MicroSave India Focus Note 92

Are Banks All Set To Dominate Domestic Remittance Market In India?

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The market for domestic remittances has been dominated by India Post and a multitude of informal service providers.[1] However, banks are rapidly becoming the cheapest and the quickest way to send money, and remitters and recipients alike seem to prefer this channel to the other options available.[2]

Banks did not target the remittance segment by design. Advancements like online or real-time connectivity through core banking solutions; the availability of services to deposit cash (within prescribed limits) directly into third party accounts; and the expansion of branch and ATM networks over time, enabled remitters to increasingly use banking channels to transfer money. At most banks, cash can now be deposited into a recipient's account by anyone from virtually anywhere in the country. Recipients, in turn, can withdraw money at the nearest branch or ATM. Amongst the poor and less sophisticated, it is common practice to use ATM card as a family instrument to withdraw money as and when needed. Banks have, therefore increasingly became a safe, fast, inexpensive and convenient way to transfer money.

This has had its downsides too. Given the low penetration of branches (one for 15,800 adults) and ATMs (one for 61,350 adults),[3] and the exponential growth of demand for remittance services, the queues in branches grew exponentially, crowding their banking halls. The time to service increased, and the service quality rapidly fell for everyone, including the high net income (HNI) customers. Banks found a solution to their problems as the agent based banking model started to mature, particularly in urban areas where significant numbers of migrants work. Agent-based banking provided more outlets, allowing convenient access for deposit, remittance and withdrawal transactions. As a result, remitters and receivers no longer needed to stand in long queues, lose on their daily wages or suffer other loss.[4]

Different Bank-led Remittance Models

Over time, banks have developed various models to provide remittance services and to acquire a larger share of this market opportunity.

Tatkal: Branded by State Bank of India (SBI) as "*Tatkal*", this allows remitters to deposit into a "non home" branch account of the recipients.[5] The remitter, who need not even be an SBI account holder can deposit cash through an agent appointed by the bank, instead of having to visit a bank branch. SBI has pioneered this model and is offering this service through Eko and Zero Mass Foundation (ZMF) amongst others. The transactions through this model have seen continuous growth since inception. For example, the remittance transactions at Eko's outlets increased by 36% to 398,386 in October-December 2011 from 292,739 in July-September 2011. The value of transactions also hiked by 38% to Rs.1.6 billion (US$36.7 million) in the last quarter of 2011 from Rs.1.2 billion (US$26.5 million) in July-September 2011.[6]

Account to Account Transfer: This requires both the sender and the recipient to hold accounts with the same bank, albeit through a business correspondent (BC). It is similar to P2P transfers at banks, with the difference that transfers are done from BC agent locations through no frills savings accounts. Banks have launched/piloted variants of P2P money transfer products. Some examples include Vodafone-HDFC Bank's M-Paisa, Idea-Axis Bank's Idea My Cash, Nokia-UBI's erstwhile Nokia Money, and SBI-Eko account to account transfer. Most business correspondent network managers (BCNMs) are offering this service in their product mix.[7]

Interbank Transfer: The account to account model enables transfers within a specific bank (or its BCs). A variant of this model allows even inter-bank transfers. The providers use national electronic fund transfer technology (NEFT) to enable this service. The remitter is often required to do two transactions. First deposit cash at a BC agent location and then request for transfer. The BC agent fulfils the request by making an NEFT transaction at the back-end. FINO with UBI and Oxigen with SBI are two examples of BCNMs offering this model. Under some BC models like *Suvidhaa*, in partnership with Yes Bank, the sender is only required to register with a valid identity proof and the inter-bank transaction is a one step process, as long as the IFSC (Indian Financial System Code) code of the recipient bank is known.[8]

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[1] See IIMB working paper: Remittances-India-facts-issues

[2] See *MicroSave* India Focus Note 91: "Banks: The Preferred Remittance Services"; and "Understanding Remittance Networks" I and II studies conducted by *MicroSave*

[3] Source RBI, and *MicroSave* analysis

[4] See *MicroSave* India Focus Note 67 "Clients' Willingness to Pay "Reasonable Fee" for BC Services"

[5] The channel is also known as Direct to Core or D2C deposit.

[6] See *MicroSave* India Focus Note 68 "SBI *Tatkal*: From Cash To Cash Cow"

[7] *MicroSave's* internal studies on BCNM assessments. UBI may now offer Nokia Money in new avatar as Nokia pulled out of mobile banking services recently to concentrate on their core business.

These different remittance models are benefitting from technological advancements and government-driven initiatives for standardisation, like the unique identification number (UID), and inter mobile platform system (IMPS) projects. *Aadhaar*-based identification from UID eases authentication of remitters and recipients, a critical requirement to address RBI guidelines for KYC/AML.[9] IMPS provides an instant, 24x7, inter-bank electronic fund transfer self-service through mobile phones, with the transfer initiated by remitters.[10] Until January 2012, IMPS had facilitated 19,101 transactions to the tune of Rs.81 million, across 34 bank partners. The regulator too has facilitated the bank-led remittance model through increased transaction and cash-payout limits.[11]

Challenges with Bank-led Remittance Models

While the agent banking model has come a long way, there are still several challenges that need addressing.

Challenge of Access: Bank agents at the recipient end are sparsely located and offer inadequate coverage. So the receivers still have to visit and crowd bank branches to withdraw money or just for balance enquiries to see if remittances have arrived. Banks could map migrant corridors for remittance services and establish new BC agent points in key locations to address this problem. This would also require banks to increase agent penetration in recipient locations.

Challenge of Communication and Building Trust: The efforts by banks and BCNMs to build awareness and educate potential customers about this new channel have been limited. As a result, remitters remain unaware or apprehensive, and seem to prefer branch-based or informal channels. The receivers likewise, do not yet fully trust the agents. This is a very critical area needing concerted efforts by banks and BCs.[12]

Challenges Faced by Agents: Agents are frequently unable to complete transactions due to problems with using technical devices; issues of connectivity; server unavailability/downtime; or in-adequate cash/float to complete the transaction. Furthermore, many agents wind-up their business due to insufficient income, or inadequate support from the BCNM.[13] These lead to loss of consumer confidence and cause customers to eventually stop using the service.

Conclusion

Driven by the government's financial inclusion agenda, as the BC model expands in multiple forms, banks and BCNMs are experiencing new consumer demand and expectations. Remittance is one of the flagship products, enabling the financially excluded majority to experience and benefit from formal financial services.

Regulations and technology have had a critical role in expansion of remittance services provided by banks. The following further enhancements could accelerate this growth.

Integration of Core Banking: Financial inclusion (FI) services of several banks are yet to be integrated with their mainstream core banking. This prevents seamless transactions between FI and mainstream accounts, thereby limiting remittance services. Additional minor limitations are: (a) inability to transact real-time or even online; and (b) hard-wiring of customers and the BCs with whom they can transact.

Allowing BCs to Acquire Transactions for Multiple Banks: If agents can acquire transactions for any bank, (as is the case with ATMs), their viability would be substantially enhanced. Greater competition would enable market forces to determine tariffs, and customers would get more choice and can expect better services. While agents are allowed to acquire transactions from multiple BCs of the same bank, regulations are silent on acquisition of transactions from another bank.

Standardisation of Technology: A multitude of technologies have proliferated in the BC sector. These range from offline smart cards to online magnetic stripe cards and several variants of mobile solutions. It is critical that some degree of standardisation is accepted by the industry. This would not only enable scale and costs reduction, but also greater integration and interoperability of services. Various initiatives by UID and NPCI hold some promise to achieve this.

Banks and BCNMs have the opportunity to grow and expand remittance as a market-led and profitable offering. Banks will benefit if they can strategically expand BC services across migrant corridors, and improve agent management practices to offer differentiated, superior and consistent customer service.

[8] IFSC is 11character code assigned by RBI to identify every bank branches uniquely for facilitating of NEFT system in India.

[9] See *MicroSave* India Focus Note 69 "UID and Financial Inclusion – Solution or Not?"

[10] See *MicroSave* India Focus Note 61 "Interbank Mobile Payment System: Will It Catalyse Financial Inclusion?"

[11] The RBI recently increased cash payout limit, increase money transfer limit vide mobile transfers, NEFT. Please see DPSS.PD.CO.No. 622/ 02.27.019/ 2011-2012 dated 5th October 2011 and RBI's notification page NPCI's website.

[12] See *MicroSave*'s Briefing Note101: Mobile Money - Questions That Your Client Will Ask You and Research Study Designing and Implementing Agent Networks

[13] The biggest challenge of agent model is to ensure that agent remains motivated. *MicroSave's* optimising performance and efficiency series on e/m banking (I, II, III, and IV) discusses key insights on e/m banking and agent management.