banks’ support to the BCs to address customer complaints is critical. Creating an Escalation Plan with Service Level Agreements is one way to create collective responsibility in solving customer grievances.

**Discussion Summary:** The larger group discussed that banks need to take a long term view of the partnership. Banks view the BC model as a corporate social responsibility and have taken a limited view of their partnership with BCs. Banks need to realize that the partnership needs to extend to offering good customer services to the BC customers. Customer centricity and protection should be the guiding force behind an effective partnership.

## Section III: Way Forward

The aim of this BC Forum was to engender a discussion involving a larger stakeholder group and arrive at some potential solutions to the challenges that BCs face. The Forum served as a platform to bring forth perspectives from a wide range of stakeholders and channel their thoughts towards making the BC model a viable business proposition.

The Forum also resulted in some overarching themes that all stakeholders need to work towards, for BCs to succeed. The most important of these was customer centricity. Participants agreed that the BC model can be only successful if BCs understand customer needs, delivers high quality demand-driven services and invest in customer awareness.

The Forum also highlighted the need for advocacy and engagement with policy makers to overcome some of the critical challenges faced by the BCs. Another important issue that cut across most challenges was developing effective partnerships and bank ownership of BC customers. Participants felt that a change in how banks view BCs would go a long way in ensuring sustainability of the model. A common thread that emerged across stakeholder groups was that the BC model holds immense promise and ironing out the operational key challenges through partnerships outlined in this document would go a long way in achieving its financial inclusion potential.

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## Annexure 1

### The Business Correspondent Model

#### What is the Business Correspondent (BC) Model?

*“BC is a bank led model where a technology driven banking agent manager (or individual agents) dovetails with a prudentially regulated well capitalized financial entity (bank). A bank brings trust and robustness whereas a BC brings low cost access, technology and new tailor made products to masses at base of the pyramid and makes banking possible at their doorstep.”*

- Development Outlook Blog - December 27, 2012

In January 2006, the Reserve Bank of India permitted banks to use the services of Non -Governmental Organizations/ Self Help Groups (NGOs/ SHGs), Micro Finance Institutions (MFIs) and other Civil Society Organizations (CSOs) as intermediaries in providing financial and banking services to unbanked populations through the Business Correspondent (BC) model. This step was taken to ensure greater financial inclusion and expand the outreach of the banking sector.

Banks select BCs, who act as their agent and can carry out collection of small deposits, recovery of principal and collection of interest, sale of micro insurance, mutual fund products, pension products, other third party products and receipt and delivery of small value remittances. BCs provide these services in return for fees/commissions from the bank. In 2009, the government also permitted for-profit entities to become BCs in an effort to further boost financial inclusion. As on March 31, 2013, banks have reported deploying 195,380 BCs that covered 221,341 villages.

#### Reaching Unbanked Customers

BCs work in remote rural areas or urban slums where banks do not have a physical presence. They provide door step/neighborhood banking services to unbanked, underserved customers who would otherwise need to travel long distances and possibly miss out on daily wages to access banking services.

RBI has permitted banks to adopt different models within the parameters of guidelines issued on Know Your Customers (KYC) as the aim of this model is to provide access to financial services for the unbanked. BCs generally use two technology models – the Smart Card Based Kiosk Model or the Mobile Hand Set Based Model. In the first model, smart cards are issued to both agent and the customer that have to be authenticated at the Point of Sale (POS) device for any transaction to be successful. In the mobile hand set model, the customer and the agent can use any mobile hand-set to transact using the Short Messaging Service (SMS). Another variant of the mobile based model is where a GPRS mobile device is used to access the server.

#### Why does India Need the Business Correspondent Model?

The largest unbanked population in the world approximately 145 million, reside in India. As per a [CRISIL report](#) on the state of financial inclusion in India, one in two Indians has a savings account, and only one in seven Indians has access to bank credit. The bottom 50 districts on the financial inclusion index have just 2% of the country's bank branches and only 4,068 loan accounts per 100,000 of population. Wide discrepancies exist across regions and between rural and urban areas – 11% of the bank accounts are concentrated in six large cities whereas four districts in North East India have only one bank branch per district.

A vast majority of the unbanked could be financially included through last mile reach and appropriate products. The RBI is trying to achieve this through various policy measures such as promotion of No Frill Accounts (NFAs) in 2005 and the technology driven Business Correspondent Model in 2006.

The BC model entails appointment of customer service points (CSPs) by BCs, at times in consultation with the banks, to reach out to customers in remote rural villages. The CSP is typically someone from within the community or village who can offer financial services on behalf of the BC through either stationary means (typically a shop in the village) or mobile (by visiting a series of villages on pre-defined days and offering door-step services). There are several compensation structures for the CSPs, though in most cases it is variable in nature, and dependent on customer acquisition and transaction.

As per a [MicroSave study](#), BCs focus on increasing outreach rather than offering a variety of financial services to customers. Most BCs offer single products either the Basic Savings Bank Deposit Accounts<sup>9</sup> (Basic Savings Accounts) or process government-to-person (G2P) payments. G2P payments include social transfers, wage and pension payments. According to a [CGAP study](#), G2P payments, if linked with financial services, have the potential to play a significant role in financial inclusion and improving the welfare of poor people. Remittances and money transfer are other common services offered by BCs. BCs are increasingly bundling financial and non-financial services such as airtime top-up and utility bills.

### What is the Potential of the BC Model?

As per the 2011 Census, even though nearly 70% of Indians live in rural areas, only 37% of the total bank branches in the country are in rural areas. Bridging this gap, the BC model has helped banks cover more than 200,000 villages (37% of all villages in India) in a span of only 8 years. The rising number of cell phone subscribers in rural areas (342.5 million) would further facilitate financial inclusion through the technology led BC model. BCs with their lower costs and use of ICT have the potential to access remote and rural areas, where setting up bank branches would be an unviable proposition. They, however, face challenges related to operations and their financial viability.

Key Statistics (2013)	
<b>Total No. of Bank Branches</b>	<b>105753</b>
<b>Rural Bank Branches</b>	<b>39336</b>
<b>No. of BCs Empaneled by Banks</b>	<b>195380</b>
<b>No. of Villages Covered under BCs</b>	<b>221341</b>
<b>No. of Point of Sale (POS) Machines Installed</b>	<b>967740</b>
<b>Total Number of Cell Phone users in Rural Areas</b>	<b>342.5 million</b>

Source: Reserve Bank of India; Census 2011; Telecom Regulatory Authority Of India.

<sup>9</sup> Basic Savings Bank Deposit Accounts were formerly known as No Frill Accounts(NFAs)

Despite the [considerable challenges faced by BCs](#), their future looks promising. In February, 2012 the RBI gave an in-principle agreement to permit interoperability of BCs. This will allow BC customers to access banking services anywhere in the country, and will allow BCs of one bank to serve customers of another bank and thereby facilitate financial inclusion of migrant laborers. This facility will be primarily offered to holders of Basic Savings Accounts as other customers are serviced by ATMs. Operation guidelines on how this will be done are yet to be issued.

#### **What are the key challenges faced by the BCs?**

**Financial Viability:** The compensation/commission structure is such that the BCs cannot be viable by offering one product (the Basic Savings Accounts). A Sa-Dhan study found that for a Basic Savings Account based model to break even, it took at least 4.5 years in an optimum rural scenario and the addition of other customers reduced the break even time by a year.

**Dormant Accounts:** As per RBI annual report 2011-12, about 75% of the Basic Savings Accounts are dormant. Long processing time for new account opening (2-3 months), and the lack of promotion and marketing has led to loss of interest among customers.

**Cash management and liquidity:** BCs transfer money to CSPs to facilitate transactions especially withdrawal, based on the security deposit paid by the CSPs. However, at times due to higher number of withdrawals, CSPs end up facing a liquidity crunch. This results in them being unable to service customers. Not servicing withdrawal customers leads to loss of reputation and also adversely impacts the reputation of the CSP and the BC.

**Financial Literacy:** Many studies have found low awareness levels amongst customers about the services offered by BC's. Financial literacy of the low income customers, for most of whom the account serviced by the BC is their first bank account is very low. Dormancy has also been exacerbated by the low level of unawareness about the benefits of using savings accounts

Source: [Sa-Dhan Study](#), [MicroSave Study](#)

A [Sa-Dhan study](#) on the efficacy of the BC model recommends that BCs primarily need to do two things - increase transactions to break even and also offer quality services to their customers. In order to achieve these dual objectives of profitability and good customer services, BCs are adopting innovative models - offering blended products, working with multiple banks to cover their costs and offering an array of financial services to their customers. The momentum around issuance of Unique Identification (UID) number (Aadhaar Cards) and their linkage with bank accounts to facilitate G2P payments has opened up new avenues for BCs. UID facilitated G2P payments may form a significant part of BCs' revenues in the future.



## Annexure 2

### **Grameen Foundation – Cashpor Microsavings Project using the BC Model**

An estimated 145 million people in India are unbanked and the BC model has become an important component of the financial infrastructure in rural India, and has become the primary channel through which poor are being reached by banks. As of March 2012, a total of 96,828<sup>10</sup> customer service points (CSPs) have been set up in villages that have no banks. We, at the Grameen Foundation (GF), saw an opportunity to provide savings services to the poor leveraging the business correspondent approach and mobile savings solutions.

GF's Microsavings Initiative, a four-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, GF has been engaged in a four-year project to assist Cashpor in its transformation from a credit-only MFI into a BC. GF 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, [Eko India 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. It's 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.

#### **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. As of Jan 2013, in less than 15 months, around a 100,000 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 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.

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<sup>10</sup>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](http://www.citigroup.com/citi/microfinance/data/business_cor_study.pdf).

## Annexure 3

### **Enclude – Sub-K Branchless Banking Network project**

BASIX Sub-K iTransactions Private Limited (Sub-K) is an initiative incubated by the BASIX group with a vision to provide affordable access to formal financial and transactional services to the underserved population in India. Enclude is an advisory firm dedicated to building an inclusive and prosperous global economy. The first phase of the Bill and Melinda Gates Foundation funded ‘Enclude - Sub-K Branchless Banking Network’ project was launched in November 2012 with a focus on demonstrating a successful business case for the BC model for holistic financial inclusion in India, especially in rural areas. Backed by a global bench of consultants, Enclude’s team based in India is supporting Sub-K in its endeavour to expand its outreach by assisting them in designing demand-driven strategies, products and processes that are informed by Enclude’s global experience and tailored to local realities.

In contrast to its peers, Sub-K has a core business focus on rural low- income segment. Sub-K faces all the challenges of a start –up operating in a difficult rural market laden with regulatory hurdles and dependency on banks. Sub-K had 700 agents and 150,000 customers when the first phase of the project was launched, which focused on consolidating and strengthening the field operations of Sub-K. Enclude supported Sub-K in an organization wide restructuring with an emphasis on improving their internal operational efficiency, streamlining the agent network and re-evaluating business processes. To address the gap between the customer needs and the products offered through the BC channel and to improve Sub-K’s understanding of the target market, Enclude facilitated a large market research activity across 5 states in India. The data gathered through this activity is being analysed to understand the scope to introduce new products and the possibility of customizing the existing products to suit the requirements of the underserved customers. As part of the project, Sub-K carried out extensive training and capacity building activities for the field staff that has resulted in a sustainable expansion of Sub-K’s agent network.

One of the key issues for Sub-K has been the lack of customer uptake. To address this issue, the project team designed an action plan that involved coordinated marketing efforts and activating field staff. As part of this plan to increase awareness and improve the usage levels of the savings accounts, marketing activities involving a van campaign, a lottery campaign and door to door awareness efforts were carried out across 156 villages. As part of the project, an incentive plan was also designed and communicated to the field staff to keep them motivated. As a result of all these intensive efforts, Sub-K now works with 6 banks and has around 300,000 customers with close to 2000 agents spread across 20 states in India.

The second phase of the project, that has just begun, is aimed at strengthening Sub-K’s operations in semi urban and urban areas while still continuing to maintain its strong rural focus. The key focus areas for this phase are strengthening of revenue streams by introducing demand driven products like Remittances, Micro credit and Micro insurance and positioning Sub-K as the ‘go-to’ transaction platform for any business that focuses on rural or low income clients - including banks, energy companies, milk suppliers and water companies.

With no success stories on rural financial inclusion in the BC space to emulate yet, Enclude and Sub-K are continuously working towards overcoming the challenges they face while operating and innovating within the regulatory and market environment of India, in an attempt to build a strong business case for the BC model.